

**Week 8 Discussion 1 MKT 402**

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Course

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Date

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### **Breakeven Sales Analysis for Reactive Pricing Scenario**

A business initiates reactive pricing when it feels that a price change by a competing business will affect its sales volume unless it responds to the price change. In such a scenario, a business analyzes the sales loss it will suffer if it does not meet the price cut by the competitor, or its sales gain does not follow the price increase by the competitor (Narasimhan, 2016). A breakeven sales analysis will be the best option in such a scenario.

To illustrate, suppose there are two businesses, Westgate and Eastgate, which is the competitor. Eastgate reduces its prices by 15 percent. Assuming Westgate's customers are highly loyal, there is no need to match the price cut. On the other hand, if Westgate's customers are not loyal, it will have to match the price cut by Eastgate to reduce damages.

In this case, Westgate will experience a 33 percent breakeven sales reactive price change. If Westgate expects to experience a 33 percent reduction in sales volume due to the new price by Eastgate, there will be less impact on its profit margin to cut its price than to lose sales. If, on the other hand, it expects its sales volume to reduce by less than 33 percent, there will be less damage to Westgate's profitability if it let Eastgate take the sales than reducing its price to meet the challenge.

The breakeven sales analysis is important in this case, as it helps a business address several questions. The first question is the minimum sales loss that a business should be willing to take to meet a lower competitive price (Narasimhan, 2016). Secondly, a business will know the minimum potential sales gain it requires to ignore the price change by the competitor. In addition, a business will determine the cost structures and monitor sales.

### Reference

Narasimhan, C. (2016). Breakeven Analysis. *The Palgrave Encyclopedia of Strategic Management*, 1–3. doi: 10.1057/978-1-349-94848-2\_705-1