

Pricing Strategies to Maximize Profits



Maria Smith, SCORE volunteer



Background of SCORE



Our Mission

to foster vibrant small business communities through confidential mentoring and education.

Our Vision

that every person has the support necessary to thrive as a small business owner.

SCORE was formed in 1964 as a resource partner of the Small Business Administration whose mission is to help aspiring entrepreneurs and existing businesses succeed.

- **In Chester and Delaware Counties there are 100 volunteers here to help small business owners**
- **Our mentoring and many of our education programs are at no cost to you. Always!**

Our Focus Today

Pricing Strategy in the Planning Process
Getting Data, Facts and Feedback
Pricing Strategies and Considerations
Be Cost Conscious
Is Your Price Working
Adjusting Price
Price & The Law



STRATEGY is about making important choices

Pricing for Profit Takes a “Big Picture” View

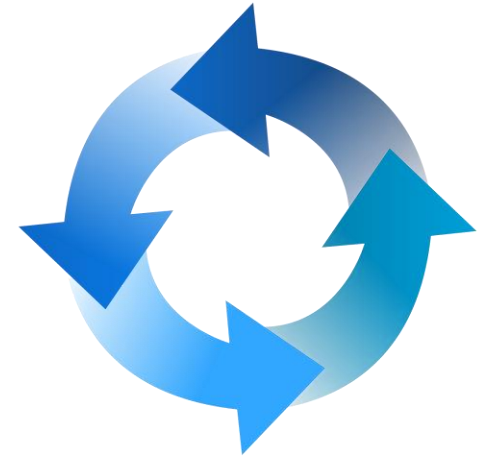
**DEFINE THE
MARKET**

**UNDERSTAND
COMPETITION**

PRICE = VALUE

**ASSESS
CUSTOMER VALUE**

**MEASURE CUSTOMER
SATISFACTION**



ongoing

VALUE – What You Need to Know

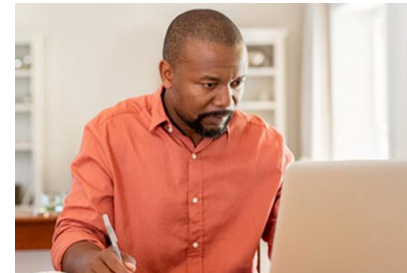
- Who will buy?
- Where will they engage with me?
- How will I express a meaningful, important advantage?
- What pricing strategy will create a perception of good/best value?



There is a lot to learn – before pricing!

**Make time on your schedule to learn.
Some info is public, not all!**

CUSTOMERS
COMPETITORS
SUPPLIERS
TRADE ASSOCIATIONS
INTERNET SEARCH
INDUSTRY TRENDS
NEW PRODUCTS



WHO Can Help?

SCORE Mentors and Subject Matter Experts
Business Librarian
Industry Experts



Research Your Target Market

***Who will buy my product or service?
Become an expert in understanding them!***

- Who: Moms? Contractors? Home Owners? Manufacturers?
- Buying habits: Why do they care? Where? How often? Which brands?
- How much do they spend? How frequently do they buy?
- How do they learn about this category or service? Find new offerings?
- How satisfied are they with their current choice? What's not working?
- How big is this target group? What part of the group will you convert?
- Where do they live? What geographical considerations?



Study your Sales Channels

SALES CHANNEL: touch points where you reach customers and deliver value



- ✓ Which sales channel(s) does your business focus on?
- ✓ Which do your competitors use?
- ✓ How do you transact – in person, online, other?
- ✓ What are the pricing changes “up the channel”?

**Price will vary by channel.
Profit will be taken at each stage up to End User.**



Getting the data...Competition



KNOW

- The quality of your offering vs. alternatives. Test it!
- What competitors charge for similar offerings
- What customers are buying and from whom

HOW

- Survey customers – online, trade shows, a demo, meetings
- “Shop the competition” – compare quality, value

LEARN

- Advantages, disadvantages of the competition
- The ‘expected’ price models used in your industry
- How to offer better, smarter, more effective value

Ask Questions about Value, Price



Show a picture or sample of your new product or service in use.
Explain how it is better (saves time, \$, safer, solves a problem).

Ask 100+ potential customers:

- “If this was available today, how likely would you buy it at this price?” (1 – 5 scale)
[only one price point per customer]
- “What are the most important reasons (Top 3) you buy this product/service?”
- “What other brands or business solutions do you use? What do you prefer about those choices?”
- “How often do you buy these products or services?” (e.g., weekly, monthly)
- “What changes have you liked over the years (for this category)?
What needs improvement, in your opinion?”



**DO NOT
ASK:**

“How much
more would
you pay for
mine?”

