

Reassuringly Expensive

**"OUR HANG-UPS ABOUT PRICE ARE ALMOST
ALWAYS OUR OWN HEAD TRASH."**



REASSURINGLY EXPENSIVE

I am a business coach by trade, but I am also an amateur painter. I learned a lesson from that hobby that I'll never forget.

At my first public show, I noticed a lady who had twice visited my exhibit and was back for the third time contemplating a large still life. As I approached her, I said: "I know what you're thinking."

"Oh?" she responded, "What's that?"

"You're thinking that's a lot of money for a painting. How about I knock 20% off the price?"

"Thanks," she said. "I'll take it. But just so you know, I was thinking about how to get it home. I measured, and it won't fit in my car."

Ouch!

She got a nice painting, and I got a valuable lesson: Our hang-ups about price are almost always our own head trash.

EXCUSES, EXCUSES

Among the most predictable challenges I have with new clients is persuading them to raise prices, even by a few percentage points on a few select items.

We all know why, in fact, you might be mouthing your sentiments as you read this. "My competitors will slaughter me"; "The market won't bear an increase"; and "I can't raise her prices because she refers a lot of business to us" are among the most common excuses I hear.

I don't recall ever hearing a client say: "I won't raise prices because I tested higher prices for three months, measured the results, and my profits fell."

There are two reasons I haven't heard that. The first is that very, very few of us have tested higher prices and measured the results, and the second is that when prices go up, so do profits.

THE ANTIDOTE IS CONFIDENCE

It takes courage to raise prices and overcome the fear of losing customers. The antidote is confidence that comes from two main sources.

1. The first is a well-defined Unique Selling Proposition, or **USP**, that emphasizes reasons, other than price, that customers buy from us.
2. The second is information that tells us what would happen if we were to lose customers.

Regarding the first problem, I've provided a downloadable **workbook** to help create your USP. The table below answers the second problem by showing us what would happen if we were to lose customers to higher prices.

The table tells us how much business we could lose at various levels of price increases before lower sales would reduce our profit.

To see how it works, follow the 35% column in the table down to the intersection of the 10% row. The number there is 22%. That tells us we could lose 22% of our sales before our Gross Profit would decline. To find out what would happen with a 20% price increase, follow the 35% column down to the 20% row. We see that we could lose more than a third (36%) of our sales without losing a penny of profit.

% margins →	20%	25%	30%	35%	40%	45%
% price increase ↓						
4%	17%	14%	12%	10%	9%	8%
8%	29%	24%	21%	19%	17%	15%
10%	33%	29%	25%	22%	20%	18%
14%	41%	36%	32%	29%	26%	24%
16%	44%	39%	35%	31%	29%	26%
20%	50%	44%	40%	36%	33%	31%

Does that information give you courage? I hope so because even if 22% of our customers abandoned us due to a 10% price increase, we would make the same profit as before while working 22% less.

But that won't happen.

Experience has shown that most of my clients' customers don't even notice a 10% price increase, let alone jump ship, especially when my clients understand and emphasize their USPs.

The few customers who leave are generally of the price-shopping, late-paying, complaint-making, warranty-busting, call-us-at-home variety we would be better off without. Send them to competitors and win twice!

If none of our customers leave, we will be stuck doing the same amount of work, but we will earn an extra \$10,000 profit on each \$100,000 of sales.

Price increases have a much greater impact on gross profit than simply increasing sales because **higher sales** also mean **higher variable costs**. When we increase prices, sales go up without increasing costs. It's kind of like free money.

If we can find a way to increase both sales and prices.... Now we're talking!!

REASSURINGLY EXPENSIVE

I took the title of this article, "Reassuringly Expensive," from a famous ad campaign for the Belgian beer, Stella Artois. I chose it because those two words resonate with all of us. People laugh when they hear it because they understand **exactly** what it means.

If we constantly look for examples of a price increase costing some company a few customers, we'll find them. But if we look for examples of "reassuringly expensive," we'll find them, too.

It took me less than ten minutes to compile the following recent examples from my business coaching practice.

- The first is from a friend who rebuilds burnt-out homes. He recently received three bids from general contractors for a project. The spread between the high and low bids was over \$100,000. He took the highest bid because, as he told me, **"The low guys would be coming back for more money, or they'd walk off the job. I took the high bid because I know the cost and I know it will get done."**

- The second is from a former client who sells replacement windows. He lost a job to a competitor who sold the same windows for almost 500% more than his bid - that's five times as much! The homeowner explained that she **"...didn't want to go cheap with my home."**
- The third example is from a painting contractor client. Just last week, he presented his per-square foot price to a respected home builder. The builder told him **"You're too low. You need to bid [18% more] because I want excellent work, quality paint - and I want the work done on time."**

DON'T SURRENDER IN ADVANCE

Whatever you do, do not surrender in advance as I did with my painting! I got a really cheap lesson that cost me \$170.

What is your head trash costing you?

This stuff is just too important to ignore. If you are still uncertain, read my article on developing meaningful **USP** and use the table above to bolster your confidence to take action. If you don't know your margins, read about them **here**. If the table doesn't show your exact combination of margins and price increases, download my free price increase **calculator**. It will show you how much your sales could decline for any combination of margin and price increase.

HOW ABOUT YOU?

Does the thought of raising prices send chills down your spine? Do you know your margins? What would it take to get you to raise prices? Would you be willing to work less and make more?

If you have any further questions, please don't hesitate to mail me at Martin@annealbc.com or visit www.annealbc.com



Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.