

Ask SCORE

By: Gray Poehler, Business Counselor

SET THE RIGHT PRICING STRATEGIES FOR YOUR BUSINESS

QUESTION: My wife and I operate a small independent hardware store. We stock most anything one would need around the house and the merchandise is of the highest quality. We have a loyal customer base, but with the competition from the “big box” stores, we find ourselves having to match their prices. Is there a solution to our dilemma?

Steven P., Naples

ANSWER: Steven, Setting the proper prices for your small business products or services can be very tricky. Some business owners may think they have it figured out but, after reviewing costs, overhead, what competitors charge and what you think your customers will pay, it becomes more complex. Let’s begin by analyzing each of these considerations:

Costs are what you pay for the goods you sell, including shipping, handling and the interest on your bank line of credit. Other costs could include damaged or defective merchandise that you must take back. Also, goods that linger on the shelves too long and must be discounted below cost in order to move the product.

Overhead is all the other costs of doing business including payroll, rent, utilities, accounting, legal, insurance, furniture, fixtures, displays, automobiles, delivery trucks, etc.

NOTE – No pricing strategy is complete unless you know, with as much precision as possible, what your own costs are to deliver the product or service. Don’t guess, price it out to the penny and include all of your overhead costs, both direct and indirect. You should know exactly what you have to do in order to earn the profit you want.

Competition is always a concern and one must be mindful of what the other guy is doing. Pricing is an ongoing process and you must test your pricing periodically. Competitor prices, your own costs, customer perceptions and your profit expectations can all change. Research the norms for your area and test different pricing levels to see what works best for your business.

What Customers will pay is a direct reflection of the value they perceive in the products and services you offer. The so called “big box” stores appeal to the cost conscious consumer who doesn’t mind wandering the store isles aimlessly and waiting in long checkout lines. If price is the only consideration, you will not beat the big guys at their volume game. Special deals on certain items can work for you to get new customers in

the door but, ultimately, you must find ways to make the shopping experience so “user friendly” that the customers will come back again and again and tell their friends.

The term user friendly can include a store properly staffed to answer the customer’s question and assist them in locating the item. A store policy that any item may be returned for refund or exchange, without question. Home delivery of merchandise within a certain radius for free or at a modest charge. Stock only brand name, quality products, with proven customer satisfaction. Remember the customer’s name and try to personalize the relationship. Sending Christmas calendars and birthday cards are a nice touch too.

Bottom line; treat your customer the way you would like to be treated. Be helpful, courteous, and appreciative. Never miss an opportunity to say “thank you.” The customer will respond in like kind and as long as your prices are in the ballpark, they should not become much of an issue.

For more information on this and other business topics, contact the Naples Chapter of SCORE. Counseling is offered FREE of charge. Just call 239-430-0081 or visit www.scorenaples.org and click on “request counseling NOW as a first time client.” The SCORE business office is located at 900 Goodlette Road North, in the Fifth Third branch bank building. Office hours are 9:00 am to Noon, Mondays through Fridays.

If you would like the answer to your question considered for publication in this biweekly column, please fill out the form located at www.scorenaples.org/askscore. A SCORE counselor will contact you within 48 hours. Please include your name, email address and a contact phone number.