

Financial training For non financial staff



The financial training specialists

Think about that discount! (profit)

I'm working with the project managers of one of my clients. A colleague has been doing the project management training, I've been doing the financial aspects. The client wanted a follow-up workshop looking at a real project, where things went badly wrong.

The project they chose was a \$160,000 installation. The cost should have been about \$112,000, leaving a 30% profit of \$48,000.

Costs overran drastically. The installation actually cost about \$140,000. This consumed more than half the budgeted profit – there was only \$20,000 left. Poor project management in action!

Because it was such a significant project, the directors dug deeper into it. They wanted to find the cause, so they could prevent it happening again.

Projects in the company need to show a threshold profit of 30% if they are going to be accepted. This installation was originally budgeted at a price of \$200,000, with installation costs of \$140,000, leaving \$60,000 profit: 30%.

The customer asked for a 20% discount.

So the salesman cut the price by 20%, and – in order to maintain the profit threshold of 30% – reduced the installation cost by 20% as well. So the order was signed off internally at a cost of \$112,000, with \$48,000 profit.

The salesman hadn't realised that cutting the sales price by 20% doesn't magically reduce costs! The director signing off the project should have asked more questions!

When we give discounts we need to remember how much profit we are giving away. What discounts do you give your customers?