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The Discount Trap

A 10% discount sounds small. To stand still, it can mean selling a third more. Discounting is the fastest way to give away the margin you fought for — here is the maths nobody does.

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IN SHORT

Discounting feels like a minor goodwill gesture. The arithmetic says otherwise. Because a discount comes straight out of your profit, not your revenue, even a small one demands a surprisingly large jump in sales just to break even, and a large one can mean working far harder for less. Most owners discount on instinct, to win the deal, shift the stock, or keep a customer sweet, without ever doing the sum. This briefing does the sum. It shows what a discount really costs, why it is so much worse than it looks, and what to do instead.

1. A discount doesn't come out of the price. It comes out of the profit.

This is the misunderstanding at the heart of it. Say you sell something for £100 that cost you £60, so you make £40. Knock 10% off the price and you have not lost 10% of something vague. You have lost £10 off your £40 of profit, a full quarter of what you were making, on every single sale. The cost of the goods does not move. The whole discount lands on the one part of the deal that was yours to keep.

That is why discounting is so much more dangerous than it feels. A 10% cut to the price is a 25% cut to the profit in that example, and the thinner your margin to start with, the worse the ratio gets.

2. The number nobody calculates

Every discount comes with a hidden price tag: the extra sales you now need just to make the same total profit as before. It is easy to work out, and almost nobody does. The extra volume you need is the discount divided by what is left of your margin after it: *discount* ÷ (*margin* − *discount*).

WHAT IT REALLY TAKES TO STAND STILL

On a 40% margin, a 10% discount leaves you 30%. So you need 10 ÷ 30 = **33% more sales** just to make the same profit you made before. Not 10% more. A third more. And it gets steeper as margins thin:

Your margin	Discount given	Extra sales just to break even
50%	10%	**+25%**
40%	10%	**+33%**
30%	10%	**+50%**
40%	20%	**+100%**
30%	20%	**+200%**

A 20% discount on a 30% margin means you must sell **three times as much** to end up where you started. That is not a promotion. That is a fire sale you have not noticed.

A 10% discount on a 40% margin is not a 10% problem. You have to sell a third more, just to stand still. Did the extra third ever actually turn up?

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3. Why the volume rarely comes back

Here is the quiet tragedy of the discount. You almost never gave it in order to triple your sales. You gave it to win one deal, to shift some ageing stock, or to keep one customer happy. So the extra third, or extra double, that the maths demands was never going to appear. The discount does not buy volume. It simply hands back profit you had already earned.

And it does lasting damage on the way out. Discounting trains customers to wait for the next deal rather than buy at the full price, and it quietly resets in their mind what your work is worth. The next negotiation starts from the lower number, not the higher one. You do not just lose the margin on this sale. You weaken the price on the next one.

4. The discounts that quietly live forever

The most expensive discounts are the ones nobody remembers giving. The "just this once" price that silently became the standing rate for that customer. The loyal client still paying a figure you set three years ago, before your costs climbed. The whole sector talking itself into a race to the bottom because everyone assumes everyone else is cutting. Each one felt like a single, harmless exception. Added together, they are a permanent tax on your margin that no one ever decided to pay.

5. What to do instead of cutting the price

The aim is not to never discount. It is to never discount blind, and to reach for the price lever last rather than first.

- **Add value before you cut price.** Throw in something that costs you little but is worth a lot to them, faster delivery, an extra, a small upgrade. It protects the price and still feels generous.
- **Hold the price and explain it.** Often the customer is testing, not refusing. A calm, confident reason why the price is the price wins more deals than a nervous discount.
- **If you do move, get something back.** Never give a discount for nothing. Trade it for a larger order, faster payment, a longer commitment, or a referral. A concession for a concession.
- **Discount with a reason and a deadline.** A clear, time-limited offer is a tactic. An open-ended price cut is just a lower price.

6. When a discount does make sense

To be fair, some discounts are sound business. Clearing genuinely dead stock that is costing you to hold. A volume deal where the extra units really do cover the gap, once you have checked the sum. A deliberate, costed move to win a strategic customer. The difference between these and the rest is not the size of the discount. It is that someone did the arithmetic first, decided it was worth it, and put a limit on it. Discount on purpose, never on reflex.

7. A practical response

- **Know your margin per line** before any negotiation, so you know what you can actually afford to give.
- **Do the break-even sum** before offering a discount: discount ÷ (margin − discount) is the extra sales you will need.
- **Default to adding value,** not cutting price.
- **If you cut, get something in return** every time.
- **Put an expiry on every discount,** so a one-off cannot quietly become the price.
- **Audit your existing prices** for the “temporary” discounts that never ended.

Margin is hard to build and easy to give away. A discount is the quickest way to hand it back, usually for a volume that never comes. Do the sum first, and you will discount far less often, and far more profitably when you do.

ABOUT MOOR & CO & 3DMAI

Before you knock anything off, know what it really costs. We help you do the sum.

Moor & Co is a commercial advisory for small business owners, built by someone who has run, scaled and exited real businesses. Pricing and margin are the heart of what we do: we help firms across North Staffordshire and South Cheshire hold their prices with confidence, and discount only when the maths genuinely works in their favour.

The tools behind it run on **3DMAI**, our commercial intelligence platform for UK SMEs. Its Pricing & Margin Modeller shows exactly what a discount does to your profit, and how much more you would need to sell to cover it, before you ever offer it, on your own numbers and in plain English, for £19.99 a month. The free tools need no sign-up. If you would rather talk it through first, the discovery call is free and there is no commitment.

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ABOUT THIS BRIEFING

The figures here are arithmetic, not estimates. The extra sales needed to maintain the same gross profit after a discount equal the discount divided by the margin that remains after it — *discount ÷ (margin − discount)*, with margin and discount measured as a percentage of the selling price. The examples are illustrative; your own margins will set your own numbers. *General guidance only — not financial or legal advice.*