Consult 4

Optimise Profit

PRICE REVIEW

Margin Squeeze

This refers to the resulting outcome if certain conditions are evident in a business. There are 5 basic conditions that tell you if your business is being subjected to margin squeeze (sometimes it's obvious and completing this exercise will merely confirm what you already know… stick with it to see how bad!) Tick those conditions that apply to you in your business to see if this may be a effecting your margins… (Make sure to read both ends of the scale before you answer.)

5 Symptoms of Margin Squeeze:

1. On a scale of 1 to 10 how well do you know the current margins you are making in your business when you make a sale?

Every time ●─────────────────────────────● **Not so much**

    1   2   3   4   5   6   7   8   9   10

2. Do you have costs in your business that can blow out e.g. labour on a job or project that is either part of getting clients to buy from you or getting work done for clients?

Never ●─────────────────────────────● **Unavoidable**

    1   2   3   4   5   6   7   8   9   10
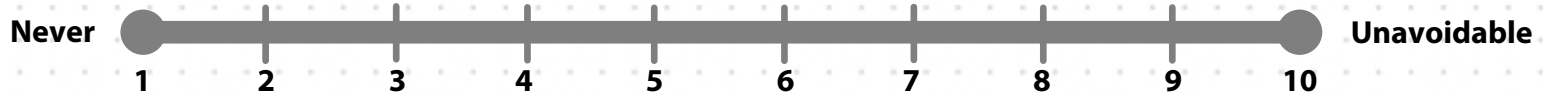
3. Do you consider that your business is in a competitive marketplace where price is a factor and/or do you find yourself trying to get volume into your business by maintaining "competitive prices"?

Not so much ●─────────────────────────────● **Definitely**

    1   2   3   4   5   6   7   8   9   10

4. Does your normal pricing process lead to price negotiation before you confirm work?

Not at all ●─────────────────────────────● **Always**

    1   2   3   4   5   6   7   8   9   10

5. Is your cash-flow up and down every month whereby sometimes it's fine while other times it's woeful?

Very stable ●─────────────────────────────● **Pretty much**

    1   2   3   4   5   6   7   8   9   10

Margin Squeeze: Assessment

Add up the numbers from the previous page to get an idea of whether margin squeeze is a factor in your business… if it is, then there are 5 significant strategies that will help to Un-Squeeze your margins so your business will feel less tight and more easy to run. If margin squeeze is not a factor for you, then the same 5 strategies will help optimise your margins so you have more to invest in growth!

Process: Add up the points from your previous page and place on the scale below…

0-20	20-30	30-50
Low Range	**Mid Range**	**High Range**
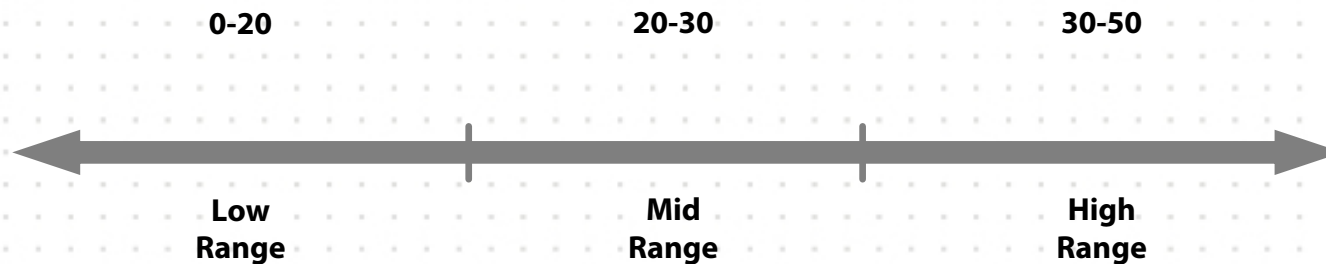
Strategy:

Margin Squeeze is probably not an immediate factor for you meaning low price sensitivity in your market. Optimise your margins and invest them into marketing for growth or capacity to allow for growth…

Margin Squeeze is likely a factor for you… the 5 Margin Strategies will find ways to optimise your margins. Work hard on sales tactics to help you get an even lower score…

Margin Squeeze is definitely a factor for you… the 5 Margin Strategies should be worked on immediately…

Increasing Your Prices

When you increase your prices you can sustain a drop in your sales before your profitability is affected! When you adopt a premium pricing strategy (or simply a price increase), this table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced to below its current level. For example, at the same 40% margin, a 10% increase in your prices could sustain a 20% reduction to your sales volumes. Find your current margin on the top line of the table...

| Margin ▶	20%	25%	30%	35%	40%	45%	50%	55%	60%
Increase ▼	Your sales would have to DECLINE by the amount showing before your profit is reduced								
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

Discounting Your Prices

When you discount your prices you have to significantly increase your sales to maintain your margins! The table below indicates the increase in your sales volumes that are required to compensate for a price discounting strategy. For example, if your margin is 40% and your reduce your price by 10%, you would need your sales volume to increase by 33% to maintain your profit. Rarely has such a strategy worked in the past and it's unlikely it will work in the future. Find your current margin on the top line of the table...

