PROFITS HIDING IN PLAIN SIGHT

Mike Jackson

TO RAISE YOUR PRICES --- or NOT

Just this morning I read a Yahoo article about a national burger chain raising the price of its ‘2 Fer’ promotion. You know, you get 2 items for a screaming low promotional price – they’re all doing it now. I know math has changed since I went to school, but the author was noticing that this burger chain actually ‘doubled’ the price of the 2Fer from $2.00 to $5.00!

Here is the real truth. The $2.00 promotion was for a junior burger and a side, such as fries. The new deal is for a deluxe burger and a full sized fish sandwich or comparable selection. So then, what’s the ‘beef’?

As I visit local business owners and managers I find that pricing their goods and services has significantly moved up on their list of greatest challenges. I suspect there is good reason. Business has become exponentially competitive every year of the past decade and certainly the economy and purchasing power of family households has been less than robust. And, the bottom line is many have not raised prices in several years and their bottom line is taking the hit.

To Raise or Not Raise prices is almost scientific today and not to be taken lightly. Business management should avoid at all cost making quick judgements one way or the other. You can now major in Economic Psychology, and if I were to begin my career today that is exactly what I would do. At the very least, I would like to remind that you should be reviewing your pricing monthly if not seasonally. Strongly consider looking up ‘pricing’ on internet, reading books and articles, attending workshops.

The market may not allow for you to make regular price adjustments, example TV’s. Actually that is not entirely true. You may have to make regular price ‘decreases’ to remain competitive, but nonetheless you cannot afford to be 6 months behind on your market response – in either direction.

Why should you increase prices?

If your cost of goods sold is increasing, you will eventually be forced to cover the expense or find ways to become more efficient, reduce staffing, or cut back on employee raises and benefits. The latter may also result in morale, productivity, and turnover issues.

If you wait for several years to make adjustments you may have to raise prices 25% or more which will likely result in more price resistance from consumers and shopping around than if you made incremental increases to match your COGS.

Your competition is waiting and watching for you to raise your price, so they can do same. Customers often associate ‘Value’ with the price of a product. I have seen sales go up on products as the Perceived Value goes up with a sharp price increase.
Most of us have no idea how much we paid for a product the last time we purchased. Example, how many honestly know if a Big Mac costs closer to $3 or $7, or would recognize a 5-10% increase?

**How should you go about raising prices?**
Do not apologize for doing what is natural in the business world. If customers wish to have conversation, explain that the increase was necessary to continue training and promoting valuable employees to maintain the level of service consumers have come to expect.

Consider ways to add more ‘Value’ to your product. Car dealers have extended the warranty time. Use some of the price increase to send employees to be more skilled or ‘certified’ experts. In sales meetings, practice articulating ways a customer may avoid the increase by purchasing larger quantities, ordering more often, becoming more efficient on how they use your product.

Package your products and present them differently. Raise your prices on your shirts and your ties – but sell a package of a shirt and a tie that is a perfect match. It may or may not be discounted, just presented differently.

Train your staff, train your staff, and then train your staff. Practice presenting your USP (unique selling proposition) – what makes your company the very best place to come for this product or service? Then charge accordingly.

Do not fall into the lazy ‘Retail’ trap of assuming you should Keystone / Double the price of all your merchandise. They all have different shelf life, turnover, transportation expense, and risk of becoming obsolete. Price each product by the ‘true cost’ of maintaining that inventory over 12 months.

**Back to the ‘2Fer’ hamburger deal.**
If you cannot afford to hire an Economic Psychologist, watch what the experts do. Increasing the price by 2.5 times (notice this actually MORE than doubling), is not a marketing gaffe. They are clearly adding more value with better sandwiches. If you shop the competitors, many of them have a 2Fer $4.00. This chain is separating themselves from the competition and at same time they ‘POSITION’ themselves as a restaurant that constantly comes up with new deals and promotions, thereby ‘incenting’ customers to try their different products. They will eventually return to regular price, which may or may not be an increased price when this happens. Would this move prepare this company just in case the Minimum Wage regulation caused them to raise wages by 20 or 30%? Perhaps.

Oh my --friends. Marketing is a fascinating pastime and even more rewarding career. Our BEAR team would love to visit about Marketing efforts and resources. FVCC has classes on the profession. And, as an aside, if you hire some of our amazing young graduates, they have fresh and sometimes different ideas of Marketing. Give them some rope and give them a listen. Honestly, all of your employees are eager to offer their tips on improving your operations. Allow them to be engaged and create value.
Option. Network with other business leaders and share great merchandising practices. We would be happy to facilitate such a group with 6-10 willing participants.

bear@kalispellchamber.com

Michael Jackson