

How to Price Residential Garage Doors

By Bruce McConnell

In recent months, several manufacturers have announced price increases. This creates a challenge for every door and gate dealer to make sure that you are pricing your product appropriately and maintaining profitability. This is especially true with residential pricing.

Let's talk about some intelligent approaches to pricing. In more than 20 years of working with garage door dealers, I've seen many ways to price residential doors. Regardless of the methodology, there are a few basics you should understand to ensure that you are optimizing your profits from your total residential door offering.

Different Methods, Same Goal

The exact methods used to price your products are not nearly as important as the result you seek. Although some methods are more complicated than others, four methods are most common (see table below). In the end, each method gets to what the dealer believes to be the highest and best price point for his products.

Pricing Methods	1	2	3	4
	List Price \$1,200	Door Cost x 2	Door Cost x Markup + Installation	All Costs + Markups
Door Cost (Freight & Misc.)	N/A	\$600	\$600	\$600
+ Labor Cost	N/A	N/A	N/A	\$67
Total Costs	N/A	\$600	\$600	\$667
Markup Percentage	N/A	100%	60%	80%
Formula	N/A	Cost x 2	Cost x 1.6	Cost x 1.8
Markup Amount	N/A	\$600	\$360	\$533
Price (Total Costs + Markup)	N/A	\$1200	\$960	\$1200
+ Install Charge	N/A	N/A	\$240	N/A
Final Calculated Price	\$1,200	\$1,200	\$1,200	\$1,200
Gross Profit Dollars	?	\$600	\$600	\$533
Gross Profit Percentage	?	50%	50%	44%

Costs Remain the Same

Regardless of the method used and whether you include all of your costs or not, remember that your costs will remain the same anyway. By using costs in determining your pricing, you can learn more about your actual profitability per unit and model. It can also help prevent inadequate profits. In all cases, gross profit needs to cover direct costs (materials and installer wages), and the remainder will begin to cover the remaining expenses associated with your business.

Without considering costs, it's also difficult to get an accurate idea of your true margins. Since method 1 does not recognize any costs, and methods 2 and 3 only recognize the door cost, the true margin is either

unavailable or overstated. However, since method 4 includes the estimated labor cost, that method provides a more accurate vision of the installed margin.

Markup Is Not Margin

Note that the markup percentage used in methods 2, 3, and 4 does not yield the same gross margin percentage. Using the markup percentage helps calculate the gross profit dollars. However, since the markup percentages are based only on costs, the resulting gross profit percentage, when compared to the selling price, declines.

Method 2 provides a great illustration of this margin and markup issue when its 100 percent markup of \$600 turns into a 50

percent gross profit when the same amount is compared to the \$1,200 selling price.

Some Other Pricing Tips

Have Your Own System. Make sure you have a complete understanding of the variables and costs used to determine your selling prices. With few exceptions, I suggest that you avoid relying on vendors to price your product for you, as the dealer in example 1 above did. You need to make sure your gross margin levels are able to cover your direct and indirect expenses and generate a profit.

Keep it Simple. Once you have determined your pricing method, apply this method to all door models. It will be easier for you to make changes more quickly, and it will be easier to



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remember how you got there in the first place.

Develop a Pricing Flow. Check to see how your pricing method affects the pricing of your primary door models, and test it against your selling strategy. This check should also provide a view of your costs and profit before and after labor for each of your primary models.

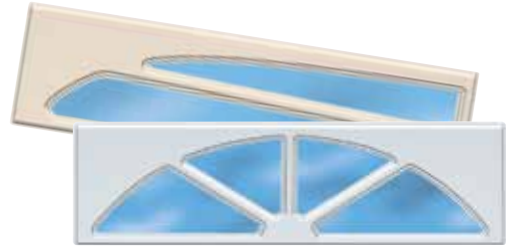
Know Your Costs. Regardless of the method you use, you need to know your exact costs. This should include the cost of materials, freight, and estimated installation labor. Make sure that your average installation cost (per hour or per door) is being adequately considered.

Review and Update Annually. Even when your suppliers are not implementing a price increase, you should review your residential pricing each year. This not only refreshes your understanding of your pricing method, it also forces you to make sure your products are priced appropriately. It also verifies that your “good/better/best” pricing is suitable and that your gross margins are at a healthy level.

Assuming that you’re offering quality customer service and professional business practices, an intelligent pricing strategy helps to keep you competitive, profitable, and thriving in business. ■

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