

The Cost of Discounting: Know Your Numbers!

The first two examples below use an investment of \$1,000 on holiday candy. Example #1 applies a 33% margin. Example 2 uses the same numbers but instead applies a 33% markup. Each of the examples show an 80% sell-through with the remaining 20% sold at 50% discount.

NOTE: Retailers should always use a margin formula for creating true profit margins.

Example 1: Using Margin

\$1,000.00 plus a 33% margin = \$1,492.00	Potential maximum profit of \$492.00
80% (\$800.00) of investment sold at full margin shows a profit of	\$394.00
20% of investment sold at 50% (clearance) is negative of	- <u>\$51.00</u>
Total profit investment of \$1000.00 is	<u>\$343.00</u> * True margin 25%

Example 2: Using Markup

\$1000.00 plus a 33% markup = \$1,330.00	Potential maximum profit of \$330.00
80% (\$800.00) of investment sold at full markup shows a profit of	\$264.00
20% (200.00) of investment sold at 50% (clearance) is negative of	- <u>\$67.00</u>
Total profit investment of \$1000.00 is	<u>\$197.00</u> * True markup 19.7%

** Reminder: merchants must use margin, not markup!

The following examples below use an investment of \$1,000 on gift items. Example 3 applies a 50% margin with an 80% sell-through and 20% sold at 50% discount. Example 4 uses the same investment of \$1,000 on gift items, now with a 60% sell-through at full margin and 40% sold at 50% discount.

Example 3: Typical Gift Items

\$1,000.00 plus a 50% margin = \$2000.00	Potential maximum profit of \$1000.00
80% (\$800.00) of investment sold at full margin shows a profit of	\$800.00
20% (\$200.00) of investment sold at 50% (clearance) is	<u>\$0.00</u>
Total profit investment of \$1000.00 is	<u>\$800.00</u> * True margin 44.4%

Example 4: Using a 60/40 Mix

\$1,000.00 plus a 50% margin = \$2000.00	Potential maximum profit of \$1000.00
60% (\$600.00) of investment sold at full margin shows a profit of	\$600.00
40% (\$400.00) of investment sold at 50% (clearance) is	<u>\$0.00</u>
Total profit investment of \$1000.00 is	<u>\$600.00</u> * True margin 37.5%

*True margin may also be adjusted down due to possible freight and damage cost.

Tips:

- Avoid training your customers to wait for a sale.
- Do not discount seasonal candy before the holiday; be a better buyer instead.
- Do not discount gift items before major gift-giving holidays; instead, relocate and remerchandise.