Margin ▶	20%	25%	30%	35%	40%	45%	50%	55%	60%
Discount ▼	Your sales would have to INCREASE by the amount showing to keep the same amount of profit								
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%		400%	200%	133%	100%	80%	67%	57%	50%
25%			500%	250%	167%	125%	100%	83%	71%
30%				600%	300%	200%	150%	120%	100%

The Pricing Survey

Sometimes it's helpful to see where we have positioned ourselves with our prices relative to our competitors (but often it's easier to push up prices regardless of the marketplace!). Use the following process to see where your prices are positioned relative to your competitors.

Hi Quality

10

1 ← → **10**

Poor Service   **Great Service**

1

Lo Quality
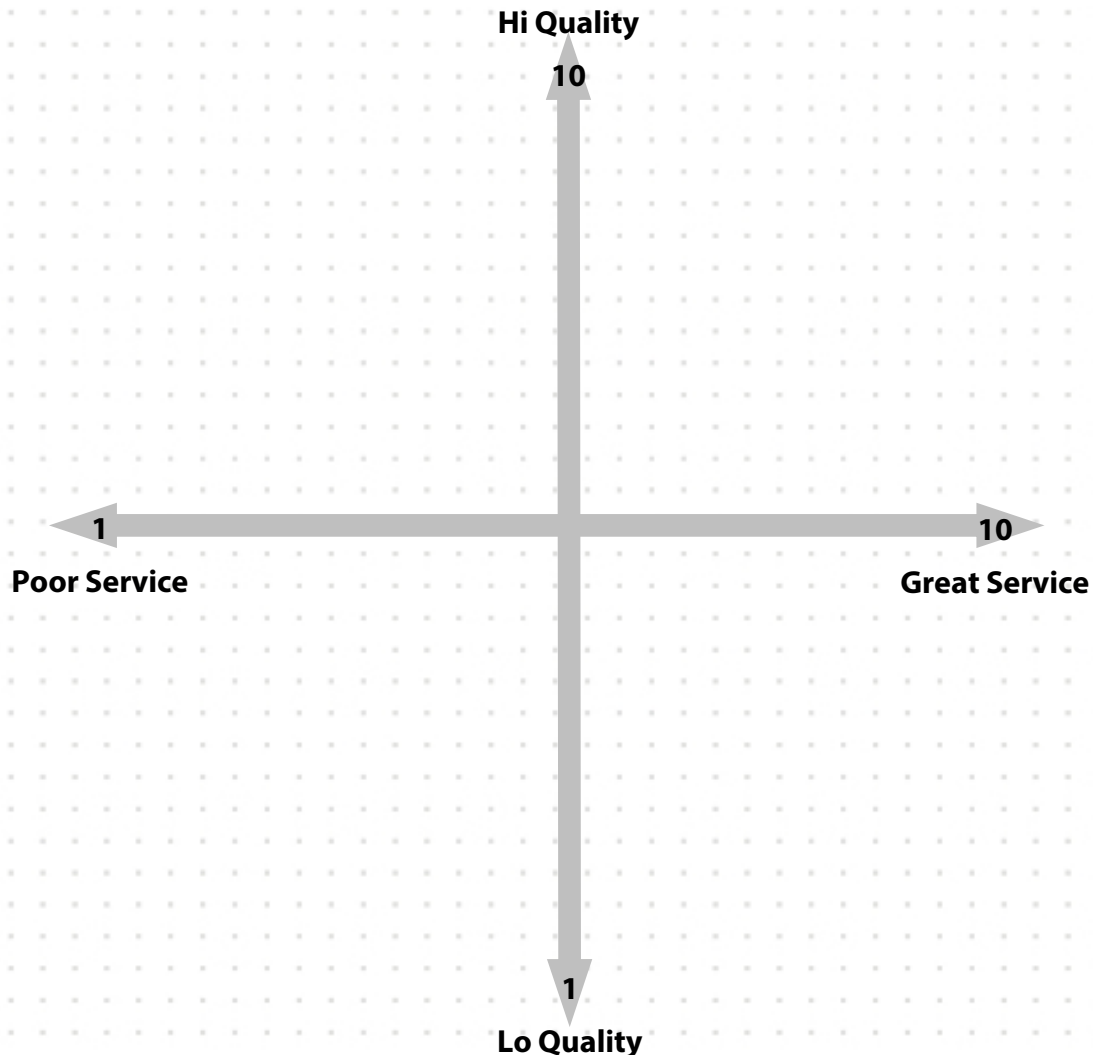
Process |

1. Come up with an item or service you sell or quote, or a rate that's used in your industry where price is compared e.g. hourly rate etc. (write into the "Item Selected" box below)

2. Select at least 2 competitors and rate how they are positioned in comparison to you on Quality and Service (according to you)

Company A:

> Quality _____/10   Service _____/10

Company B:

> Quality _____/10   Service _____/10

3. Plot your rating with "A" and "B" in the appropriate place on the axis to the left

4. Research their prices and write them next to each position on the axis

5. Compare how you'd rate your company on Quality and Service then consider where you should position your prices

Item Selected (or Rate) | For Price Comparison

Price Optimisation

Have a think about what you could do to improve your prices based on how other industries operate. Remember, a price is simply what a customer is willing to pay for what you sell. In general, if you don't receive price complaints, you are too cheap! Select those strategies that will allow you to improve your margins by using the following pricing policies.

