

# Successes & Strategies

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## Do You Compete in Your Market Based on Price? Why?

If you took a marketing course in college, you must have learned the “4 P’s of Marketing:”

- **Price** – What you’ll charge that the customer will pay.
- **Product (Service)** - What features the product or service has that will appeal to your customers.
- **Place** – Speaks to the determination of where and to whom you will sell.
- **Promotion** – How you will entice the market to buy that product or service.

So we know that the price matters, but is it all that matters to your customers? Only if you let it be. Consider the customers viewpoint for a moment. What reasons do you give them to consider something other than price? We spoke in an earlier article about Unique Core Differentiators: the things you do that separate you from your competition. It could be how you package your product or service, your speed of delivery, specific product features that your competitors don’t have, etc. If all else fails, you can *always* differentiate yourself with your customer service.

Competing on price is almost always a losing proposition. The most important impact lands right on the bottom line. The smaller the gross margin (the % of sales price remaining after deducting the cost of producing the product) the more pronounced the negative impact of cutting price to get a sale. Assume you sell a product with a 30% margin. If you reduce your price by 10% in order to get a sale, you will need to increase your sales volume by **50%** just to stay in the same place profitability-wise. So assume the product you make a 30% gross margin on sells regularly at \$1,000 each. Last year you sold 300 of these products to produce gross revenue of \$300,000 and gross margin of \$90,000. If you decide to cut the price by 10% and charge \$900, **you will need to sell 450 products just to end up in the same place!**

For non believers, here is the math:  $450 \times \$900 = \$405,000$  total revenue;  $450 \times \$700$  (Cost) = \$315,000;  $\$405,000 - \$315,000 = \$90,000$ . So you’ll have to sell 150 more products at \$900 just to maintain the profitability you had at a \$1,000 selling price.

## Contrary thinking...

Now let’s think about the opposite strategy. What happens if you *raise* your price? I can hear you saying to yourself, “My customers won’t stand for that!” Don’t be so sure about that. If you recall back to an earlier article I wrote regarding perceived indifference, statistics kept since World War II consistently show that price matters about 15% of the time. What really matters is how the customer perceives you feel about them (true or not). If they perceive you don’t care, THEN price matters, because you’ve given them only price to consider when they compare you to the competition. If you still believe some of your customers will move on, assuming you have awesome customer service or excellent product features or whatever, then how many can you afford to lose if you raise your price? Let’s stick with our product with a 30% margin. Assuming you raise your prices by 8%, you can afford to lose 21% of your volume and still remain as profitable as you were before. That means that **1 of every 5 customers** can stop buying from you and you are no worse off for it. More often than not, the customers who stop buying because of a price increase are not your best customers.

I am not proposing that you immediately raise your prices. The first step is to work on the issue of making price a secondary consideration to your customers. Take a long look at your products or services and seek opportunities to differentiate yourself. Think about how those products or services best benefit customers. If you aren’t sure, by all means ask them. Ask your best customers why they choose you. You are likely hearing your differentiation strategy articulated back to you. I cannot encourage you strongly enough to consider your customer service system, or lack thereof, as an opportunity to wow your customers.

It doesn’t have to be about price if you don’t want it to be. Being the low cost provider has its place as a strategy, but I am guessing it wasn’t yours when you started your business. Start thinking about how you can take price out of the equation, and you’ll start enjoying your business more. Most people don’t want to shop or buy that way anyway.