



Reducing your Prices

Do you drop your prices in tough times?

It is an interesting conundrum that once SMEs hit a bad patch the action is often to drop the price “to become more competitive and in tune with market forces”.

But there are others who **raise their prices** in tough times!

I have to say, this applies more to service and niche products than commodity goods but it’s important to do the maths whenever you get the jitters and think, I’ll lower what I charge by X%.

Think about this:

If your product retails at say, £50, with sales of 1000 units you’ll make £50,000 in revenues. Deducting manufacturing, fixed and variable costs leaves a net profit of say, £10,000. If you lower the unit price to £40, your costs won’t alter too much, but you’ve got to sell 25% more units into a depressed market just to stand still.

Bigger companies have deep pockets and can ride out short term price reductions but for smaller businesses, cutting prices can be suicidal. If you’re not making sustainable profits then you can’t invest in your business. It’s a downward spiral.

And you’re not in business to make money you’re in business to make profit.

The companies who raise their prices don’t just “raise their prices”.

They may instigate incremental rises (10-15%) but more importantly they put greater effort into their marketing activity, not by just being “busy” but by targeting their customer base far more analytically; getting their teams out there; meeting clients; selective networking; online advertising and being extra productive. They look to improve their efficiencies and target conversions by the same increase in percentage as their price. Their efforts have a negative impact on **competitor energy**.

Note this. The whole team get actively engaged in promoting the business. The various departments don’t hunker down and leave it to sales. Everyone contributes where it really matters, increasing the value proposition, communicating better with prospects and keeping existing customers onside.

Using the example above, if you raise your unit price to £57, with costs staying much the same, the profit will increase by 15% plus the breakeven point falls too. By and large relatively small, incremental increases in price go unnoticed but the extra effort is certainly noticed and valued.

The health of company depends on its vision and self belief. Paul Lemberg is an online guru who preaches a monetising your business approach. That it is better do something and keep doing it, rather



than dissolve into a heap of inactivity. And the beauty of working online is that you can test what does or doesn't work very quickly, supported by real time metrics that are accurate and measurable.

Pricing structure is just one of the many challenges facing every business so test the market reaction to **small increases** in price (plus effort) and see what the market will actually bear. There are offers that can be made using enticements, bonuses, adding value to a proposition that prospects actually want. For many businesses, lowering price is a road to nowhere.

If you want to know more about pricing your products and services call me on 01925 262800 or email: gerryw@flyingveemgt.co.uk