Retail Pricing

8 STEPS TO MAKING YOUR STORE PROFITABLE

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Setting your price is one of the most important activities a retailer engages in. It drives:

↓

BRAND

↓

PROFITABILITY

↓

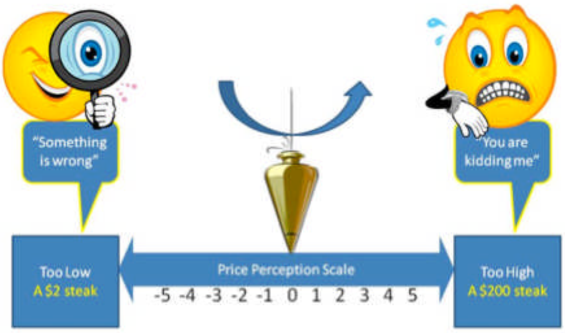
SERVICE EXPECTATIONS

Setting prices involves more than adding a % to your cost price. It requires a consideration of your business model, strategy, competitive landscape and consumer.

Pricing Principles

PRICING PRINCIPLE #1: IT IS ELASTIC

There is a degree of price elasticity in the minds of buyers for many products, and even more so in the price of services. It is possible to create the impression of "low cost" or "high value" with little or no actual change in the price of your product or service. Buyers generally see price on a sliding scale, like this:



The ends of the scale are bounded by what the buyer perceives to be a realistic price range [expected price] for the type of product or service. A car tyre might have a range between $50.00 and $500.00. The buyer can imagine paying $50.00 for a retreaded tyre at Shonky Dealers, and $500 for a top brand associated with Formula 1. Outside of the two ends of the scale, the price would be suspect.

Your reaction to an offer to buy a tyre for $20 would probably be that there's something wrong with it and equally if it was $1000.00, you'd probably say that you did not want to buy the car – just the tyre. Studies suggest that the lowest price or the best "price-quality" ratio isn't always the major consideration. As long as the price of an item falls within an acceptable range, price is not the main factor in the purchasing decision.)

So this is the question for you Mr(s) Retailer:

How much money are you leaving on the table by not knowing your customers' price expectations? Sure, it is not easy to know especially if you stock many products in many categories, but it is your job to know.

PRICING PRINCIPLE #2: PRICE DETERMINES IMAGE

Price plays an important role in shaping the image of a business. The retailer can use different strategies to establish prices for products or services.

At a macro level, the retailer must select from one of these three generic strategies:

- → ABOVE the market
- → AT the market
- → BELOW the market

In practice your price-pitch may be more subtle, but remember, customers are not that discerning unless they get to know your brand really well.

Certain products play a more important role than others in creating your image. See principle #4 on the following page.

Please take your time to read this section carefully because everything that follows requires this pre-knowledge.

Margins & Mark-Ups

Gross Margin is the holy grail of Retailing.

Gross margin is the dollars generated from the process of selling merchandise – and it must cover all expenses (excl. stock purchases) as well as generate profits.

People misunderstand the numbers because of erroneous assumptions and confusing jargon. For instance, there are many different types of margin, many of which mean something different.

The (gross) margin is always calculated as a % of net sales.

The difference between Gross Sales and Net Sales is:

1. Customer Returns
2. Employee discounts
3. Customer discounts (e.g. seniors)
4. Consumption Tax (like GST/VAT)

The gross margin is the key indicator of retail efficiency.

- How well are you negotiating?
- How well are you buying?
- How well are you selling?

All these questions are answered by monitoring the GM%.

CONVERTING BETWEEN MARK-UP & MARGIN

This table below is a quick, 'ready reckoner' that shows the relationship between mark-up and margin.

As you can see, a 100% mark-up (= cost price x 2) gives you a 50% margin. (Half of your revenue is therefore available to pay expenses and take a profit.)

Mark-up% (on cost)	GM% (on retail)
25	20
66.6	40
100	50
150	60
300	75
900	90

We have a spreadsheet that allows you to easily convert between mark-ups and margins…

Visit: **http://www.ganador.com.au/dox-downloads/**

3 **Reasons** why this is important:

1. You must be able to switch between mark-up and margin readily when negotiating prices with your supplier.
2. You must know your GM% when you want to discount a product. You can never discount a product by a % that is greater than your margin, because then you will make a loss!
3. Most KPIs (**K**ey **P**erformance **I**ndicators) are calculated as a % of sales. You can compare/benchmark margins more readily than mark-ups. Because it is difficult to establish the true cost (with rebates, discounts, payment terms all being different) it is harder to compare your mark-up with another business.