

Pricing to Maximize Profits: Stop Leaving Money on the Table

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Pricing makes a bigger difference in your business than you think

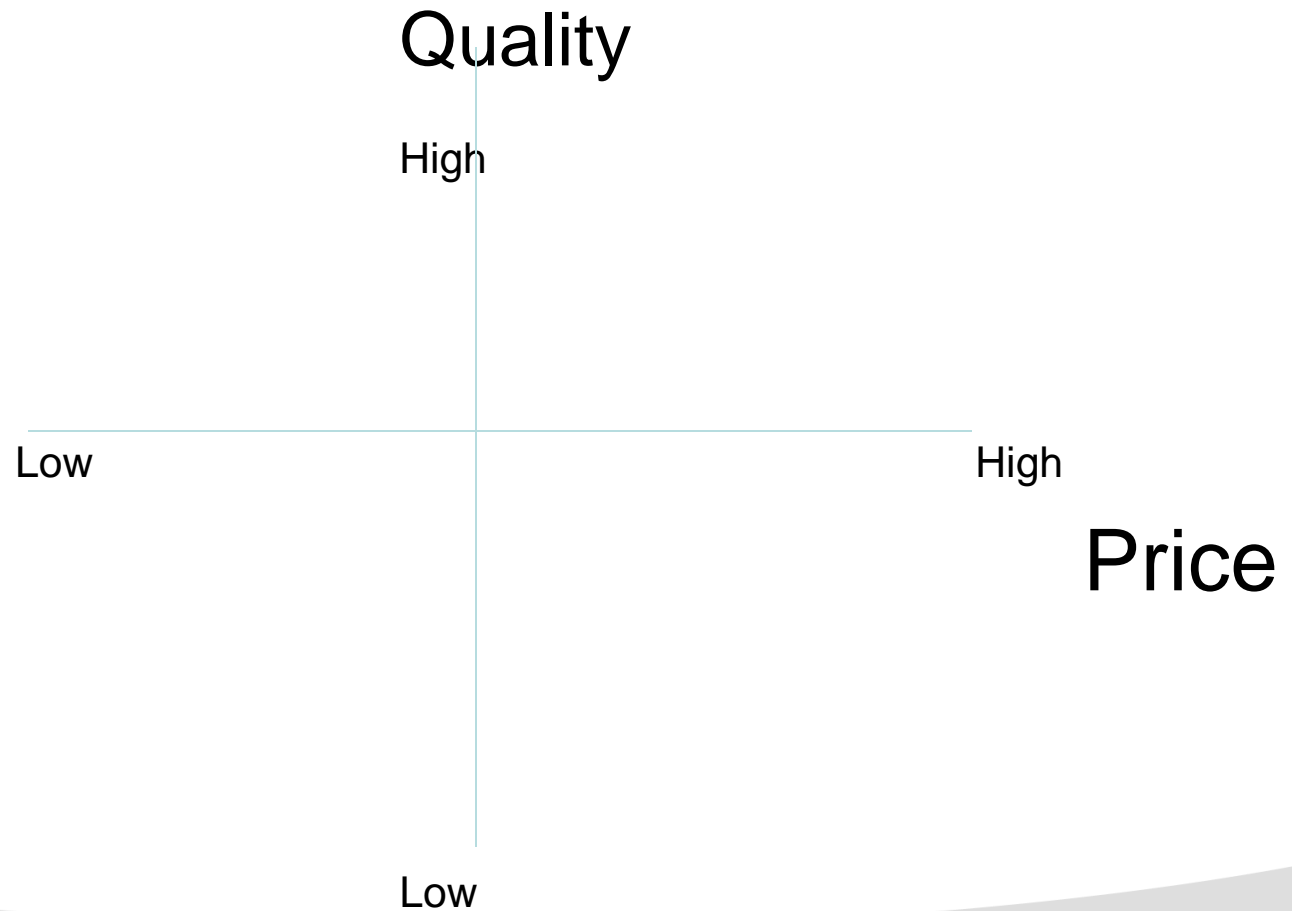
- Pricing often times has a bigger impact on net income than any other element
- Get out of the mind set of trying to compete on price – don't become a commodity
- Take a deliberate, strategic approach to pricing
- Model those steps so you understand what the potential impact of changes will be
- Take action to improve your profitability by working on pricing

Too many businesses put little time and effort into their pricing strategy and decisions, and consequently leave thousands of dollars on the table

- You might be “too busy” working in your business to take the time to work on your business
- Pricing is hard work that takes time, involves risk and requires follow through
- You believe your prices are locked in by the marketplace
- You are afraid to raise your prices



Pricing/Quality Matrix



What is your current pricing based on?