Strategies:

1. Across the board increase simply because you haven't changed them for years and costs have gone up

2. Use or improve a variations system if you do quotes and include situations that will trigger a variation in your terms of trade

3. Increase prices on specific products or services or jobs to allow for more variables that are often beyond your control

4. Have a policy for customers who ask for special services e.g. urgent repairs

5. Calculate how many jobs or transactions it takes to make 80% of your total profit contribution… (Consider how much time and effort it takes to do everything else)

6. Change your pricing system (see Pricing Systems exercise)

7. If you have "chargeable hours" consider rounding up to allow for wastage, rework or hours that can't be recovered

8. Invoice add on's e.g. consumables, disposal fees etc

Your Strategies:

Pricing Systems

Many pricing systems are historically based without a lot of science behind how they were arrived at. The purpose of these exercises is to get you to consider the pricing model you use and to be open-minded to how other industries price what they sell. Consider which system(s) you use now and whether other pricing systems may be used to help make better margins for you.

1. Cost plus a standard margin for wages and materials

2. What the competitors charge

3. Whatever it takes to get the work

4. Value pricing e.g. set amount or %age of costs saved/money made

5. Commission rates that cannot be set e.g. brokers

6. Recommended prices that are set by suppliers e.g. RRP

7. Loss leaders to generate traffic to store e.g. supermarkets

8. Commodity prices that are set by a buyer e.g. scrap metal

9. Standard pricelist with % discount for wholesale/retail etc

10. Variable prices based on demand e.g. airlines and hotels

11. Menu pricing e.g. restaurants and some vehicle repairers

12. Negotiated prices e.g. for contracts

13. Premium prices i.e. because your brand has a reputation

14. Special pricing e.g. increased prices for urgent repairs

15. Category killer pricing e.g. cheapest so no one can touch you

Any others?

What pricing systems could be used to improve your margins?

Cost Controls/Supplier Review

Reducing Costs (or Controlling costs that have a tendency to blow out) has the same effect as increasing prices… you can make better margin from doing exactly the same work. Reducing costs is not the same as "being tight" or "buying cheap". If either of these affect the customer experience negatively then it will be a false economy. Have a look at the strategies below and see what you can do to control or reduce costs in your business.

Strategies:

1. Set or calculate a time limit on the work you do… communicate it, measure it and stick to it!

2. Reward timely completion of the work you do with bonus or recognition or something fun

3. Tender your key suppliers with their competitors as an "annual review" to keep suppliers in check on their prices

4. Ask for discounts on the understanding "you don't ask, you don't get"

5. Find out the volume you need to be buying to achieve a price break

6. Cancel non essential expenses by reviewing all outgoings

7. Evaluate asset usage (including slow to move inventory that may be switched for faster moving stock) and sell non performers

8. Complete an analysis of "time spent" to "margin/money made" and focus on your highest payoff activities

   Any others?

Your Strategies:

Discount Policy

Discounting is the single biggest killer of margin and it can happens in seconds at the point of sale "how about I do it for…" or "I'll match it". Working on sales strategies to use in front of customers will assist with this bad habit. Discounts can also be a part of old agreements that have long since lost relevance such as discounts for on-time payments that are never on time or when a customer used to buy volume and now buy a lot less or a customer qualified for a discount simply because they were a certain type of customer e.g. wholesaler

Strategies:

1. Cancel discounts across the board

2. Change your discount policy for customers with low volumes or one-off purchases

3. Remove discounts on your most popular product or service that are least price sensitive

4. Remove the discount column from your invoices so your customers cannot "scrutinise" your invoices

5. SELL the benefits of working with you at the point-of-sale rather than allowing price to be the focus of the discussion

6. Add a long term guarantee or risk-reversal strategy to get the deal rather than focusing on price and discounting to get work

7. Learn to sell better (Homework: build a Sales System)

8. Use scarcity and limits that need an answer from the customer immediately or they'll miss out "if you want it done by <time>…

Any others?

Your Strategies:

Takeaways

Take a moment to reflect on what we've worked on today and how you will get greater success in your business over the upcoming 12 months and for the upcoming 3 months…

What are your top take outs from today?

How will this improve your business financially?

What 2-3 tasks are the 1st steps to get the results you want?

What Value have you had from the time we've spent together today?