

Laboring over prices?

Pricing is not just about the door

By Bruce McConnell

Due to economic uncertainty and several other factors affecting our industry today, it is unclear whether manufacturers will increase door prices in the next few months. I suggest that you consider raising your prices anyway.

The price of a door is extremely important, but it is only one of many factors to consider when developing a pricing strategy designed for long-term profitability.

Today's low unemployment level and tight labor market result in an extremely limited pool of production resources (manpower). Combine this with a higher demand for residential and commercial door products and services, and you can understand why many dealers are finding it difficult to complete jobs as efficiently and as profitably as they did in the past.

Rising wages and the added costs associated with them are also contributing to the problem. With fewer technicians and man-hours available to meet customer expectations, more of the work must be completed at overtime rates. Unless you can raise your prices to cover overtime wages, these additional costs can dramatically reduce your gross profit in all segments.

The key to a successful pricing strategy

A successful pricing strategy should take into consideration the many costs and expenses that you absorb—that is, by not passing them on to your customers.

The challenge is balancing your prices in a way that maintains sales volume, sustains profits, and yet avoids over-stressing your employees to the point that they become inefficient or costly to manage. Many dealers are struggling with this issue.

A good pricing strategy balances your customers' needs with the resources and personnel available to support them. Customers will stick around if the price is right, but many will pay more to get the job done more quickly and/or professionally.

Raising prices could potentially steer customers elsewhere but keeping prices too low might prevent you from earning a profit. The current labor market is tight and provides companies a unique opportunity that we haven't seen in decades. If you want to maximize your profit potential, you should leverage today's market.

Maintaining profitability

It is essential to stay committed to your own profit objectives. When establishing prices, you should consider local economic and

competitive pressures, but don't let them be the only determining factors for your pricing decisions.

Your prices and rates should always be set at the highest level possible. They should be adjusted regularly not only to cover rising door and labor costs, but also to cover any increases incurred in your overhead

expenses, such as office payroll, insurance, and operational vehicle costs.

Any increase in cost or expense must be compensated for in some way, whether by increasing your volume, cutting other costs, or raising your prices.

To justify price increases, you may need to emphasize to your customers how your company provides added value in other unique ways. Price only represents one portion of the total value your company offers.

Reliability, quality, and safety are also important to the customer. Providing qualified and professional technicians, especially in today's tight labor market, is another way to demonstrate added value to your customers.

Failure to raise prices

A price increase is almost always necessary when resources become more costly and/or more limited. Whether you raise prices in all segments to cover these increased business costs—or just in the segments you believe are justified—will depend on an analysis of your sales and the profit potential of each segment. Failure to raise your prices in a timely manner can be detrimental to your overall profitability.

Remember, a price increase does not have to be excessive to be effective. Whether you're applying it to an installation or a service call, getting a little more out of each transaction can contribute greatly to the bottom line.

Left unchecked, a 5% increase in materials or labor will reduce your gross margin rate by the same amount. Few businesses can take a hit of this magnitude in today's environment.

Understand your costs

There are many ways to determine pricing for your products and services. Regardless of what formula you use, you must verify your true expenses and net revenues before making any price changes. If you understand how your material, freight, and labor costs affect your prices, you will be better equipped to adjust them effectively. ■

Bruce McConnell, a financial consultant (815-288-3556, bhmcconnell@gmail.com), has been helping door and access systems dealers since 1992.

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