

## The Best Advice I Can Give You — Raise Your Prices, Right Now!

As a consultant, I get paid to give my clients my best advice on how to deal with their most important problems. The consensus seems to be that it's good advice. I have some very happy customers.

So I hope you'll take the best advice I could offer each of you as you start the new year. Raise your prices...right now!

### Critical Problem

The single most important problem facing the quick printing industry today is *margin erosion*. The difference between selling price and operating cost in this industry has been shrinking steadily for several years. Some of this shrinkage is the result of price cutting, but a larger part of the problem is simply that printers haven't been raising their prices as fast as their costs are going up.

So it's not a new problem, but it's one that's about to enter a critical phase. Because I see the quick printing industry coming very close to the point where low margins stop being a disturbing trend and start to become an accepted part of doing business. It will be a tragic point in the history of this industry if it happens. The key point is that *it doesn't have to happen!*

There are two ways to combat margin erosion. One is to become more productive...to take some *cost* out of the operation. If you lower your cost, you can sell at correspondingly lower prices and still be profitable. But understand this, improving productivity is the *defensive* approach to this problem. It can keep you solvent, but it's not enough to solve the underlying problem. Greater productivity may allow acceptable profit at lower prices, but it still allows overall pricing levels—and the pricing expectations of the buying public—to go down. That's the trend I'm most worried about.

### Too Dangerous

Quick printers keep telling me that they can't afford to raise their prices, that customers are already paying as much as they're willing to pay. They tell me that things may be different in (California, New Mexico, Maine, North Carolina...pick one or substitute any state, city, or town of your choice), but in *my* area, the competition is especially fierce and the buyers are especially price-sensitive.

I hear this *everywhere*. So I've decided that the only possible explanations are that every city and town in this country is completely different, or else the situation for printers all across the country is very much the same.

What I really know is this...every printer I've spoken with in the last year or so who *has* increased prices has found that there has been no significant negative effect. And I mean *every* one.

Printers keep telling me that they're already losing customers to price cutting competitors. OK, I certainly believe that's true. But consider this...the customers who leave at your current prices are not the issue. They have to be written off, because you've lost them whether you raise prices or not. The real issue is whether the people who haven't left yet will stay with you. The evidence in the marketplace is that they will, at least enough of them to insure you a net gain.

### Run The Numbers

That's a key point. You can afford to lose a certain amount of business due to a price increase and still end up with a net gain. It's very easy to run the numbers. A printer at \$300,000 in sales would generate \$15,000 in additional sales and profit by increasing prices across the board by 5%. Sales *and* profit. Because it's purely the result of a price increase, every one of those dollars goes straight to the bottom line.

If that price increase caused a loss of 5% of the base volume, the printer would still finish well ahead of the game. Total sales would be down by a few hundred dollars ( $\$300,000 - 5\% \text{ sales loss} = \$285,000 + 5\% \text{ price increase} = \$299,250$ ) but that nearly equivalent volume would produce \$14,250 more *profit* than the previous year's sales.

And, losing some customers due to a price increase doesn't mean that you won't gain new customers, even at your higher price levels. If a typical growth pattern is seen, where a printer loses some customers and volume during the year, but gains others for a net sales gain, the net profit gain will be even more substantial.

### Price Sensitivity

I did a survey recently for an industry supplier client that indicated a 40-50% variation in what quick printers were charging for that client's products. John Stewart recently wrote in this magazine about a survey he'd done that

indicated even larger variations in what individual printers were charging for various quick printing products and services in his market.

With that kind of variation, the idea of price sensitivity in the quick printing market becomes a joke. Yes, there's a point at which the typical customer will think your prices are too high, but all the evidence points to the typical quick printer being nowhere near that level.

### **How Much**

How much should you raise your prices? By at least as much as your costs have risen since you last raised prices. And maybe even more if your profits were inadequate at that time. If that represents a price increase of 10% or less, I'd say plug it all into your pricing system right now.

Will a 10% price increase be noticed? You tell me. If your average order was \$100.00 last year, you'll be asking that customer for \$110.00 this time. Noticeable? maybe. Enough to cause a problem? I think you're going to find that the answer is *no*.

If bringing your margins back up to attractive levels would require more than a 10% price increase, you might be more comfortable taking 10% now, and the rest in 4-6 months. But do something *substantial* now! If your prices are that far below where they should be, you might not be in business in 4-6 months if you don't act immediately.

And you might be more comfortable with a smaller percentage increase on larger orders. It's certainly true that price sensitivity does increase as the number of total dollars you're talking about increases. A sound strategy might be a smaller percentage increase on orders over, say, \$250.00...but a larger than "average" increase on smaller orders.

### **Customer Pressure**

What do you do if a customer does question your price increase? I think you look that customer straight in the eye and explain that your costs have gone up, that you've held the line for a long time, but you've reached a point where you have to reflect those increases in your pricing. But don't leave it at that. Remind that customer of the *value* that comes with doing business with you. Because it's *value* that keeps your customers with you. Value and relationship. Price is only part of that overall value.

I might recommend a little "role play" to prepare yourself to handle this situation if it does come up. How about standing in front of your mirror and practicing with this statement:

"I think Fellman might be right. And also John Stewart, John Giles, Larry Hunt, Mike Stevens, and any of the others who've told me the same thing in their articles in *Quick Printing* magazine. My costs *have* gone up. I'm *entitled* to make a fair profit. I'm *in business* to make a profit. And while I've had fears, I don't have any concrete evidence that tells me that I *can't* raise my prices."

### **The Best Advice**

That's the best advice I can give you. Increasing your prices *will* generate more profit, and then you have all kinds of options to decide how to use the money—inside or outside of your business.

But I hope you'll consider this too. *You* are faced with the choice right now whether to be one of the people who allows this business to be a low-margin, commodity business forever, or to be one of the people who—individually—does the things that will bring it closer to being the very high-margin business it once was. I hope you'll make the choice that does both you and the quick printing industry the greatest amount of good.