



How to increase your prices

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Introduction

Inside this Strategy Guide you will discover the effect that a price increase has on your business:

- » Learn why most customers AREN'T focused on price
- » Find out the effect a price increase can have on your profitability
- » Discover how raising your prices could actually bring you more sales
- » Find out the steps to put in place to roll out a price increase

Increase your prices explained

The easiest way to increase your average sale is to increase your prices, yet this is an area where many business owners and managers have challenges. They fear that if they increase their prices their customers will leave in droves.

In reality, they won't.

On many occasions increasing your prices can actually increase your sales volume.

For instance, to attract new customers, a photographer in Melbourne offered free photographic sittings worth \$150. One day he decided to test a price increase to see what happened. He started giving out \$150 vouchers that people could use towards a photographic sitting but he increased the price of the sittings to \$300 so, with the \$150 voucher, customers would now pay \$150 for the session.

What happened?

As a result of this initiative, his conversion rate from enquiry to sitting increased from 66% to 75-80%. There was another bonus. In the past he attracted a large number of the budget-focused (kid's photos at shopping centres) target market. Now his clientele were more affluent and prepared to invest more in quality photography.

Interesting, isn't it?! People's perception of value is closely linked to price. In other words, "you get what you pay for". If something is given away or is too cheap people often believe that there's something wrong with it or it isn't of great value.

Conversely, if they pay a lot of money for something they feel that the product or service must be good.

In the "Dangers of Discounting" Strategy Guide we talk about the customers' perception of price and how much of an impact it has on their buying decisions. A survey we featured in that guide shows that price ISN'T a major factor. Here are results from that survey.

In the search for some answers, one such survey has looked, perhaps more importantly, at why customers don't buy from you or why they leave you and move to a competitor.

Survey respondents were asked this question:

'Why do you choose not to deal with a business or to leave a business and go to a competitor?'

The results were astounding.

It found that just 3% of people would leave a business if it was more convenient to purchase elsewhere.

9% of people said they'd leave because of the relationship they had with the person they were dealing within the business. In other words, if their favourite hairdresser left and started working for the competition, 9% of people would follow the hairdresser.

Convenience	3%
Relationship at a high level	9%
Miscellaneous	5%
Product/price/time	15%
'Perceived indifference'	68%
	100%

But what if all your customers leave?

As already mentioned, they just won't. But what if some do? The table below reveals the amount by which your sales would need to reduce after implementing a price increase, before your gross profit goes down below its previous level.

For instance, if you are working on a 30% margin and you increase prices by 10% increase, your sales would need to drop by a massive 25% BEFORE your profit would go down below its previous level. In other words, you would need to lose one in every 4 customers. As you can imagine, that's highly unlikely.

If your present margin is . . .

20% 25% 30% 35% 40% 45% 50% 55% 60%

To produce the same profit, you could decrease your sales volume by...

And increase your price by...

2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	7%
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%

How much should you increase your prices by?

10%? 20%? 30%? 50%? 70%? 100%?

10% is a common price increase amount and customers almost always accept these rises without even blinking an eye. Chances are though, with the right approach, and depending on where you want to position yourself in the market, you may be able to increase your prices significantly more than that.

But - if you were to double your prices today and your customers couldn't see any increase in the value for money they're receiving, there's a good chance many of them would leave.

So - there's a sensible medium.

The first question to ask yourself is where are you currently positioned in the marketplace in terms of quality and price?

The next question to ask is where do you want to be positioned in the marketplace?

AUS-based company with \$9 billion in revenue was having challenges with its profit margins so they decided to increase their prices. To do that, they categorised each of their 800,000 products as to how well they were differentiated in the market. With products that had a significant point of difference and little competition, they increased their prices significantly. With products that had lots of competition they increased prices just slightly. The result was a \$200 million increase in revenue.

Remember how we mentioned earlier that price is determined by perceived value. If a customer perceives something to be unique they're willing to pay more. If the product is one of

many and there's nothing to make it stand out, they won't be prepared to pay a lot extra.

Here are some examples of that ...

- » An online publishing company sold a package for \$597 which was the same as what competitors were charging. Their competitors were starting to have trouble making sales and started discounting their prices. Instead, the publishing company increased their prices to \$1,097 and sold twice as many products. Their secret? It had nothing to do with the price but everything to do with their belief in what they were selling.
- » An event management company sold tickets at a seminar for \$539. The trouble was they had a high "no show" rate. They increased their prices and as soon as they did that, their "no show" rate decreased by 22% and they are attracting a higher calibre of client.
- » A gift store was having trouble shifting a range of crystal angels priced at \$49. They increased the price to \$79 and sold out within a week.
- » A training company sold subscriptions to their new specialist industry magazine for \$37. Once it was published they increased the price to \$47 and the sales stayed the same. They then increased it to \$87 and the results skyrocketed.
- » A builder decided to take the bold move of advertising to the world that he was the most expensive builder in town. In his ads he also included the reasons why he was. As soon as he did that his business went through the roof.

