

PICKING UP THE LOW-HANGING FRUIT

Eliminate calculator roulette and increase your bottom line with effective pricing strategies.

By Sid Raisch

When I begin to work with a client, the first thing I do is look for low-hanging fruit. What are the easy-to-pick-up profit dollars that are otherwise rotting on the vine?

The fruit of a business is its profits. Wasted profits are the result of leaving them on the vine, on the shelf or laying on the floor. One of the tastiest fruits of all is profit that can come from prices that are lower than they otherwise could be. There are several basic strategies to increase these prices and profits.

Price is Profit

I've studied this business in depth for a long time and as near as I can figure somewhere around 100 percent of sales comes from the price tag on merchandise. The same goes for profit – 100 percent is in the price tag.

If you don't care about profit, that is fine until you don't have the money to do what you would if you had it. Profit is not a four-letter word; it is a six-letter word. Put it in the bank so you'll be able to do what you need to do and want to do later.

Price Sensitivity

Customers are on the lookout for high prices and have been more sensitive since the beginning of the recession.

Typically we strive to first increase prices in ways that customers don't notice. But costs have risen and they are going up more rapidly now.

There is no question that prices must increase,

but we have to do it in ways that the customer won't notice. Even so, it may also be necessary to increase some prices in ways customers will notice.

Pricing is an Everyday Responsibility

One of the greatest mind-set mistakes in the garden center industry is to believe that prices are set once each year and only once.

As a merchant you are supposed to experiment with pricing. It's actually a major responsibility. Don't wait.

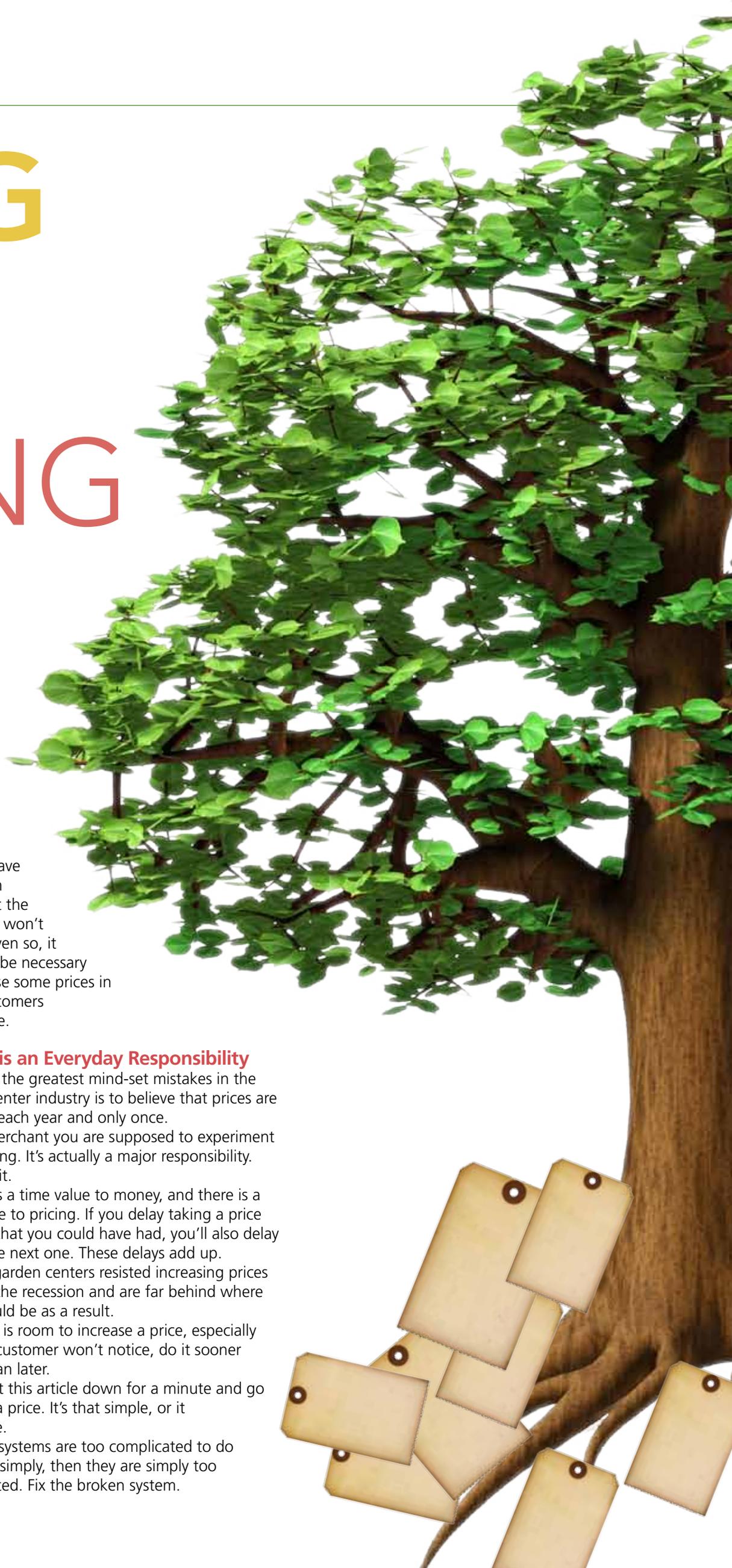
There is a time value to money, and there is a time value to pricing. If you delay taking a price increase that you could have had, you'll also delay taking the next one. These delays add up.

