

Part 2

How Much is a Sign or Print Worth...

Sign World – John Hadfield of KiM Quoting Software



LAST month we discussed the basics, issues like cost of labour, overheads, mark-ups and the like. If you missed the article go to www.visa.org.au and check out the VI magazines as there is a live link to all archived or past editions. The issue is #2/11 pages 62 and 63.

WHAT IS PRICING AND WHY IS IT ONLY PART OF THE MIX?

Typically quoting and pricing could be described as a methodology or process to make sales with the aim of building profits. There is an enormous complexity in understanding the many factors you need to consider, more than just picking or building a price or quote. Naively, many operators assume the client looks only at price, whereas in our experience, supported by a great many of my colleagues past data proves, price is only part of the winning formula.

Many factors rise to the top of the pile the deeper you delve into the 'mystery of pricing'. Profiling clients and their real needs, understanding the end use of the sign, print or product you are making also impacts on the client's decision process. The natural demographics of the market, area and type of sign or print product you make will also sway the judgment of the buyer. The traditional notion that everything is equal doesn't hold any water at all, when you really investigate some of the key issues listed as considerations they have towards your prices. Just a few are:

- Relationship and trust with the client;
- Proven track record and delivery;
- Ability to meet deadlines mutually set;
- Quality of the signs and prints for the intended purpose; and
- Demographics and market size.

This month's FREE download is an evaluation sheet for establishing IF you really wish to quote in the first place. Remember the most powerful letters you will ever use are NO. Understanding pricing will lead to focusing your efforts to a position appropriate to your business needs, after all it's your business isn't it? To assist you we have uploaded a FREE "Quote Evaluation Checklist" on our website, so please read on below then download the word template for your use. <http://kim.net.au/downloads>.

Many companies rely on estimators to price their signs and prints. I'm definitely not casting any aspersions or adverse comments on the skills of these knowledgeable men and women. However, as a general rule their mission is to "estimate what the manufacturing/build cost to make the item is. YES? If you agree then clearly – unless there is another step in your quote and pricing methods of "OK, we know the cost...now what are we going to sell the signs and prints for?" – then I suggest – you could be leaving money on the table regardless which method unless you know your clients!

Perhaps look at investing some time to educate your people more about pricing, quoting and the finer points of strategic pricing? Clearly a number of strategies used are there for you to decide which will work under a given set of circumstances. They may deliver a blessing or blight to your business, and deciding which one or which parts of these strategies will make an interesting topic for your next team meeting. If you know of others, email me on john@controlzone.com.au. I would love to add to the list!

These six common strategies offered below are for your review. Please read on and work out which you use. Remember, many can lead you on a road to disaster!

COST PLUS OR 1 + 1 = 1

When the pressure is on and work is short, some companies think this method will help them. They set quotes at a rate based on costs plus a small margin. Many even think if you cover your costs, you will end up in profit often however the opposite is true. There are a few issues here:

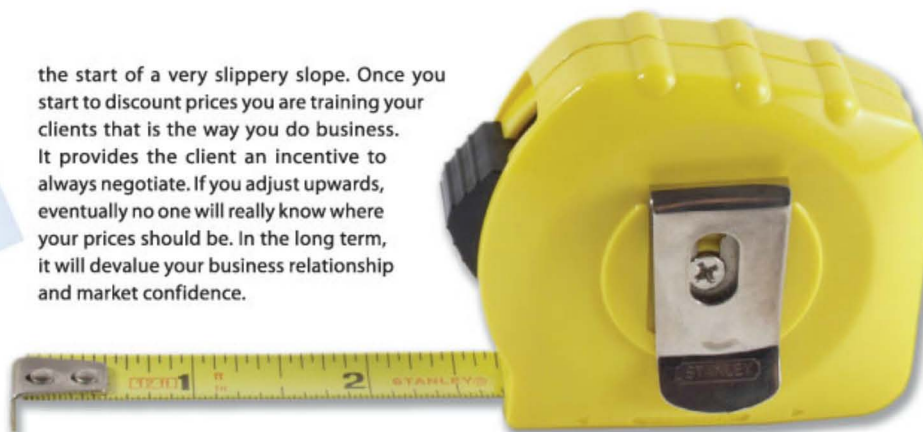
- Cost Plus assumes your costs are under control, you are buying right and your labour rates when combined with the skills for your estimators will always win business. However what happens if your costs are out of control? Therefore, unless you have optimised your costing, your costs could be higher than your competitors. Therefore you are losing the business.
- Cost Plus generally creates a culture internally that it's about you and your business, your customers are generally only interested in their needs. You need to be focused on delivering those expectations or in fact exceeding their expectations.