- Your costs – geared to create a specified markup, often without taking into consideration value received by your customers
- Based on your competition without considering your business strategy and financial structure

Different Pricing Strategies

- Penetration pricing - Sell at a low price to obtain market share.
- Prestige pricing - Price above market rate to attract luxury or status seekers.
- Predatory pricing - Price below your cost to knock out the competition.
- Lock-in pricing - Lower your price for initial customers with the goal of raising it once a critical mass has been achieved.
- Limit pricing - Price so low that nobody else wants to enter the market.
- Barometric price leadership. Change your price and hope the competition does the same.
- Dominant price leadership - Change your price knowing your competition *has to follow*.
- Psychological pricing - Pick a number to which people intuitively react. (Like \$9.99 vs. \$10.)

Different Pricing Strategies

(cont.)

- Price discrimination. Sell the same product at different prices to different people. Despite its ominous name, price discrimination is probably the most common pricing strategy. There are three kinds of price discrimination:
 - First-degree price discrimination: Set prices based on what each individual is willing to pay for it. This is how cars and houses are sold.
 - Second-degree price discrimination: Set prices based on quantity purchased. This is a good tool to drive cash flow. A couple of examples:
 - *Volume discounts. The more the customer buys, the less they pay per unit.*
 - *Two-part pricing. Charge full price for a certain volume, and then discount for units above and beyond that volume.*
 - *Bundle goods. Offer a specific volume of goods at a discounted price.*

Different Pricing Strategies

(cont.)

- Third-degree price discrimination: Set prices based on customer profiles. For instance, a contractor will adjust his or her prices if the homeowner is in a rich neighborhood vs. a middle-class neighborhood.

Rank your products/customers

- Looking at your worst performing can tell you a great deal about potential improvements in your pricing strategy
 - You might be surprised to learn that you are losing money on particular products, services or customers.
 - Understanding why products or customers are at the bottom can highlight weaknesses in your approach. It will help provide motivation to review all of your pricing decisions and to take action.



Don't leave money on the table with your most profitable products and customers

- What can you learn about these customers/products that can be applied to other customers/products?
- Are there some “A” customers or “all you can eat customers” who are receiving more value than you are charging them for or would be willing to buy more from you?

Develop new pricing strategies

1. Use price structure to clarify your advantage. Use pricing to highlight the very issues that differentiate you from others
2. Willfully overprice to stimulate curiosity. By setting prices higher than what customers normally intend to pay you cause them ask “Do I need this benefit or not?” and spend more time considering your proposal

Develop new pricing strategies

3. Partition prices to highlight overlooked benefits. Break a price into its component parts, highlighting dimensions of differentiation that might otherwise go unnoticed.

Develop your pricing strategy

- How long has it been since you raised your prices?
- Have you tested increasing your prices?
- Where is your value above the competition?
- What can you do to create more value?

Create a Pricing Forecast

- Review Seven Key Numbers for your business
- Model the impact of your proposed pricing strategies
 - Actual model – discount versus increase
 - Discounting model
 - Prestige pricing model
 - How many customers would I have to lose in order for this increase to not be profitable?

Analyze your strategies

- Decide which pricing strategy works best
- Re-evaluate your assumptions
- Consider impacts on cash-flow
- Make a decision

Implement the Strategy

- Set a goal for your price strategy – what do you want to accomplish?
- Spell out the strategy – how are you going to implement the strategy?
- Create an action plan – who is going to do what, when
- Evaluate by carefully monitoring the results of the changes made

Stop Leaving Money on the Table!

- Be strategic
- Test and monitor your strategy
- Consider using pricing as a commitment to increase the quality of what your customers get
- Don't chicken out!
- Good luck

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