

## Price Cuts on Your Bottom Line

### **The Dilemma**

Reducing your selling price or offering discounts is a dilemma that dental laboratory owners are increasingly faced with during these tough economic times.

Price cutting can be an effective driver of new business or a way to retain an account being courted by a competitor. Before you go down that road you should fully understand the how the loss of revenue will impact your business and carefully weigh whether it is the right choice for you.

### **Profitability Analysis**

To better illustrate this scenario lets look at the following example for one dentist's account:

Your account generates \$100 000.00 in sales annually

You have a well-run lab and your cost of sales is 35% or \$35 000.00

Your wages and overhead are also 35% or \$35 000

Therefore, your Net Profit is 30% or \$30 000 on this account

Your account pressures you for a discount and you feel your business is threatened so you decide to give a 10% discount. Here is what you are giving up:

a fall of 15.38% in gross profit

a fall of 33.3% in net profit

*This is assuming no increase in income.*

To maintain the same level of net profit of 30%, your sales with this account would have to increase 18.18%, assuming that you have no increases in wages or overhead.

That is a lot to leave on the table and out of *your* pocket. You don't always have to go down this road to get a new dentist or keep one, but if you choose to, this is the effect on *your* bottom line.

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### **Managing Profitability**

If your operating costs and costs of goods increase and you don't allow for an increase at some point to counterbalance this, you will see the same effect on your bottom line.

Part of managing your dental laboratory requires knowing each of your clients profit margin, especially if you have more than multiple price levels for your accounts.

Achieving a 30% profit margin is attainable, but all cylinders have to be firing together. If you have multiple price lists, this is very difficult to accomplish.

Revenue is only one line in your income statement. This size of it is only as relevant as the profit line. Large revenues do not always translate into larger profits if the middle lines are not in synch.

Before you considered dropping your price or offering discounts, calculate the effects on your bottom line. If you like more information about managing profitability in your dental laboratory contact us at [info@approachmg.com](mailto:info@approachmg.com).