



John Albertson

CALCULATING THE DISCOUNT IMPACT

Today, discounting is the norm rather than the exception. But when you discount, you need to generate additional sales to make up for the cash you forgo in the discount.

We've seen discounting like never before due to difficult trading times. Not only discounting, but bundling and BOGOF (buy one get one free) – anything to move stock and keep afloat.

But some retailers need to do their homework before making a knee-jerk reaction and printing out the sale signs. Let's look at discounting in detail. Your business needs to generate sufficient cash to:

- Cover the cost of buying the next lot of stock;
- Pay the costs of operation – wages, rent, etc. *and*
- Return you, the owner, a profit.

Before you discount, think – how many more units will I need to sell for the same returns?

Set out below is a table which may be of assistance in calculating how much you need to sell to generate the same level of gross profit dollars at varying discount levels. You all have different gross margins and differing promotional strategies,

so we have constructed a matrix which highlights the number of units you will need to sell to give you the same cash that you would generate from a single sale at full price.

DEFINITIONS

Gross margin = (Selling price – cost price) / selling price x 100.

For example, if you buy for \$50 and you sell for \$100 your mark-up is 100 per cent and your **gross margin** is 50 per cent.

Discount = the amount, in percentage terms, taken off the selling price.

For example, a selling price of \$100 reduced to \$70 is a 30 per cent discount.

Volume calculation = the number of units you need to sell to return the same gross profit you would have made from the sale of one unit at full price, as shown in the matrix. For example, if your normal gross margin is 50 per cent (i.e. 100 per cent mark-up) and you discount by 30 per cent, you need to sell 2.5 units to generate the same profit one unit

would yield at full price.

That is an increase in sales of 1.5 units or 150%.

[Note: The GST impact has been excluded from all calculations.]

By **John Albertson**, CEO of the New Zealand Retailers Association. If members have any difficulty in calculating discounting, feel free to call the NZRA Advisory Service for assistance on the toll free number: 0800 472 472.

THE DISCOUNT MATRIX

% Gross margin	15	20	25	30	35	40	45	50
% Discount								
10	3.00	2.00	1.67	1.50	1.40	1.33	1.29	1.25
20			5.00	3.00	2.33	2.00	1.80	1.67
30					7.00	4.00	3.00	2.50
40							9.00	5.00
50								

WORKED EXAMPLE

Cost price: \$50.00
 Gross margin: 50% (100% mark-up)
 Selling price: \$100.00
 Gross profit \$50.00
 Discount: 30%
 New selling price: \$70.00
 New gross profit: \$20.00
 Volume calculation: $\$50/\$20 = 2.5$

That is, to generate the same gross profit (\$50) you need to sell 2.5 units at 30 per cent discount ($\$20 \times 2.5 = \50). ■

