Raise Profits, Boost Profits

At an industry conference back in the fall of 1992, I was approached by the CEO of one of the quick printing franchise organizations. He asked me to do the industry a big favor, and take advantage of my “pulpit” in *QP* to encourage quick printers to raise their prices. “Margin erosion is the biggest problem facing our network right now,” he told me, “costs are going up, but our franchisees tell us that they’re afraid to raise prices. Maybe if they hear it from you, they’ll gain enough confidence to move forward.”

I sat down that evening and started an article which appeared in the January 1993 issue of *QP*. It was titled: “The Best Advice I Can Give You: Raise Your Prices Right Now!” Of all the things I’ve ever written for this magazine, I think that one led to the greatest number of notes, faxes and phone calls, most of which said something to the effect of: *“Thank you. I did what you said and nothing bad happened. I didn’t lose customers, and I did end up making more money!”*

Time For A Reminder

From what I’ve been hearing and reading lately, it seems like it might be time for a reminder about the benefits of raising prices. Owner’s compensation is still not where it should be for far too many quick printers, and while increasing sales volume and improving productivity will both help to solve that problem, so too will raising prices. And from my experience, nothing can provide a sales and profit improvement as immediately as a price increase will.

It’s a pretty straightforward equation…if you raise your prices by X% across the board, your top line sales volume and your bottom line—profit, owner’s compensation, or whatever else you want to call it—will also increase by X%. The only thing that will keep that from happening is if the price increase causes current customers to stop doing business with you. That’s the fear that keeps so many quick printers from raising prices, but let’s consider just how valid that fear really is. And let’s look at it from two perspectives: first, the likelihood that a price increase will drive customers away; and second, the weighted effect of having some customers leave but others stay.

But before we even do that, let’s consider how much of a price increase might be appropriate for your current situation.

How Much

The first question in considering a price increase is not how much you can get away with, it’s how much you *need* in order to reach your profit/owner’s compensation objective. Let’s say that your annual sales volume stands at $500,000, and on that volume, you’ve earned profit/owner’s compensation of $60,000 (12%). Let’s say that your desired profit/owner’s compensation is $100,000. The difference between what you’ve been making and what you want to make is $40,000.

Dividing that difference into your established sales volume of $500,000 gives you a “one-shot” price increase factor of 8%, which means simply that increasing your prices by 8% across-the-board would turn that $500,000 in sales immediately into $540,000 in sales, and drop the additional $40,000 directly to the bottom line.

These probably aren’t your numbers, but the same simple arithmetic will apply to your situation. Divide your *profit/owner’s compensation shortfall* into established sales volume, and that will tell you how much you’d have to increase prices in order to reach your profit/owner’s compensation objective *solely as a result of a price increase.*

Risk/Reward

Now it’s time to consider the risk attached to a price increase, and I’m not going to tell you that there isn’t any risk! I am going to tell you, though, that the risk in most situations is far outweighed by the likely rewards. This is where the *weighed effect* of having some customers leave but others stay comes into play.

Let’s say that an 8% across-the-board prices increase caused 10% of your volume to disappear. Your base sales volume would drop to $450,000, and your base profit might drop from $60,000 (12%) down to $45,000 (10%). Please note that I’m decreasing the percentage of profit/owner’s compensation to reflect the loss of sales volume. But now let’s add back the incremental sales volume and profit/owner’s compensation that comes from the price increase. That’s a total of $36,000 ($450,000 x 8%), and that brings actual sales volume up to $486,000, and actual profit/owner’s compensation up to $81,000! You’d earn $21,000 more, even with $14,000 less sales volume!

If 15% of your established sales volume disappeared, you’d still earn $16,500 more profit/owner’s compensation. At 20%, your actual sales volume would drop to $432,000, but your actual profit/owner’s compensation would still be $12,000 higher—$72,000—than what you’d be earning without the price increase. You don’t reach the “break even”

point in this analysis unless 25% of your established sales volume disappears, and how likely is that to happen as a result of an 8% sales increase?

Let's look at the likelihood that a price increase will drive *any* customers or orders away. Let's consider what an 8% price increase would actually look like on a number of "typical" quick printing jobs. A $581.00 order would now cost the customer $627.48…certainly noticeable, but is it enough to cause the job to go elsewhere? A $325 job would now cost $351…again noticeable, but do you lose the job and/or the customer?

What is your average order value anyway? The reported industry average order is under $200, and a job that estimated at exactly $200 would now cost the customer $216. A $159 order would now cost $171.72. An $82.50 order would now cost $89.10. A $44 order would now cost $47.52. I know that you can do the arithmetic, but here's what I want to make sure that you see: the differential is always 8%, but the smaller the order value, the less significant that 8% becomes! Especially if you've really been providing all of that quality and customer service you've been talking about all of these years!

