

Business

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BY DOLLY PENLAND
CORRESPONDENT

In their eagerness to make a profit, small-business owners sometimes try to offer the lowest prices, hoping to make their money through sales volume alone. However, big chains with deep pockets almost always make this a losing proposition.

Business owners need to ask themselves, "Can I sell enough to make money?" If they are going with the low-price strategy," said Cathy Hagan, area director, University of North Florida Small Business Development Center. "A lot of small businesses try to be the low-price leader but they can't be. There are bigger players in the market and we recommend they pick another strategy. Have something different or a different focus or niche to set themselves apart or have something adding more value to add a higher price."

At minimum, the price of any product or service must cover three things — materials, labor and overhead. The right price reflects not only the actual cost of the product or service, but also operating expenses and the desired profit margin.

That mix of costs will vary from business to business, but the company's fixed costs are always the starting point in determining pricing. For example, "We don't stock inventory, so we don't have that [warehousing] cost because we don't buy it from a supplier, but I always have to pay my rent," said Gary DiStefano Jr., owner of American Abbey Flooring & Design.

Selling one item one time can't cover everything, markups must be spread out over a company's entire offering. That might be in the form of a standard percentage on everything, or varied rates for each product or service, with a higher percentage for those that are more sought after or more costly to produce.

Identifying the core clientele of the business will often determine pricing that is consistent with the product's, and ultimately the customer's, image. "The people Wal-Mart uses after are different from those whom Neiman Marcus wants to attract," DiStefano said.

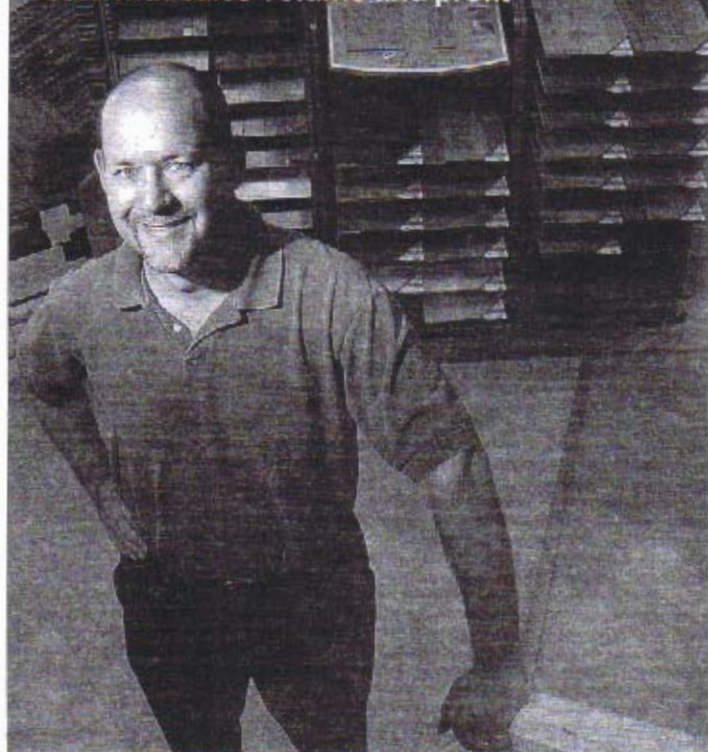
Prices slightly higher than the competition's are nothing to fear as long as customers can clearly see what they are getting in return, whether it's a unique product or value-added services such as free delivery, knowledgeable staff to answer questions or technical support after a sale. In fact, fear of overpricing often leaves money on the table.

Owners "price based on what it cost them and not what people are willing to pay that perceived value is probably the biggest thing to get their arms around," Hagan said. "Because ultimately the right price is what the buyer is willing to pay. So, what image do I want my product or service to be seen as? Is it high end? Then it's what [customers] are willing to pay because of the prestige or added benefits derived from buying it."

That's true in business-to-business sales as well, always look at exactly what the client is getting from the deal. "You never price to cost; you should always price to the value the customer realizes from the product or service," said Andy Hrol, owner of Ohio based Hrol Growth Consulting and author of "The 5 Catalysts of Seven Figure Growth." "When your five hours of work are creating \$10,000 of profits for your customer, why are you pricing it at

IS THE PRICE RIGHT?

Business owners must balance costs with sales volume and profit



Gary DiStefano Jr., owner of American Abbey Flooring & Design, said he doesn't have to pay warehousing costs, but he does pay rent, which affects his prices.

\$250? They should be saying, 'If I am helping that company make \$10,000, and my contribution is \$1,000, then charge \$1,000.'

Many small business owners short themselves by simply failing to sit down and analyze the true costs involved in producing a product or service. Those costs are an investment, and by taking a hard look at good data, business owners can set prices to maximize their return on that investment, Hrol said.

Proper pricing also looks to the future and gives the company room to grow. "If a company could be developing new products or entering new markets, they need to reserve enough profit from what they're selling today to give them the time and the wiggle room, if you will, to invest in the future," Hrol said. "If their pricing only accounts for what it cost to run the business today, they're not doing themselves justice."

Prices must be constantly checked and adjusted to keep pace with inflation or unexpected

shocks to the market, such as Hurricane Katrina's effect on building materials or the record high gas prices seen earlier this year and last.

Keeping close tabs on pricing also gives business owners the flexibility to offer discounts when possible. "At the end of the year, the mills and my suppliers try to move as much as possible and get their inventory lower, and then I pass on that price to my customers," DiStefano said.

Understanding how to set the right price can make for a leaner, more robust business by maximizing profits on stronger products, and allowing business owners to jettison those that don't make money.

"The more you charge, the less you have to sell," DiStefano said. "The [more] profit you make on a product, the less you have to sell to stay in business."

PRICE PRODUCTS FOR PROFIT

- It's not always the best strategy to have the lowest prices.
- Consider all costs associated with a product or service.
- Get rid of anything that is not meeting expected profit margins.