Review Pricing to Retain Profitability

By Bruce McConnell

Every time manufacturers announce a price increase, dealers have to review and make changes to their prices. But what about those years when your vendors don't have an increase?

The dealer's cost on a door typically represents 40-60 percent of the total value of a sale. Consequently, dealers are smart to respond to fluctuations in material costs. If you don't, your margins will evaporate.

In recent years, the many door price increases—caused by such factors as steel and fuel cost increases—forced a lot of dealers to examine their pricing structure more closely than ever before. To that end, I was pleased to be able to assist many of you in building detailed Excel worksheets that can easily be updated with each price increase.

The good news is that you don't have to wait for the next increase from a manufacturer to update your pricing structure.

Cover Your Expenses, Too

You sometimes need to increase prices even when door material and labor costs remain unchanged. Why? Increases in expenses must still be covered.

Many of you are again seeing expenses increasing in areas that are largely out of your control. Rising costs for insurance premiums and fuel are two immediate challenges that you need to address.

A large drop in sales volume, as many door dealers have recently experienced, should spur you to take the time to maximize your margins. When total revenues drop significantly, you must be certain that your pricing structure is producing adequate profitability.

Don't Leave Money on the Table

Whenever you review your pricing formulas, look for places where you can tweak your prices and get more money from each transaction. Your sales team knows which door models generate the least and the most price resistance. Their input can help you add a few more dollars where possible. This can often be as simple as adding another $20 per door.

Make sure that your builder price is not too low. For example, during my recent pricing review with a New England door dealer, he recognized that his builder customers were quite comfortable buying doors at retail prices. Very little discounting was necessary, indicating that his prices were probably below what the retail market would bear. He then raised his retail prices by 8 to 10 percent, and the increase met little resistance.

Here are other key strategies you should consider when changing your prices.

1. Publish Prices for Sales Team and Office

To ensure that the new prices go into effect consistently, make sure to publish a new price list for your office staff and sales team. Remember that these are your *desired* prices that will allow you to remain competitive yet profitable. Limit this list to those models that you want to sell the most. This will help improve the focus and efficiency of your sales calls.

2. Build Your Retail Price First

To maximize profits, build your prices from the top down. This means that you first set the highest price point that your market will bear. You can later make adjustments or apply discounts to qualified builders or large-quantity buyers. The typical spread between retail and builder prices is 10 to 20 percent.

3. Think "Dollars per Hole"

Whether revising current door prices or adding new products to your offering, price your various quality and price points (good-better-best) in a way that generates approximately the same raw dollars per door. This way, no matter what model the customer buys, you make about the same amount of money.

This "dollars per hole" strategy can get a little tricky. It may require using different margin formulas to make it work.

Several of my clients use a "pricing flow" Excel worksheet to help them compare the sales price and the estimated profit dollars for the same size door. This process helps them match the needed price points without giving up profit when a lower-priced product is installed.

Pricing is a critical and strategic part of your business. Don't wait for a manufacturer's price increase before assessing your pricing. Following these tips will help you maintain profitability through good times and bad. ■

Bruce McConnell, a financial and business coach for door dealers (815-288-3556, bhmcconnell@gmail.com), has coached hundreds of door and access systems dealers since 1992.

Pricing is a critical and strategic part of your business. Don't wait for a manufacturer's price increase before assessing your pricing. Following these tips will help you maintain profitability through good times and bad.