

SMALL BUSINESS MATTERS



Product Pricing: Don't Give Away The Shop! *Brought to You by CBDC South Coast*

As a retailer, wholesaler, manufacturer, or whatever business you are in, you would not intentionally and consistently sale goods and services for less than they costs. Would you? Of course not.

Nonetheless, many businesses may not give product pricing the attention it deserves. It is the second most important ingredient next to actually making a sale. You want to have good sales and at the end of the day have a profit after the cost of your sales. Simple right? Not always.

It is not suggested you should plan to overcharge your valuable customers but rather to balance serving your customers well with managing your business and staying in business.

Sometimes there could be more than just monitoring direct costs and adding a predetermined percentage of markup. Product pricing varies by the type of business you are in but fundamentally requires some of the same considerations. Here a few:

- ✓ Know the big picture. Find out the typical profit margin for your business. It varies by the type of business you are operating and various products/services as you are already aware.
- ✓ Understand the value of various goods and services. Take in to account competition and customer expectations but also your costs.
- ✓ Consider that you may have to charge less markup to be competitive on certain products and services. Especially everyday items that consumers purchase frequently.
- ✓ Be creative and think of ways to sell more to existing customers or attract new ones.
- ✓ Constantly keep reviewing and checking pricing as your costs may change over time.
- ✓ Keep good notes and records around your pricing as this can help you monitor prices over time and any changes in profitability.
- ✓ Take into account inventory turnover. Slower moving or “stocked for consumer convenience” products may demand a higher profit margin.
- ✓ Account for indirect costs as applicable to your business such as freight, distribution costs, electricity or fuel (ie manufacturing), and so forth.
- ✓ Listen to your customers. You will know which products or services that are most price sensitive and those that are not.

So to summarize, it is important to sell competitively priced goods and services to your valued customers or clients but *don't give away the shop!* You owe it to you business, your employees, investors, and yourself. Most people without business experience do not fully realize the full costs of doing business, and it is extremely important that all business owners understand. You have the responsibility of keeping your customers happy, paying your business overhead and product costs, meeting payroll expenses, and at the end of the day make a living. A thorough review of product pricing should be a regular practice for all businesses.

For more information on business financing and other services of CBDC South Coast call 1-800-303-2232 or 538-3846.