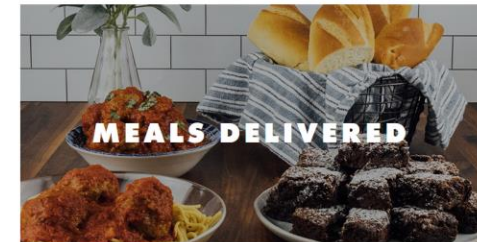
Define: YOUR Unique Value Proposition

**AT CARLINO'S, WE ARE COMMITTED TO OLD WORLD TECHNIQUES,
TREASURED FAMILY RECIPES AND THE FINEST INGREDIENTS.**

Food and family is our business and our passion. We believe in the process of artisan food, the origin, the transformation and how it's shared. The experience and emotional connection we receive through this process is the basis of everything.

Our brand is a tribute to our family, the inspiration for everything we do. Sharing this legacy and inspiration with our customers is the driving force behind everything we do.

The Carlino Family



**Clear statement of the benefit your products or services provide,
for whom and how you do it uniquely well**

Express why you are proud of what you do!

Your Questions? Your Thoughts?



Understand Your Pricing Options

There are many, many pricing strategies.
....Which works for your business?

Examples:

Competitive Pricing

Loss Leader Pricing
Penetration Pricing

Cost-Plus Pricing

Subscription Pricing

Value-based Pricing

Bundle Pricing, Etc.



Competitive Pricing

Competitive Pricing matches established prices for a similar product or service and adjusts for proven “value added” benefits.

Examples:

Unique Credentials

Money-back Guarantee

Responsive – Fast Turnaround

Industry Expertise



**Market Research Consultant –
Telecommunications Expert**



**Granite
Countertop
Installer**

Competitive Pricing – Installer Example

Assumptions:

- Business owner has studied the market, competition, reviewed the value
- Standard countertop installation: 40% gross margin
- Premium installations (e.g., seamless/no cuts): 50+% gross margin
- Cost includes labor, time, materials, waste – VARIABLE costs

	STANDARD	PREMIUM
Price Paid	\$1000	\$3000
Cost of Goods	\$600	\$1200
Gross Profit \$	\$400	\$1800
Gross Margin %	40%	60%



**Granite Countertop
Installer**

Gross Profit must cover all other expenses.

Pricing Tips: Markups vs. Value



Consider This:

- Customers want the best price for the best value
 - They “vote” with their \$\$\$
- Let Customers Choose How Much to Pay
 - Offer “good, better, best” choices to provide a wide range of options
 - Attract potential customers who appreciate ability to buy from you: **perception**
- Avoid the fixed markup mistake
 - Do not set all prices purely on a markup of the costs
 - Always account for what the customer is willing to pay for the value: **perception**

Cost-Plus Pricing

Cost-plus pricing guarantees **a steady profit margin** with every sale, covering direct labor, materials for a product or service.

...a common practice in commodity products and services, with considerable competition and similar offerings

Price Paid	\$100
Cost of Goods	\$70
Gross Profit \$	\$30
Gross Margin %	30%



**School Photographer
Headshot Package**

Assumption: Many photo sizes in a package to compete

Cost-Plus Pricing – what’s else?

BUT, you have more expenses than just labor and materials...

Gross profit must cover all your other expenses

....examples: **FIXED** costs

Website management

Rent/utilities

Cost of vehicle

Insurance

Accountant fees

Legal fees

Camera and lighting equipment

Gross Profit		\$30
All other expenses		- \$15
Net Income after Taxes		\$15



***Must sell a lot of packages
@ 15% on \$100 price***

Power of Pricing: *Focus on Profit \$. Not Margin.*

Photographer Photo Shoot – slight price increase

		INCREASE	% GAIN
Price Paid	\$100	\$105	5%
Cost of Goods	\$70	\$70	-
Gross Profit \$	\$30	\$35	17%
Gross Margin %	30%	33%	10%



**High margins are good.
But, a big margin on lower total sales is not.
*PROFIT is your goal...\$ in the bank!***

Power of Pricing: *Discounting can destroy Profit \$*

Photographer Photo Shoot – Discount 20%

		DISCOUNT	% LOSS
Price Paid	\$100	\$80	-20%
Cost of Goods	\$70	\$70	-
Gross Profit \$	\$30	\$10	-67%
Gross Margin %	30%	12.5%	-58%



**Gross Profit = \$ you use to pay all your other expenses.
A 20% discount results in a 67% loss in gross profit \$!**

A Word About Markups

$$\text{Cost-Plus Price} = \text{Costs of Goods/Service} \times \text{Markup}$$

A common practice with Cost-Plus Pricing strategy:

- “Mark it up” to survive and thrive
- Lock in a set XX % gross profit

Cost of Goods	\$10.00
Markup +45%	\$4.50
Price Paid	\$14.50
Gross Profit %	31%



T-Shirt Mfr. Or Distributor



Markups vary by Channel to Market



Online Retailer



Consumer Home Deco



Big Box Discounter



Manufacturer or Distributor



Hospitals

Pricing Tips: Discounting & “Same As”

Consider This:



- Generally, discounts are 20%, 30% or higher
 - American customers have been programmed to respond at these levels
- Don't discount across the board
 - Hold steady on price to maintain current purchase or order levels
 - Use special pricing tactics for short shelf-life, discontinuations, slow seasons
- Avoid a “Same As” positioning
 - Be clear about your uniqueness and value vs. competitive alternatives
 - Even umbrellas cost more in the rain. It's about customer **perception** of value!

Your Questions? Your Thoughts?



Value Pricing

“We price such that we **KNOW** we are achieving a maximum value possible from our market.”

The Anatomy of a World-Class
Marketing Organization

Value-based pricing is used with products and services that have:
unique differentiation
well-established branding
often **patent protected** and extremely difficult to copy

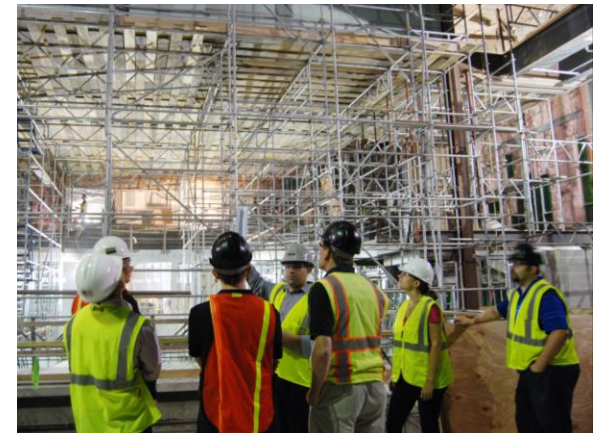
AMENTA | EMMA

OUR MISSION IS TO CREATE GREAT
PLACES WITH PEOPLE WHO SHARE
OUR BELIEF THAT DESIGN MATTERS.

ARCHITECTURE. INTERIOR DESIGN. NEW ENGLAND

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Value-Based Pricing

Value
Based
Price

$$= \begin{array}{c} \text{Reference} \\ \text{Price} \\ \text{(NBA*)} \end{array} + \begin{array}{c} \text{Value Added} \\ \text{Benefits to} \\ \text{Customer} \end{array}$$

* NEXT BEST ALTERNATIVE

Performance

Ease of Use
Long-life, durable
Safe for Environment
Multi-Function
Reliable...

Relationship

Fast Delivery
Customer Service
Prestige
Aesthetics
Deep Knowledge
Trusted...

Source: Marketing Leadership Council "Implementing Value-Based Pricing Practices"

Pricing Tips: 'Monetize' Your Value



Consider This:

- Value-based pricing is the ultimate goal for small business
 - Entrepreneurs have created amazing solutions: local, domestic, international
- Demonstrate customer's cost savings or best performance
 - Consider 'before & after' test market results for product or service performance
 - Analyze the lifetime benefits/costs of your offering vs. best available competition
- Capture customer testimonials
 - Buyers care more what other customers say about a new product or service
 - Work with loyal customers to prove value, identify new problems to solve!

Value-Based Price Examples



**In Home
Emergency Service**



**Hi-Performance
Safety Equipment**



**Personal Chefs
Safe, Special Celebrations**



**Dental Billing &
Accounting Experts**



**Trusted, Dependable
Child Care**

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Be Cost Conscious

- ✓ Cut “non-value added” expenses
 - Premium costs are only wise when the customer cares
 - Be wise about inventory and project commitments

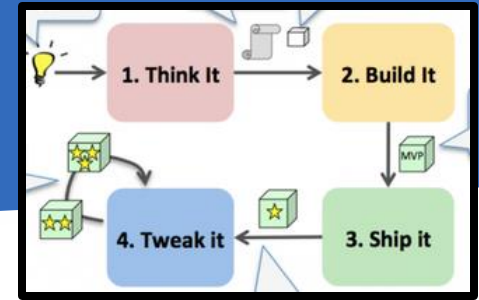
- ✓ Examine other business models
 - Sell into the stage of the supply chain where you are the expert
 - Consider partnerships, alliances
 - Exploit eCommerce

- ✓ Streamline the supply chain or the project flows...fewer touches

- ✓ Shop lower interest rates on loans



Understanding Startup Costs



Product Costs

- ✓ Research
- ✓ Product development
- ✓ Labor & Materials
- ✓ Staff, Training
- ✓ Office space
- ✓ Warehousing
- ✓ Equipment
- ✓ Packaging
- ✓ Marketing/sales program

Service Costs

- ✓ Program development
- ✓ Equipment, software
- ✓ Professional/trade orgs
- ✓ Website development
- ✓ Sales presentations, Training
- ✓ Travel
- ✓ Office space
- ✓ Supplies, furniture
- ✓ Customer service

These are examples. Each business will have its own unique list of expenses.

