



STOP! Read this before you discount your prices

If you are tempted to lower your menu prices, or offer more specials and discounts, then take a look at these tables.

The above table shows that discounting for many businesses can have a devastating impact on bottom line profits - often much more than we would ever believe. Even with seemingly modest reductions.

For example, the table below shows that a business with a 20% gross profit margin that implements a 10% price reduction (either through promotion or negotiation) needs to increase sales by a 100% just to stand still in terms of profit! In other words, a 10% discount requires you to DOUBLE your sales to make the same gross profit!

The implications are mind numbing.

GP →	20%	With a 20% gross profit and a price reduction of 10% you need to increase sales by a 100% just to make the same gross profit dollars! Discount 5% and you need to increase sales ONE THIRD just to stay the same!
Discount 5%	33.3%	
Discount 6%	42.9%	
Discount 7%	53.8%	
Discount 8%	66.7%	
Discount 10%	100.0%	

Just to maintain today's profitability you and your people have to work 50% harder, you may need to drastically increase inventory levels, your staff and equipment have to handle 50% more output - and that's before you consider the potential negative hit on your cash flow.

And you make no more profit. In fact, if you 'only' achieve a 20%, 30% or 40% increase in sales you make less money.

What about putting your prices up? Crazy you think - especially now.

I can hear you protesting already - I'll lose customers, I'll go out of business and my competitors will have a field day.

But consider this.

Again based on a 20% gross profit margin, if you put your prices up by 2%, you would have to do 9% less business before it affected your net profit.

In other words, 9% of your customers could leave, or your revenue could drop by 9% and you'd actually be better off.

GP →	20%	Based on a 20% gross profit margin, if you raised prices by 2%, you could actually do 9% less business before it affected your net profit.
Increase price 2%	9%	
Increase price 4%	17%	
Increase price 5%	23%	
Increase price 8%	29%	
Increase price 10%	33%	

You'd be doing less work and making more money.

And you have to ask what are the chances that 9% of your clients would leave if you are doing a great job and providing excellent value.

The reality is that many companies undercharge.

Be sure and visit our special website that will answer hundreds of your questions about the meat items you buy.
www.meatcoach.com/maw

Written by Bob Oros, one of the leading consultants in the industry who works exclusively with Mid America Food Company to help build their customer's business.



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