

## Prices – it Pays to Keep them Up ...

**Whenever I hold a marketing seminar a major discussion point is pricing strategies.** It's a topic close to my heart (I am a Scotsman after all) and one that provokes strong emotion amongst most business owners. And that's interesting really, because most buyers typically rank price around 4th in their list of buying criteria. Price is important only when the product or service we're selling is a commodity.

**Very few products actually are true commodities (can you think of one right now)?** Large consumer goods companies spend millions on advertising to convince us that some products which could be commodities, really aren't. (Does it really make a difference if you buy gas from PetroCanada or Shell?) But it may not be necessary for you to spend a lot of money on advertising to get your customers to pay a price which enables you to make an acceptable profit.

**In fact, there is no business that doesn't have the potential to command an acceptable price for its products or services** if it is able to market those products or services in such a way that the customer perceives added value. If you don't believe me just think about the difference in price between a Lexus and a Hyundai – they're both just a means of transportation. Tip Top tailors and Harry Rosen both sell men's clothes – but don't wait for Harry to have a \$199 sale before buying your next suit!

**As business owners it's our job to create the perception that our products and services offer superior value and to back that up with superb service.** How do we do that? One way to begin is to figure out who your best customers are (they buy regularly and never complain about price) and ask them why they buy from you rather than from someone else. But don't ask them to rate the reasons you think they buy from you, ask them to tell you what they consider is important and then ask them to rate your performance on those. Then you can figure out what makes you unique in their eyes.

**Two ways in which you can add value are, firstly by understanding what's going on in your customers' business and how your products impact their success.** Second, pass this information on to your staff and train them to provide what your customer will see as great customer service. Of course maintaining the quality of your products, and doing regular customer satisfaction surveys won't hurt either.

**Remember if your gross margin is 30% and you reduce price by 10%, sales volumes must increase by 50% to maintain your initial profit level.** For some reason we've come to believe that offering price discounts is a good long term strategy. If you still believe that consider the problems that the North American car manufacturers have created for themselves with, for example, "Employee Pricing" campaigns. Or think about how hard it was for the Bay to get away from "Bay Days" or Sears to stop their "Scratch and Win" promotions. You're right, despite saying they were going to stop them they're both still doing them. Once you've dropped your prices it is very difficult to get them back up to previous levels.

**Price discounting should work in only two situations** - where you have a definite cost advantage over your competitors and/or your product or service is one where customers are genuinely, truly, price-sensitive. We've already dealt with the price sensitive case and if you have a cost advantage why would you pass the entire extra margin on to consumers rather than investing some of it maintaining your technological or other advantage? Let's face it, you aren't in business to simply match the price your competitors set, you are here to serve your customers well and make a profit.

**Remember, if your gross margin is 30% and you increase your prices by 10%, you can sustain a 25% reduction in sales volumes before your profit is reduced to the previous level.** Research shows that approximately 15% of customers think only in terms of price. They are better left to your competitors because they will never be satisfied and will always be looking for a better 'deal.' Their loyalty is impossible to achieve, they're constantly looking for a cheaper source and they'll never recommend you to anyone else. Focusing resources on servicing this 'low' end of the market won't sustain the future growth of your business through either your turnover or profitability. It's far better to work with those people who are happy to pay for value.

**If you don't believe my math or that customer surveys don't have don't have to be expensive** or if you just want to know the date and location of my next seminar drop me an email [jimstewart@profitpath.ca](mailto:jimstewart@profitpath.ca)

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