



The Pricing Lever to Increase Small Business Cash Flow

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Continuing our discussion of the 8 Levers to Increase Cash Flow in your small business, we turn to THE most powerful lever there is. Pricing.

Why Pricing is THE Lever

When it comes to lasting impact on your business nothing is more powerful than pricing. Consider this, there is no other activity that has the leverage that pricing does. Increase sales by 10%, decrease cost of sales or other expenses by 10%, or raise your prices 10%. Which takes the most to the bottom line? You guessed it, pricing. I won't go through the math with you, but you can't take a calculator and use your numbers. Trust me.

Why Most Businesses Avoid Pricing

In a word, fear. How many times have you told yourself, or heard a business colleague say, "I can't raise prices, I'll lose business/customers"? My guess is a lot! But that simply isn't true! Most incremental price increases (1-2%) go unnoticed, unless you are in the lowest of margin industries. But even then, you can increase your prices and not lose business. You simply have to add additional value.

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My product/service is a commodity, you say. Ever heard of the bottled water industry? Literally tap water, but people pay a premium. Why? Added value! So if they can do it, so can you. There are unlimited ways to increase value in a transaction, you just need to zero in on what your customers want.

But let's say you do lose customer because you raise prices. Is that a bad thing? Let's say that your current margin is only 20%. If you raise your prices only 2%, you can lose 9% of your sales and still be ahead. Would you lose 9% of your sales if you only increased your prices by 2%? Could you add some value to your product/service to offset the price increase?

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Strategy

Pricing is a discipline in and of itself. We don't have time to cover it in a blog post (or several blog posts). One truth I will share is that ALL pricing is irrational. Our problems arise when we try to put ourselves in the shoes of our customers and rationalize what they will pay. That isn't the way it works. People, even corporate buyers, make emotional purchasing decisions, and then rationalize the price. Think about the last thing you bought. Why did you pay what you did? How did you come to the decision to pay the price you did? Did you know that Amazon Prime members pay a premium over regular Amazon shoppers? Yep, you pay MORE for the benefit of FREE shipping. Don't believe me, go compare. The point is that pricing is NOT rational, and the more you study your customers and their needs, the more confident you will become in pricing.

I highly recommend Confessions of a Pricing Guy. This guy literally created the pricing consulting industry, and wrote a book about it. I promise you it will add money to your bottom line. If not, send me your receipt, and we'll pay for the book.

If you would like to see the impact pricing can have on your business cash flow, schedule a free, no obligation consultation. We'd love to share the power of pricing with you!