



Gross Profit Analysis

It's critical that businesses understand their gross profit percentage. By doing so, it's easy to determine the impact of price increases and price decreases i.e. the additional sales required to counteract discounts or the sales which can be lost due to higher prices.

% Price Increase	Current Gross Profit %							
	10	15	20	25	30	35	40	50
	Percentage that sales can fall before total gross profit reduces							
2.0	17	12	9	7	6	5	5	4
3.0	23	17	13	11	9	8	7	6
4.0	29	21	17	14	12	10	9	7
5.0	33	25	20	17	14	12	11	9
10.0	50	40	33	29	25	22	20	17
15.0	60	50	43	37	33	30	27	23

Example: Price increase

If current gross profit % is 20% and price is increased by 10%, sales can fall by 33% to maintain same gross profit before price increase.

% Price Decrease	Current Gross Profit %							
	10	15	20	25	30	35	40	50
	Percentage that sales must increase to maintain total gross profit							
2.0	25	15	11	9	7	6	5	4
3.0	43	25	18	14	11	9	8	6
4.0	67	36	25	19	15	13	11	9
5.0	100	50	33	25	20	17	14	11
10.0		200	100	67	50	40	33	25
15.0			300	150	100	75	60	43

Example: Price decrease

If current gross profit % is 20% and price is reduced by 10%, sales must increase by 100% to maintain same gross profit before price reduction.

Example: Gross profit calculation

Sales		60000
Less cost of goods sold		
Opening stock	15000	
Purchases	40000	
Less closing stock	-20000	35000
Gross profit		25000

Gross profit = Gross profit / Sales

Gross profit = 25000 / 60000

Gross profit = 42%