



Developing a Pricing Strategy

Presented to:

MMBA Annual Conference
Arrowwood Resort

May 18th 2009
Alexandria, MN

by

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Pricing Strategies for Profits Plus!

Defining the need for a pricing strategy

A. Playing the price game with the “big boys”

B. Quality + Service + Information + Price = Value

C. Helping the customer make the decision with the ingredients:

1. Quality

2. Service

3. Information

4. Price

Blind-price items

- A. Defining blind-price items
- B. Examples of blind-price items in everyday life
- C. 10-point evaluation of blind-price items:
 1. Extra time to price
 2. Extra handling for customer
 3. Natural add-on item
 4. Seldom used
 5. Repair or replacement item
 6. Luxury or status appeal
 7. Seldom promoted
 8. Not seasonal
 9. Recreational item
 10. Not sold in a mass merchant

If your current margin is (read across top) and you raise your price by (read down left), then you can sell this percentage fewer and maintain the same profit.

	10%	15%	20%	25%	30%	35%	40%	50%
5%	33.3	30	25%	17%	14%	12.5	11.1	9.1
6%	37.5	28.6	23.1	19.4	16.7	14.6	13	10.7
7%	41.2	31.8	25.9	21.9	18.9	16.7	14.9	12.3
8%	44.4	34.8	28.6	24.2	21.1	18.6	16.7	13.8
10%	50	40	33.3	28.6	25	22.2	20	16.7
11%	52.4	42.3	35.5	30.6	26.8	23.9	21.6	18
12%	54.5	44.4	37.5	32.4	28.6	25.5	23.1	19.4
15%	60	50	42.9	37.5	33.3	30	27.3	23.1
16%	61.5	51.6	44.4	39.9	34.8	31.4	28.6	24.4
18%	64.3	54.5	47.4	41.9	37.5	34	31	26.5
20%	66.6	57.1	50	44.4	40	36.4	33.3	28.6

D. Scoring with margins

1 - 3 _____%

4 - 5 _____%

6 _____%

7 _____%

8 - 10 _____%

Everyday Sale Price

A. Defining items that deserve an everyday sale price

B. Finding the everyday sale-price items

C. Promoting your everyday sale prices

Promotional Price Items

A. Deciding to advertise

B. Education as a key ingredient

C. Advertising and promotional budget

Price-Sensitive Items

1. Defining items that are price sensitive

- A. Has a "sister" product that can be an everyday sale price item
- B. The same item, but in a different size/color, is an everyday sale-price item
- C. Has additional benefits/features that can be easily demonstrated or explained
- D. Not sold in mass merchants
- E. Not advertised by competition
- F. Solves a problem/need better than the product asked for
- G. Scores 3 or less on the 8 remaining blind-price item list
- H. Quality is immediately proven by way of manufacturer name

2. Examples of price-sensitive items

3. How much can you charge?

4. Reasoning the additional charges

- A.
- B.
- C.
- D.