Many garden centers resisted increasing prices through the recession and are far behind where they should be as a result.

If there is room to increase a price, especially where a customer won't notice, do it sooner rather than later.

Just put this article down for a minute and go increase a price. It's that simple, or it should be.

If your systems are too complicated to do that very simply, then they are simply too complicated. Fix the broken system.



THE PAINTED-DOOR PRINCIPLE ON PRICING



While you could abruptly increase your prices, it is best to make sure you are providing the value to earn the increase first.

Consider the approach used in the apartment rental industry where there is a widely instituted practice of painting the doors to the apartments a couple

of weeks before sending the rent increase letter to residents.

It works like this. The residents return home from work to find a "wet paint" sign on their door frame.

They think, "I don't remember that the door needed painting, but that's nice of them to do it before it does."

A couple of weeks later the rent increase notice arrives.

The appreciative residents now find themselves thinking, "Well, they do take pretty good care of the place, thinking to do things even before they need done. I really like it here, and besides, finding another place and moving is such a hassle."

Another year and yet another rent increase goes down ever so smoothly.

Improvements to the customer experience that create added value earn the right to increase prices in any business.

When and Where You Make More Money

The first place to begin looking for price increases is in your top selling items.

Run a report or just make a list of your top 20 selling items by quantity for each sales category. These are the items that matter most when you increase prices.

If you sell 5,000 of something and you can increase the price by \$1, that's going to amount to an additional \$5,000. If you sell a large portion of those items in a relatively short window of time, you're making big money really fast.

As you move down your list of items, the low-hanging fruit begins to dry up, but that's OK. Those dollars still count, and you'll probably make more money per hour increasing prices in ways customers won't notice than with anything else you could possibly be doing.

Price Anchors

Here's a real problem: One of the top selling items in a garden center is 4 1/2-inch premium annuals. You're going to read this and you're already saying, "I can't get more than my current price of \$4.99, or \$3.99, or \$5.99, for 4 1/2-inch premium annuals."

And you may be right, or you may be wrong. You won't know until you know how to get more. And you still may not be able to increase that price.

The problem is that you and your competitors have created a price anchor that weighs your customer to perceive that value which you have anchored in their mind whether you intended to do so or not.

You may be able to change that anchor and you should at least try to do so. And if you can't – here's truth – you had better be changing up

your product mix to become much less reliant on getting margin dollars from items that have greater perceived value potential.

Remove Price Clouds

As I entered the front door of a struggling garden center, the first item of merchandise in view was an \$800 granite bench.

This created an immediate and shocking price perception about the entire store.

It is not 2007 again when consumer spending was out of control and expensive merchandise set a tone about who your customer was, and they loved that upscale feeling.

Expensive merchandise may have a place in your store today if your market has the clientele to support it, but even so – maybe especially so – it is better to create a less expensive first impression.

Don't start out by creating a negative first impression. Put the expensive stuff further into your store.

Create a Price Halo

Even the wealthiest of consumers want to feel smart. Providing them this feeling paves the way for free spending as they continue through the store experience.

Appealing, if not compelling, merchandise at a great value price point near the entrance sets a tone that everything in the store may be a great value. And that is a great state of mind for your customers to have.

Shooting Yourself in the Foot – Calculator Roulette

Many garden centers have been using outdated price-point charts and cheating on them at that.



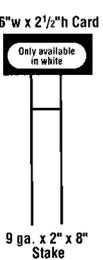
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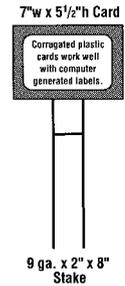
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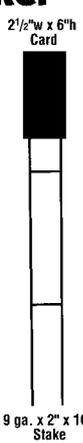
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Tornadoes have
an appetite
for destruction.

MANAGEMENT

The old 99-cent price-point psychology still works, but it doesn't work in your favor when you begin with a calculator.

For example, you take the cost of an item, add freight (yes, freight is a cost of goods) and do the math. You're doing the wrong math, but let's go with it. You enter the cost and then "X" and then 2.5, which equals a 60 percent gross margin. But then you don't like where that is going so, "Let's try 2.4. No, that's too high. How about 2.2? Let's see, rounding up to the .99, yea that works!"