When & How to Breakeven

Gather these facts:

- **Accurate assessment of startup costs**
 - total costs
 - per unit/service offering
- **Annual capacity**
 - # of products or # of contracts/projects per year
- **Desired timeline for breakeven: getting to \$0 loss**
 - Year 1, 2 or 3? Or longer...
 - Sum up all startup costs + cost of goods (labor, materials)
 - Spread costs across all products or billable services for Year 1, 2 or 3
 - Identify your “Price Paid” sales goal that delivers Zero Net Income



Is Your Price Working?

ANALYZE YOUR SALES DATA



KNOW WHO IS BUYING

REVIEW YOUR LEADS: 'CLOSURE' RATES

Purchase frequency and repeat cycles

- * **Supply and demand balance**
- * **Number and \$ value of orders**

Sales gain by marketing offer or promo price
Volume levels by price paid, region, season

Identify your target customers

Define “best” customers, most profitable
Study customer reviews, testimonials

% of Leads that turn into Sales

If closure rates >25%, consider price increase

Adjusting Price

INCREASE

- Strong leads-to-sale ratio
- Demand is stronger than supply
- Supply issues
- Raw material cost increases
- Limited edition products or services (seasonal, new system)
- New, improved performance

DECREASE

- Out of season
- Discontinued goods or programs
- Slow season periods
- Damaged goods with useful shelf life
- Short shelf-life items

Small, carefully planned price increases can actually give your business a competitive edge.



Pricing & The Law



Do not discuss pricing with other companies or suppliers. You can recommend pricing to retailers, but you cannot set selling price.

PRICE FIXING

Do not disclose or discuss pricing with competitors. Use market research to learn.

EXCHANGING PRICE INFO

Do not discuss contract pricing with another bidder.

BID RIGGING

Matching prices vs. your competition may be viewed as price fixing. Consult your lawyer.

PARALLEL PRICING

Wholesale prices set too high for small-size orders to 'squeeze' small business owners out. Report offenses.

PRICE SQUEEZING

Pricing Highlights



- ✓ **Understand your customers and their willingness to pay!**
- ✓ **Be sure that cost, customer and competition – together – inform your price strategy. Use market data!**
- ✓ **Caution:** do not set price purely on cost
- ✓ **Keep track of your sales and profit performance vs. plan**
- ✓ **ASK FOR HELP:** mentor, accountant, industry experts

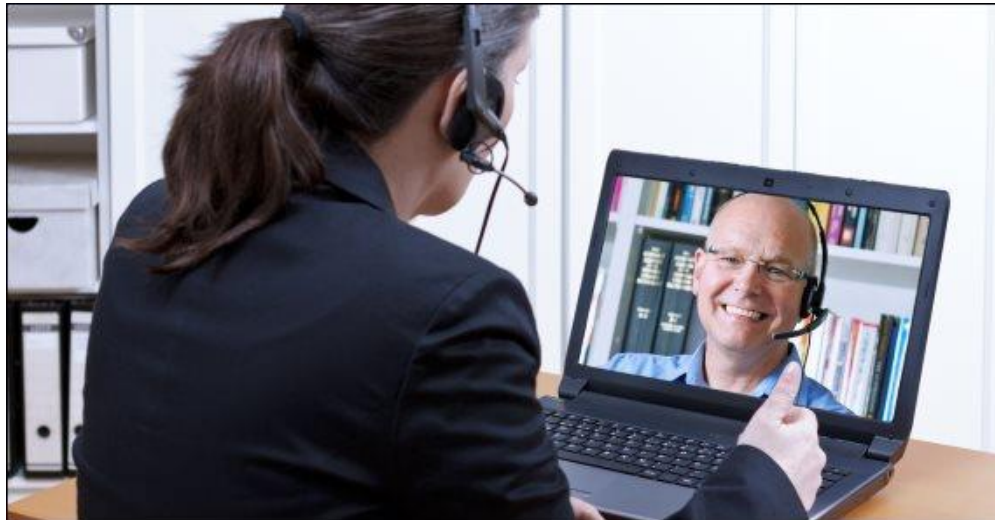
Your Questions? Your Thoughts?



Request a mentoring session

To search our list of available mentors or be paired with one, go to

- <https://chesterdelco.score.org/content/find-mentor-146>
- or call (484) 356-8624 for assistance.



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