Variable-Price Items

1. Three ways of increasing your margins

A. Departmental review

B. Fineline review

C. Rounding prices

2. The \$2.00 Pricing System (adding 24 cents)

3. Rounding your prices

A. \$2.00 to \$9.99

.29 .49 .79 .99

B. \$10.00 to \$19.99

.99

C. \$20.00 to \$49.99

_1.99 _2.99 _4.99 _6.99 _7.99 _9.99

D. \$50.00 and above

_2.99 _4.99 _7.99 _9.99

The \$2 Pricing Strategy

<u>Cost</u>	<u>You</u>	<u>Old</u>	<u>Add</u>	<u>Round</u>	<u>Minimum</u>
.01 - .10	\$0.10	\$0.20	\$0.24	\$0.49	80.00%
.11 - .15	\$0.15	\$0.30	\$0.24	\$0.59	75.00%
.16 - .20	\$0.20	\$0.40	\$0.24	\$0.69	71.00%
.21 - .25	\$0.25	\$0.50	\$0.24	\$0.79	68.00%
.26 - .30	\$0.30	\$0.60	\$0.24	\$0.89	66.00%
.31 - .35	\$0.35	\$0.70	\$0.24	\$0.99	65.00%
.36 - .40	\$0.40	\$0.80	\$0.24	\$1.09	63.00%
.41 - .45	\$0.45	\$0.90	\$0.24	\$1.19	62.00%
.46 - .50	\$0.50	\$1.00	\$0.24	\$1.29	61.00%
.51 - .55	\$0.55	\$1.10	\$0.24	\$1.39	60.00%
.56 - .60	\$0.60	\$1.20	\$0.24	\$1.49	60.00%
.61 - .65	\$0.65	\$1.30	\$0.24	\$1.59	59.00%
.66 - .70	\$0.70	\$1.40	\$0.24	\$1.69	58.00%
.71 - .75	\$0.75	\$1.50	\$0.24	\$1.79	58.00%
.76 - .80	\$0.80	\$1.60	\$0.24	\$1.89	58.00%
.81 - .85	\$0.85	\$1.70	\$0.24	\$2.09	59.00%
.86 - .90	\$0.90	\$1.80	\$0.24	\$2.19	59.00%
.91 - .95	\$0.95	\$1.90	\$0.24	\$2.29	58.00%
.96 - .99	\$0.99	\$1.98	\$0.24	\$2.39	58.00%

Add Retail 24 cents

Putting it all together with a sequence for implementation

1. Everyday Sale Price

A. Start watching ads

B. Change items as you find them

C. Never be the lowest price in town

D. If you will lose more money than you are comfortable with, do not stock the item—BUT...

2. Promotional Price Items

A. Create a budget

B. Don't forget education

C. Stretch your risks over a period of time

D. Measure your results

E. Have a newsletter

3. Price-Sensitive Items

- A. Harder to determine the items
- B. Represents extra dollars for you
- C. Low maintenance of this program

4. Variable Pricing

- A. Review your margins by department and fineline
- B. Implement the \$2.00 pricing system
- C. Start rounding prices













5. Blind-Price Items

- A. Identify items in the other categories
- B. Apply 10 point rule to blind-price items
- C. Always look for items to add to list


Closing reminders

Resources Order Form

Today's prices reflect a 20-percent savings off regular prices!

	Filled with 251 strategies for increasing business with retailers. Also a great read for retailers.	\$15 <input type="text"/>		Create and see each of your next 12 financial statements (includes a disk for computer installation).	\$25 <input type="text"/>
	Advertising and promotion ideas that have been proven to work at little or no cost.	\$8 <input type="text"/>		Advertising and promotion ideas that have been proven to work at little or no cost.	\$8 <input type="text"/>
	Business-building and managing ideas to increase profits and reduce expenses.	\$8 <input type="text"/>		Business-building and managing ideas to increase profits and reduce expenses.	\$8 <input type="text"/>
	A collection of 50 of the best of Tom Shay's columns from 65+ trade journals and magazines. (PDF format on CD)	\$15 <input type="text"/>		A second collection of 50 of the best of Tom Shay's columns from 65+ trade journals and magazines. (PDF format on CD)	\$15 <input type="text"/>
	29 posters providing inspiration, education and motivation.	\$15 <input type="text"/>		This deck of cards creates an interactive event for employees to learn how to work better with customers.	\$15 <input type="text"/>
	Make your annual advertising, marketing and promotional plans – guaranteed to keep you on budget and on task!	\$30 <input type="text"/>		Screen savers for your PC containing photos of store displays and the best ideas from the Power Promoting books.	\$15 <input type="text"/>

VALUE PACKAGE

	Get the complete 12-piece set of Profits+Plus Tools which includes: EZ Cashflow™ How to become the Preferred Vendor Powers Posters Collection All 4 Idea Books What Does Tom Say? Power Promoting PC Big Deal Cards What else Tom Say? Screen Savors AMP Calculator	\$175 <input type="text"/>
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EACH ITEM SOLD WITH A GUARANTEE TO MAKE YOU MONEY!

