

Title:

Pricing For Profit

Word Count:

327

Summary:

In most instances (but not all!) you will have limited scope to buy at a lower price. For this reason your selling price is the critical variable - how you set your selling price will have a long term affect on the health of your business.

Keywords:

Chartered Accountants, Profit, Pricing

Article Body:

To improve your profitability you must either make a larger gross margin on each dollar of sales or sell more without increasing your fixed costs. It goes without saying that the greatest improvement will be realised when you achieve both simultaneously.

Remember your gross margin is the difference between the price of your product and what it costs you to buy or make it. Therefore, the only way to increase your gross margin is to sell at a higher price or buy at a lower price.

In most instances (but not all!) you will have limited scope to buy at a lower price. For this reason your selling price is the critical variable.

Without doubt, the biggest single barrier preventing small business managers from making an acceptable profit is their refusal to charge a price which will enable them to achieve this. You are not in business to match the price your competitors set, but you are there to service your customers.

In fact, studies of the factors people regard as important influences on their decision to deal with a particular business indicate that product and price are relevant in only 15% of cases.

It is the lazy manager's competitive strategy to try to hold or win market share on the basis of price discounting. It is relevant and applicable only in the one situation where you have both a definite cost advantage (either variable or fixed) over your competitors and your product or service is one where customers

are very price sensitive.

For example, if your gross margin is 30% and you reduce price by 10% you need sales volumes 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.

The service you offer or the unique way that you add value to the clients you support are all sustainable ways to differentiate your business and support an ongoing pricing for profit strategy.