Except that doesn't work when it comes time to pay all the bills and count your profit. This is what I mean by "calculator roulette." You're just shooting yourself in the foot this way. Put the calculator down for a minute.

Pricing is not a Calculator Exercise – Perceived Value

To set a price begin with the customer perceived value. Starting out to set a price with a calculator is the absolute wrong approach.

The only reason to use your calculator when setting a price is to make sure your price is at or above the margin floor. The margin floor is the amount you need to recover your costs of doing business – cost of goods, wages and wage benefits, operating costs and profit.

Yes, profit is a cost. It is the cost of capital.

Just take a look at your P&L from last year and you'll see what the margin floor needs to be, if your expenses don't rise – which they will. So add a point or two and set your margin floor.

You can vary this by category or even by item, but on average your overall pricing has to achieve this margin in order to not lose money.

Establishing Price Points

I want to share with you an updated Perceived Value Psychological Price Point Chart Steve Bailey and I have worked together on over the years.

First, before you go there, think about this: read the thing once you get it in your hands and understand what it says.

It says that you should determine the perceived value first before using your calculator to determine that it is at or above your margin floor, pretty much the way I said it earlier in this article.

Then, and only then, use the chart to go up to the next price point. Or better yet, use it and challenge yourself to go above that. And read carefully about the Even Price Option, which is how you can reduce a linguistic problem while picking up several marginal dollars.

To get the Perceived Value Psychological Price Point Chart, send an email to Sid@ AdvantageDevelopmentSystem.com.

Think on this – all of the increase in pricing you can get this spring will go directly to your bottom line.

It will either help plug the loss that you could have or it can build your net profit. Make more money while you're taking in the most money. It's a long way until the next spring. Time is of the essence. **LGR**

Sid Raisch is a small business advocate. He is the founder of Horticultural Advantage, a consulting firm to the commercial horticulture industry and service provider to The Garden Center Group. He has created the Advantage Development System to help client companies increase their effectiveness to earn greater profits. To learn more about developing your own advantage development system, visit www.AdvantageDevelopmentSystem.com, or call 888-339-7456

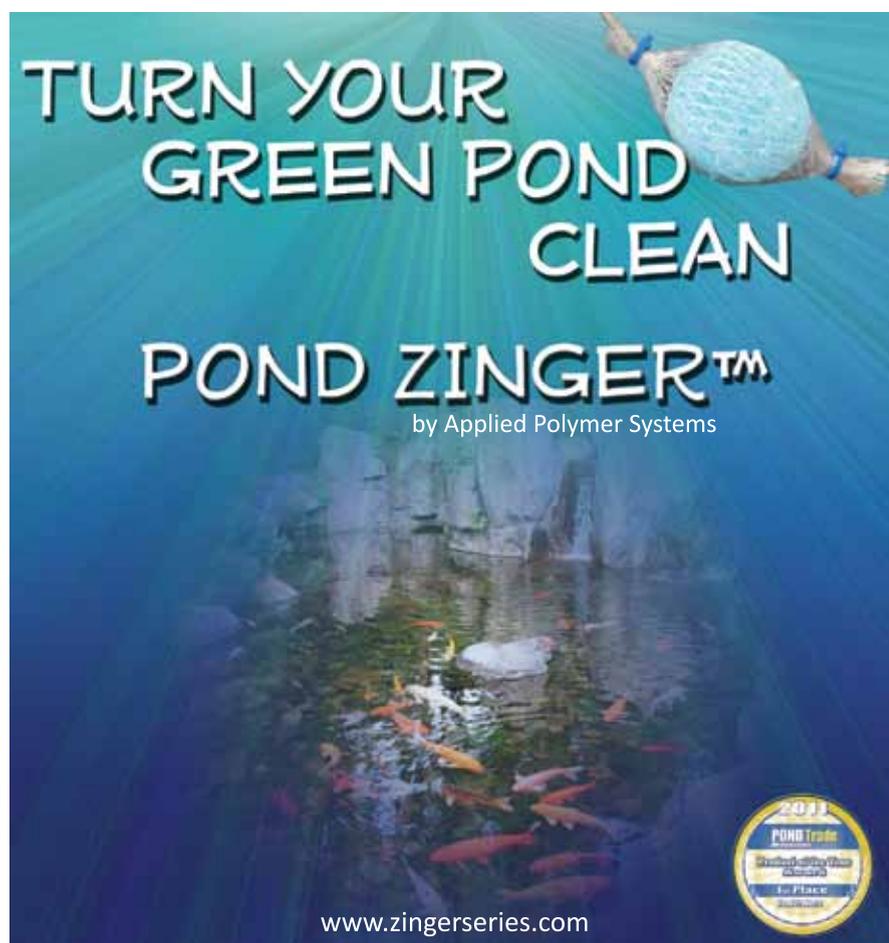

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