

Financial training For non financial staff



The financial training specialists

Discounts (Profit)

You can imagine the conversation within the sales team: "We sell 10,000 of these a month at £100 each: that's £1m. If we gave 10% discount, we'd sell 50% more, which would be £1.35m a month."

That's a difficult argument to resist!

I'm training some sales people this week. One question I'll ask is "What's the job of the sales team?" I expect most will answer "To make sales." It's a daft question, with an obvious answer!

Except I think the job of the sales team is to make profitable sales.

Let's go back to that conversation about discounts. We sell units for £100, but let's say it costs £80 to manufacture each one. So we make £20 profit on each unit. If we sell 10,000 a month, that's £200,000 profit every month.

If we give 10% discount, we're selling at £90, but they still cost £80 each, so now we're only making £10 on each one; although we're selling 15,000 instead of 10,000. Sales revenue goes up to £1.35m, but profit goes down to £150,000!

If the relationship between price and cost is different, the answer is different. If they cost £70 to make, we make £300,000 profit before the discount (10,000 units with £30 profit each), and still make the same profit after the discount (15,000 units, with £20 profit each). But we're shifting 50% more units to make the same profit.

So we need to think about profit as well sales revenue. But another twist on this in my ne