10 Steps to follow before you roll out a price increase

1. Know your value proposition

Is there alignment? Is the price you're charging in line with the value that you're delivering? If it isn't you're already losing customers. If the value is too high and price is too low, people perceive that what you have mustn't be of value. If the "perceived" value is too low and the price is too high in comparison, people won't buy because they won't see the value.

Talking about "value" ... are you really valuing what you offer? The companies that do flourish.

2. Group your products/services into categories

In the chart below five different categories of products are featured. As you can see, the potential price increases are dependent on the uniqueness of product or the value they deliver to a customer. These potential price increases are a guide only.

Let's say you have a product that offers minor differentiation in the marketplace. Based on this chart you could increase prices by up to 5% without making any changes to how you promote the product. By educating customers on the value of the product and more heavily promoting the benefits of the product, you could increase prices a lot more. There's more information on that later on in this guide but also in the "Educate on Value" Strategy Guide.

So – using the chart over the page, categorise your products and list the prices. When you've done that, do the same for one of your major competitors.

	Product Name	List products	Prices	Competition products	Prices	Price Increase (without adding further value)
Commodities	Highly competitive market with commodity-style product					3% to 5%
Minor differentiation	Differentiates itself in some way and adds value for customer					5%
Partial differentiation	Niche market product with no exact competitors					Up to 9%
Well differentiated	Stands out from the competition offering strong USP					Up to 25%
Unique	Custom-designed, one-of-a-kind					Over 25%

3. Talk to your salespeople

Your salespeople are at the coalface so they often know customers' view on price better than anyone.

There's a good chance that they can provide valuable feedback on what the market will bear.

Say to them, "If we changed our prices to \$x, how would that affect our sales and by how much?" Ask that question another 2 to 4 times but with different prices mentioned.

4. Get feedback from your lost prospects and customers

Find out why they left. Was it because of price? Was it because of the value they received or something else? If it was because of price or value ask them whether they would have bought at different price points (name the price points) or would they have purchased at the original price had they been happy with the value.

5. Work out your total estimated profit at each price point

Refer to the discounting chart to determine what kind of price increase you're comfortable with based on the potential client defection rate and the affect it will have on your profits.

6. Identify ways to educate on value

Earlier we talked about how people make a buying decision based on the value they perceive that they're going to receive in return for the money they spend. In other words, the more effectively you sell the benefits, the less price will be an issue. Spend time evaluating how well you're educating your customers on the value they are going to receive. For more ideas on this area read the Strategy Guide on "Educating on Value".

7. Increase the value you deliver

Are your people already doing a great job of educating customers on value, your prices are already fairly high yet you'd like to increase your prices even further? If so, consider increasing the value that you offer. High prices mean customers have high expectations of value. And the way in which they perceive value is in:

- » The value of the benefits that the product/service delivers
- » The appearance of your premises
- » The level of customer service
- » The level of professionalism
- » The quality of the product or the service
- » The first impression they receive when they first touch base with you
- » The overall look and feel of your organisation
- » The uniqueness of what you have to offer

If you're going to charge 5 star prices are you 5 stars in each of the above areas?

8. Test the price increase

Test a price increase to a small random sample of your database and see what the reaction is.

9. Develop a communications plan

When you implement a price increase it's important to communicate it to customers in the right way.

Identify how you're going to roll out your price increase as well as what sales aids and/or sales training that your salespeople will need to communicate the price rise/increased value.

10. Inform customers

Obviously, a vital step in the process is to inform customers of the impending price increase. The key is to not only soften the blow but position it as a positive for them.

Include these elements in your letter:

- » Thank them for being a loyal customer and show them how you appreciate their business
- » If the price rise is solely due to inflation or external price increases, mention that in the letter
- » Give them advanced notice so they have the opportunity to purchase now and save before prices increase
- » Reinforce the benefits and value that you already deliver
- » Mention what they're going to receive in return for the increase in prices – the changes you have implemented

Key points summarised

- » Determine where you are positioned in the marketplace
- » Acceptable price is in direct proportion to perceived value. The better you educate a customer on value the more they are prepared to pay
- » Ensure the letter has a positive feel about it
- » The more unique the product is the more a customer is prepared to pay
- » A 10% price increase on a 30% gross profit margin means that you would need to lose 25% of your customers before your profits would be adversely affected

Action plan

What	Why	Who	When
Discuss this Strategy Guide with your team	Everyone can contribute and understand the importance of increasing your prices	You and your team	
Review your pricing policy	Identify areas to maximise profitability	You and your 10x coach	
Review the price increase tables	Identify areas to maximise profitability	You and your 10x coach	
Identify ways to differentiate your business through better service and developing a USP	Maximise profitability by justifying a price increase	You and your team	
Ask your 10x Coach Identify further ways to combat perceived indifference and differentiate your business in the market	You and your 10x Coach		

See also

- » Dangers of Discounting
- » Educate Customers on Value
- » Develop a Unique Selling Proposition
- » Sack your clients