



# EYECARE EDUCATION SERIES

## The True Cost of Discounts in Eyecare

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### The Temptation to Discount:

Sometimes a practice will be confronted with aggressive price competition. At the same time, psychology teaches us that the issue of *Price* is often given greater dominance by retailers than it is by consumers and this is also true when the perceptions of the practice owners are compared to those of their patients.

It can be tempting to react with a strategy of matching low prices, but this may be an over-reaction? It might be a reaction to a perception rather than the reality of the situation? Does it really make sense? Retailers may simply over-estimate the number of loyal customers who will be attracted to the low-cost offering.

of 50% (before expenses) this shows that a 20% discount will require a business increase of at least 67% in order to have no negative impact.

Or consider an example from a different viewpoint: If a business concludes that they are losing 20% of their patients to a competitor, so they start giving a 15% discount in order to match prices and retain their patients. If they retain them all, the result will still be a profit loss of 43%.

This means that the true cost of matching prices may significantly exceed the amount of the business that is being protected. How many patients would need to be retained before a price reduction resulted in additional profits?

### The Impact of Discounts:

Consider the table below showing “The Impact of Discounting”. For example, with a gross profit margin

**The Impact of Discounting**

% Price Discount	% Gross Profit Margin											
	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%
	% Sales Increase required to give an unchanged Contribution											
2.5%	11	9	8	7	6	5	5	4	4	4	3	3
5.0%	25	20	17	14	13	11	10	9	8	8	7	7
7.5%	43	33	27	23	20	18	16	14	13	12	11	10
10.0%	67	50	40	33	29	25	22	20	18	17	15	14
12.5%	100	71	56	45	38	33	29	26	24	22	20	19
15.0%	150	100	75	60	50	43	38	33	30	27	25	23
17.5%	233	140	100	78	64	54	47	41	37	33	30	28
20.0%	400	200	133	100	80	67	57	50	44	40	36	33
22.5%	900	300	180	129	100	82	69	60	53	47	43	39
25.0%		500	250	167	125	100	83	71	63	56	50	45
27.5%		1100	367	220	157	122	100	85	73	65	58	52
30.0%			600	300	200	150	120	100	86	75	67	60
32.5%			1300	433	260	186	144	118	100	87	76	68
35.0%				700	350	233	175	140	117	100	88	78
37.5%				1500	500	300	214	167	136	115	100	88
40.0%					800	400	267	200	160	133	114	100
42.5%					1700	567	340	243	189	155	131	113
45.0%						900	450	300	225	180	150	129
47.5%						1900	633	380	271	211	173	146
50.0%							1000	500	333	250	200	167

*Discount\_effect.xlsx*

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