

PRICE VS. VOLUME SENSITIVITY ANALYSIS

Your business is 1.39 times as sensitive to 'price' as it is to 'volume'. That is, a 10% increase in volume (the number of 'units' sold or sales made) would improve bottom line profitability by \$38,781.00. By comparison, if the same number of sales was made but at a 10% higher average price, then bottom line performance would improve by \$54,041.80.

The calculations in the table below show this effect, by comparing a 10% increase in volume against the results achieved through a 10% increase in price.

		10% Change In Volume	Variation
		\$ 594,459.80	\$ 54,041.80
		\$ 167,868.80	\$ 15,260.80
	Current Results	\$ 426,591.00	\$ 38,781.00
Sales	\$ 540,418.00	\$ 338,400.00	\$ -
Cost Of Sales	\$ 152,608.00	\$ 88,191.00	\$ 38,781.00
Gross Profit	\$ 387,810.00	VS.	
		10% Change In Price	Variation
Expenses	\$ 338,400.00	\$ 594,459.80	\$ 54,041.80
Net Profit	\$ 49,410.00	\$ 152,608.00	\$ -
		\$ 441,851.80	\$ 54,041.80
		\$ 338,400.00	\$ -
		\$ 103,451.80	\$ 54,041.80

Note that this is a Sensitivity Analysis, not a recommendation in relation to the size of any price increase. At this early stage, the analysis is merely designed to determine the degree of improvement which can be achieved through price increases versus volume increases.

In this case, given that these calculations show your business has a very high level of price sensitivity, it is clear that every attempt must be made to increase the business' prices. The exact size of the recommended increase will be calculated and given later in this report, along with recommendations on strategies which should be employed to avoid or minimise any drop in volume.