

**simplify<sup>+</sup>**  
systems + planning + monitoring

**0800 simplify**

business  
solutions  
that  
simply  
add up

## Welcome

Welcome to our September quarterly newsletter. In this issue we focus on pricing strategies and potential pitfalls. Our external contributor this time is Brett Burgess of Sales Impact. Sales Impact specialises in sales systems & process training. Their [website](#) has a full list of their services.

## Discounting

At a time when sales are slow it is tempting to slash prices to stimulate activity. If this is a strategy that you use or plan to use do you know how many extra sales you need to make in order to simply hold your current profitability?



For example if you currently achieve a margin of 40% and then discount your price by 10% you will need to increase sales volume by 1/3 just to maintain the level of profit you had before discounting.

Check out our [Pricing Strategy Calculator](#) to see the impact of a price change on your business.

## Markup vs Margin

Markup is usually expressed as a percentage and represents the amount you are adding to an item's cost to get the selling price **divided by the cost** of that item. For example if the total cost to you of a Brown Widget is \$50 and you sell it for \$100 you are adding \$50 which is a 100% markup  $(\$50 / \$50) \times 100$ . On the other hand the Gross Margin or Gross Profit on that item is calculated by subtracting the cost from the sales price and then **dividing by the sales price**  $(\$100 - \$50) / \$100 = 50\%$ .



## Our Business

Our business has grown through word of mouth. If you know anyone that might benefit from our services please send this newsletter to them. We offer a 1 hour initial consultation at no charge.

[refer a friend](#)

## Our Services

- + systems review
- + systems restructuring
- + systems implementation & training
- + customised development
- + troubleshooting
- + dashboard style reporting
- + benchmarking
- + business analysis
- + key performance indicators
- + budgeting
- + cash forecasting
- + strategy analysis

If you simply mark up a product using a percentage (for example you add 50% to the cost) and your purchase price changes then your profitability or competitiveness could be adversely affected. As an example you buy a blue widget for \$100 and markup by 50% which means you sell it for \$150 and make \$50 per unit. If your supplier reduces your price to say \$90 and you still markup by 50% you will now sell that widget for \$135 per unit which means you are now only making \$45 per unit.

To see the impact of margins in your business have a look at our [Pricing Strategy Calculator \(Part II\)](#).

## Do You Have a Discount Culture?

A friend of mine was telling me about a buying experience he had recently where he was intending to buy some materials for a renovation job at home. The



salesperson was very knowledgeable about the range of products and their application however when it came to making the sale and asking for the order, he firstly offered a discount and then said he would send out a written quote. My friend had been willing to make the sale, there and then and had not asked for a discounted price.

This is by no means an isolated case and I believe consumers are becoming conditioned to asking for discounts and even more disturbing salespeople are automatically giving them. The reason for this in many cases is the lack of sales process.

Another example of lack of process I encountered personally was when we needed to buy a new vehicle recently. We were after a particular type of vehicle and so I rang around the dealerships to see what they had on offer. I found what we wanted and asked the salesperson if the price was negotiable over the phone - I hadn't even met him or looked at the vehicle at that stage. The reply he gave was that he had discretion to discount the price!

A survey conducted amongst the Fortune 500 companies in America revealed that 51% of them do not have planned sales process. From my own experiences and that of friends I believe these figures would hold true here in New Zealand too.

The point I am making is that you as a business owner need to focus your training on developing sales processes that avoid the discount trap. Give your sales team the tools to overcome these demands for discounts.

Instead of discounting you may look at actually putting your prices up!

## Pricing Strategies

Setting a price is both an art and a science. To start with you need to know the full costs of running your business including an allowance for paying yourself a reasonable salary.

However you cannot just set a price based on your cost structure so it is useful to know what others in your target market are charging and how their products and services compare to yours.

Remember to look further than just a straight price comparison. You need to determine how competitors products and services compare in terms of quality, features and benefits. You can charge a premium if your offering is perceived as being higher quality than your competitors.

Once you establish a price you need to determine how much you need to sell to break even. If you find that the volume of sales required to break even is unrealistically high then you need to revisit your costs to see if they can be reduced and/or you need to find a way of improving the perceived value of what you are offering so that you can charge a higher price.

Obviously discounting for volume is an option but ensure you know what **effect discounting has on the volume you must sell**. Loss leaders are another strategy but remember they are designed to actually “lead” to sales of good margin products and services so it is important to clearly identify how they will contribute to profitable sales.

Price increases for products or services are best done in small increments rather than hitting your customers with large increases even if they are infrequent.



## Humour

This is India. It's where you call when you have a problem with anything technical.





**contact us**

simplify limited

p.o. box 5098, greenmeadow s, napier 4145 | m: 021 242 4881 | p: 0508 simplify | e: office@simplify.net.nz

[Subscribed in error? Click here to unsubscribe](#)

[E-mail Newsletter by Mogul](#)