Selective Increases

Many quick printers have told me that they see the logic in this concept and understand the arithmetic, but they're still nervous about raising prices on larger jobs—which are usually perceived to be more competitive—or with certain customers. OK, then how about a strategy of *selective* price increases?

If I were in the situation where my profit shortfall suggested an 8% across-the-board price increase, I might raise my prices by 10% on three categories of work: (1) all jobs from my "smaller" customers, or any other customer who's never demonstrated any particular price sensitivity; (2) all jobs pricing out at $200 or below; and (3) all quotes for "new" customers. In a typical quick printing business, those three categories probably cover 90% or more of the annual order count, and 70-75% of total sales volume. Even if I lost 10% of the established portion of that business, I'd still be creating a substantial chunk of new profit.

Here's how the numbers work in evaluating this scenario: $500,000 x 70% = $350,000 total established volume from these three categories of work; $350,000 x 12% profit/owner's compensation = $42,000 "base" profit/owner's compensation; $350,000 - 10% possible lost volume = $315,000 adjusted base sales volume; $315,000 x 10% profit/owner's compensation at that lower sales level = $31,500; $315,000 x 10% price increase = $31,500 in incremental profit; $31,500 "base" profit + $31,500 "incremental" profit = $63,000 total profit/owner's compensation on this component of the business, or $21,000 toward the $40,000 profit shortfall. If no business was lost—or if I replaced what was lost by gaining new orders from new customers at my new higher prices—I'd end up with $35,000 or more toward that profit shortfall! From there, it would take a relatively small price increase (approximately 3.5%) on the large customer/large order component of my business to reach my profit/owner's compensation objective.

This selective approach requires you to be somewhat scientific in deciding which jobs and which customers are "safe" and which are less so. But the more scientific and selective you can be, the more likely it is that you can increase prices without any negative effect. Of course, this sort of thing can be difficult to manage if you are still pricing "the old fashioned way" with a pricebook, or by simply carrying forward the pricing from earlier jobs. This is one of the most compelling reasons I can think of to get yourself on one of the computerized estimating/business management systems.

All of the good estimating/business management products allow you to set special prices for individual customers, but typically, that feature is only used to program in a discount for one of your "better" customers. M Data's PrintSmith software has a cool trick called a "negative discount" which allows you to quickly and variably raise the prices you offer to any individual prospect or customer. That's the easiest way I can think of to get started on a selective price increase strategy.

Risk Revisited

Now here's the absolute key question: Will any increase in your pricing put you "out of the ballpark" in your particular market? I don't think so, primarily because every bit of research I've seen or done in this industry points to an absolute lack of uniformity in pricing. To put it simply, no one in this industry seems to know what the "right" price is on any individual print job.

The last couple of Quick Printing Industry Pricing Studies are prime examples of what I'm talking about. John Stewart's research for these studies indicated a consistent variation of at least 30% between the "majority high" and "majority low" prices on any given item or category of quick printing, and the actual difference between the lowest price level reported and the highest price level reported on any item or category was even higher than that!

As I've written before, I think most quick printers already realize that there's somebody pricing "it" at every level from very high to very low in pretty much every market area. What you may not have given enough thought to is that there's

also somebody selling “it” at every level—quick printers are getting orders at every pricing level from very high to very low!

The bottom line here is that there is no consistency in pricing, and there’s also no real consistency in the marketplace in what makes a price “competitive”—it’s all in the mind of the individual customer or prospect. With that in mind, I’ve always felt the best selling strategy is to set your prices up in the higher levels and target your selling efforts on people who will pay those prices!

In my own selling career, I decided early on to follow a very simple rule of thumb: I always accepted it as fact that if I got the job, I could have charged more for it! I think it’s a very healthy attitude to understand that you never know exactly what the price “should be,” and if you get the order, you probably left at least a little bit of money on the table.

(By the way, the other half of that rule of thumb was that when I didn’t get the job, no matter what anyone told me, I would not accept that it was price alone that lost it. Yes, I know there are situations where this is exactly what happens, but I also know—and you do to!—that there are plenty of situations where you get the order even when you’re not the lowest bidder, or the lowest-priced printer in town. I was always willing to accept that not getting the job was more likely a failure on my part to convince the buyer that he/she should be *willing to* pay more to buy from me than from anyone else!)

If you really would lose a significant amount of business as a result of a price increase, the only thing I can say is that you must have somehow managed to attract all of the wrong customers in your marketplace, probably through a long-standing strategy of selling at low prices. For someone in that situation, climbing out into anything close to “profit leader” status is not going to be easy.

But most quick printers are not in that situation, and if you want to increase your earnings—and especially if sooner is better than later—the best advice I can give you is still to raise your prices, right now!