Name:	Business Name:
Address:	City, State, Zip:
Phone #:	e-mail Address:
Credit Card #:	Expiration date:
Signature:	Today's Date:
Please send me the monthly e-retailer via e-mail FREE!	<input type="text"/>



SOUND ADVICE FOR BUSINESS

What is the price?

By Tom Shay

Television has a long-running game show where contestants win prizes by correctly guessing the prices of household items. You might expect people to have a good idea what these everyday items cost, but that is not always the case.

A different version of this game is being played every day as customers shop all types of businesses for the products you sell. The advantage many of your competitors have is the ability to use one or more employees to study, create and implement their pricing strategies.

How do you feel the effects of this? It comes when you have a customer tell you how much higher your prices are than a competitor's. Equally bad is when your customer tells you your price is lower than any other store in town.

What about when you visit the big-box store and realize it is selling an item for less than you pay for it. While that may be true, the reality is it is probably selling the product for less than it pays for it, too.

These situations can be resolved; and the solution, while not easy to implement, is simple. Many of the products you sell can be placed into one of four categories. In addition, a strategy for pricing products can be implemented to improve your margins. The key is to identify a product's category. Let's take a look.

Everyday Sale-Price Items. At most businesses, you will find about 100 items with known prices because your competitors advertise them so often. If you were a grocery store, these items would be a gallon of milk, a pound of hamburger meat, a loaf of bread and most of the other items you see in large displays as you enter their stores.

While these may be items on which you will make little or no profit, they are necessary because they are the means by which you tell your customer you are competitive. If your competition is selling the item for \$1, and you have the identical item for \$1.79, what does that tell the customer about your business? And what will the customer think about all the other items in your store?

Price-Sensitive Items. These become your secondary tier of items. They are ones about which your customer has some idea of the price, but is not certain. This can occur when a customer comes in asking for a product—often an everyday sale-price item—but after answering our questions finds the product he wants is not the product he needs.

Sometimes the price-sensitive item is simply a different size from what the customer has requested. For items in this category, we can be charging as much as 10 percent more for the item because in speaking with the customer, we have added additional value to the transaction.



What is the price? (continued)

By Tom Shay

SOUND ADVICE FOR BUSINESS

Promotional-Price Items. These are the items that you advertise, and they do not necessarily have to be all the same items your competition advertises. Since you are expecting your customers to respond to this advertising, it is crucial your employees are knowledgeable about the products.

Blind-Price Items. Read the annual reports of your chain-store competitors. When you see their overall margins and then look at how many items they are selling at or below their cost, it is easy to see they are making up the difference on the thousands of items that are not in the three other categories we have discussed. These are often the items that a small business is selling for far less than a chain store. These items tend to be the products that are unique and not sold in every store.

Variable Pricing. Variable pricing is a technique that allows you to boost your profits by rounding prices. For example, look at all the items you sell between \$17 and \$17.99. Why are some items at \$17.09, others at \$17.38, and some at \$17.95? Why not price all of them at \$17.99? If you count the number of items that fall into this category, you will be surprised at the additional profit. Starting with items as low as \$2, you are selecting certain price points that you want to hit.

Many businesses have items in the range of \$2 to \$10, structured so that the ending two digits are .29, .49, .79, and .99. As prices on products continue from here to hundreds of dollars, a similar strategy is used so that the business maximizes the potential profit.

Research has shown that you can increase your net profits by \$25,000 for every \$750,000 in sales by implementing such a practice.

Creating a pricing strategy is not an easy task. It takes a considerable amount of time initially and maintenance every few months to make sure you are on top of the categories and the items they contain, but you will surely notice the difference on your bottom line as you get the prices right.