

Pricing Strategies to Improve Profitability

Developing A Profit Improvement Strategy

To improve your profitability you must either make a larger gross margin on each dollar of sales or sell more without increasing your fixed costs. It goes without saying that the biggest improvement will occur if you can achieve both simultaneously.

Improving your gross margin

Remember your gross margin is the difference between the price of your product and what it costs you to buy or make it. Therefore, the only way to increase your gross margin is to sell at a higher price or buy at a lower price.

In most instances (but not all!) you will have limited scope to buy at a lower price. For this reason your selling price is the critical variable.

Without doubt, the biggest single barrier preventing small business managers from making an acceptable profit is their refusal to charge a price which will enable them to achieve this. You are not in business to match the price your competitors set, you are there to service your customers.

In fact, studies of the factors people regard as important influences on their decision to deal with a particular business indicate that product and price are relevant in only 15% of cases.

Trying to hold or win market share on the basis of price discounting is the lazy manager's competitive strategy. It is relevant and applicable in only one situation and that is where you have a definite cost advantage (either variable or fixed) over your competitors and your product or service is one where customers are very price sensitive.

Call us to receive copies of our two pricing tables which will help you evaluate a discount pricing strategy vs. a premium pricing strategy. The question you must ask yourself is: “What does my sales volume have to change by to produce the same amount of gross profit after the price change?” These tables will give you the answer for your company.

If you're like those many small business people who regard price as the only factor influencing the buying decision of their customers you will undoubtedly reject the proposition that a high price strategy (and by implication, high value) will work. You may accept that perhaps it's right for some businesses but it sure doesn't apply to your business. There is no business that does not have the potential to command a premium price for its products or services if, and this is the crunch, it is able to market those products or services in such a way that the customer perceives added value.

If all of your marketing effort, all of your advertising and all of your sales dialogues focus on price then you will be beaten on price every time a competitor comes along with a lower one. In other words, if you make price the critical factor, it will be the critical factor.

The only way to get out of the price trap is to promote other features and benefits that you can offer your customers. For example, better quality, longer warranty, satisfaction guarantee, 24 hour accessibility, more convenient location, greater resale value, etc, etc. It might be that your competitors offer all of these things but unless they also emphasize this in their marketing, how will the customer ever know? Think about this for a moment. Your job as a marketer is to create the perception of value and then to back up what you sell with superb service. The thing to remember is that price is only important when all other things are equal.

Some customers only think in terms of price. They are better left to your competitors. What you should be doing is working with those people who are happy to pay for value. This means two things. First, you have to deliver value (embody service) and secondly, you have to educate your customers to be aware that they are receiving value. One without the other will leave you exposed.

A man named John Ruskin once said...

“It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money, that's all. When you pay too little, you

sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot – it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better”.

Call and request our free business growth guide,

“What You Can Do to Improve the Profitability of Your Business”

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