PLÉSONA
BUSINESS ADVISORS

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Am I charging the right price?

An experienced salesperson will always argue that if the customer accepted your first price that you probably didn’t charge them enough. The problem with that statement is not whether it is true or not, but at what point would the customer have got “sticker shock”? The other side of pricing is that you need to charge enough so that your business can “wash its face”. This might seem obvious but many low margin businesses get caught in the trap where their costs may be increasing but their price to the customer stays fixed. If this is the case, it is only a matter of time before the business will fail. So what is the ultimate determinant of price? A very cynical view that was tested in England in the 1990s was that the price of a product is equal to what the market will bear. The case was about the retail cost of a music CD that was much cheaper in New York than in London. After several years of smoke and mirrors, the music companies had to admit that they charged more in London since there was ample evidence that customers there were prepared to pay more for a CD than consumers in New York. So all this doesn’t help much if you are trying to determine what price you should be charging for your goods and services. One rule of thumb is not to charge an outrageously low price. Customers often infer that a low price will mean low quality, even though this could be very far from the truth. Equally a customer who cares about price and nothing else will cause problems later on in the relationship as they quibble over anything they think they might not have to pay for, leading to endless and time consuming negotiation. If you are in the high quality end of your market, you should be charging a reassuringly expensive price, i.e. the customer will be more likely to believe that you are offering a high quality product. That is why there are no cut-price Ferrari’s on the market. But most businesses are somewhere in the middle of this spectrum and simply want to charge enough to make a decent profit without scaring customers away. Thankfully, with so many businesses with an online shopping presence, it is much easier to compare the prices of specific goods in a particular market. It does require some research, but the information is completely free. If this doesn’t work then the older method is called market intelligence, i.e. talk to competitors and customers to figure out what the competition is charging and what kind of budget the customer has to spend. And remember that price is a moving target. Just because you think you have it all figured out now doesn’t mean that things won’t change in the future as new circumstances arise.

Freight Costs

Global shipping costs continue to go through the roof and it doesn't look like it's going to end any time soon. If you are shipping locally it probably doesn't seem as if much has changed, but for those shipping long distance or across borders things are getting precarious. The worst affected have been those using ocean shipping and it's not just containers. Even bulk carriers are affected. For example, it has become very difficult to ship coffee from Columbia because there is a shortage of shipping tonnage to transport the product to Europe and North America. Carriers are shy about giving fixed timescales for container shipments since it is very difficult to know which ports are clogged up from one week to the next. And then there is the fuel price problem. It is common for shipping companies to charge so much per route based on the weight and volume of the shipment. But there is also this thing called fuel charges. When fuel costs go above a certain level, they have the right to pass this cost on to the customer. This is a cause of additional pain for both the shipper and customer as arguments ensue over what was reasonable to pass on or not. This is not such a big deal if you are in a high margin business, but for low margin businesses, this could mean that their business model could become uneconomic. All of this is happening in advance of what is expected to be a bumper retail Christmas. But it also means there might be a lot of disappointed customers on Christmas morning.

January Discount Sales

Sounds better than stock clearance

We will all be familiar with fashion retailers and their January sales. And most will tell you that you can get great bargains but that getting the right size can be a major problem. Why might that be? Traditionally fashion retailers will order apparel months in advance of the season and then will be left with the stock that didn't sell at the end of each season. Meanwhile, the next season's stock arrives and the unsold stock ends up in a store room or a warehouse. Over the course of a year, this stock builds up to a significant amount of inventory. The purpose of the January sale was to get rid of that unsold inventory. The trade off is to give the consumer a lower price in exchange for getting rid of unwanted stock that otherwise would need to be destroyed. And retailers' margins are so large that they still make a profit, even though the price has been slashed. Outside of retail, sales have not generally been used as a means of getting rid of redundant stock. But now that so many bricks and mortar businesses have an online shop, this is becoming an option. In many cases, it is even more cost efficient for those who may have to pay for product disposal. And you don't have to wait until January.

SALE

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