WHY DISCOUNTING IS BAD FOR YOUR BUSINESS

PREMIUM PRICING VERSUS DISCOUNTING

VBD Business, Tax & Wealth Advisers

Building your business is our business™

If you're like those many small business people who regard price as the only factor influencing the buying decision of their customers you will undoubtedly reject the proposition that a high price strategy (and by implication, high value) will work. You may accept that perhaps it's right for some businesses but it sure doesn't apply to your business. There is no business that does not have the potential to command a premium price for its products or services if, and this is the crunch, it is able to market those products or services in such a way that the **customer perceives added value.**

If all of your marketing effort, all of your advertising and all of your sales dialogues focus on price then you will be beaten on price every time a competitor comes along with a lower one. In other words, if you make price the critical factor, it will be the critical factor.

The only way to get out of the price trap is to promote other features and benefits that you can offer your customers. For example, better quality, longer warranty, satisfaction guarantee, 24 hour accessibility, more convenient location, greater resale value etc., etc. It might be that your competitors offer all of these things but unless they also emphasise this in their marketing, how will the customer ever know. Think about this for a moment. Your job as a marketer is to create the ***perception of value*** and then to back up what you sell with superb service. The thing to remember is that price is only important when all other things are equal.

Some customers only think in terms of price. They are better left to your competitors. What you should be doing is working with those people who are happy to pay for value. This means two things. First, you have to deliver value (embody service) and secondly, you have to educate your customers to be aware that they are receiving value. One without the other will leave you exposed.

A man named John Ruskin once said...

"It's unwise to pay too much, but it's worse to pay too little. When you pay too much, you lose a little money, that's all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot - it can't be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better."

PRICE DISCOUNTING POLICY

The following table indicates the increase in sales that are required to compensate for a price discounting policy. For example, if your gross margin is 30% and you reduce price by 10% you need sales volume to increase by 50% to maintain your profit. Rarely has such a strategy worked in the past and it's unlikely that it will work in the future.

If your present margin is

	20%	25%	30%	35%	40%	45%	50%	55%	60%
And you reduce your price by:	**To produce the same profit your sales volume must increase by:**								
2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
30%	-	-	-	600%	300%	200%	150%	120%	100%

PREMIUM PRICING STRATEGY

If you adopt a premium pricing strategy the following table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced below its present level. For example, at a 40% margin a 10% increase in price could sustain a 20% reduction in sales volume.

If your present margin is

	20%	25%	30%	35%	40%	45%	50%	55%	60%
And you increase your price by:	**To produce the same profit your sales may reduce by:**								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	78%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

A FREE BUSINESS SUCCESS SESSION AT YOUR PLACE OF BUSINESS OR OURS

Did you know that there are only seven areas that directly impact the profit of your business? Once you know these seven areas and which of them impact your business the most then you will be able to develop a plan of positive and sustainable improvement.

If you can provide us with the following information for your most recent twelve month period (or your best guess) and between one and two hours of your time, we will show you the areas in your business that if improved will provide you with significant profit improvement.

- Existing number of customers
- Retention percentage of existing customers
- Number of new potential customers each year
- Conversion rate of potential customers (buy from you more than once)
- The number of sales transactions each year
- The average value of each sales transaction
- Annual revenue exc. GST
- Annual direct costs including labour exc. GST
- Annual overheads (all other costs) exc. GST
- Annual Net Profit exc. GST

To take advantage of this offer visit http://vbd.com.au/Free-Business-Success-Session and fill in the form.

Kind regards,

Troy Wink

Troy Wink
Director
VBD Pty Limited

Level 1, 59 Ridley Street, Charlestown 2290
PO Box 62, Charlestown 2290
P (02) 4942 0200 | **F** (02) 4942 0201