WIN THE SALE OR 1 + 3 = 4 LESS 30% = 2.8

Everybody wants a deal, our culture is changing and if your sales team are taught to win the business at any cost, then I propose you are on



the start of a very slippery slope. Once you start to discount prices you are training your clients that is the way you do business. It provides the client an incentive to always negotiate. If you adjust upwards, eventually no one will really know where your prices should be. In the long term, it will devalue your business relationship and market confidence.



KILL OFF A COMPETITOR OR $1 + 1 = -1.5$

This is one of my favorite methods of self-destruction! You develop a need to wipe out a competitor by assuming you and them are locked in some sort of gladiatorial battle of right and wrong. Trust me, leave Gladiators to Russell Crowe and his Oscar. In the real world, this pricing will only have one winner, and its certainly not the combatants! The premise assumes that by increasing market share or all of one client's business it can lead to increased profits. Think about it, aren't you teaching your clients your prices are low, in fact cheaper than cost? Assuming you can wipe out the competition, your gains will only be short lived. Once your competitor realises the general response is a price war. Name just one client you know who doesn't love that! This is highly risky and in the long-term will be detrimental to you, your competitor and quotes as a whole. Take a tip...donate your profit to a charity, at least that way you will feel good about ripping up your profits!

MARKET RULES OR $1 + 1 = -2$ LESS WHATEVER IS CURRENT TODAY = .5 OR MAYBE 3

Hmm, last time you looked it was your business right? Then, if you have faith in that concept why let a wildly fluctuating market control your business? At some point the prices may be well up and very profitable, however experience dictates this is the rarity. The most common market place is controlled by the traders or nowadays the raiders! If you and your costs assume you can simply match these market forces you will be in for a very rocky ride. Thankfully, the sign and print game is not a market place. You sell your products to a wide and varied group of diverse clients. That diversity offers some safe harbours from the stormy seas. Learn to listen to your clients' specific needs and develop your relationship to provide a balance of price, quality and service to suit.

FAIR AND REASONABLE OR $1 + 1 = -3 +$

Most fair-minded and well-run business people understand value for money. The principle secret is selling signs and prints at more than they cost you to make...YES? So, use common sense, get your accountant or a consultant to develop a pricing method based on recovering your costs, a percentage amount for your recovery of wages, overheads and other costs. Then based on your real costs add a fair percentage margin aimed at delivering what your business needs to run a fair and reasonable business within your values and aims. Sounds too idealistic? Time and time again we see profitable businesses who understand their business and their clients needs. Tell me what have you got to lose? Who knows you may even get time to have a round of golf, walk along a beach or see your kids!

VALUE BASED PRICES OR $1 + 1 = -20$

I saved my very favourite till last! Many years ago we supplied a simple banner to a client who did waterproofing in the inner city. His claim was this banner worth around \$300 increased his whole business by hundreds of thousands of dollars

every year. More signs, graphics on his vehicles, reception signs, and just about anywhere he could put a sign, he did. The result was simple his business grew exponentially and as did the profits he collected. Nice story? Would it have made any difference if the banner was \$400? Or even \$500?. Look at what value it increase the business by. I believe and many like minded individuals agree an appropriate percentage component should be added to every project you deem is suitable to 'add value' based on your experience. Try it.

SUMMARY

Well, if you were looking for a number crunching exercise of XYZ plus ABC = Quote plus X factor = winning a quote. I sincerely hope you are not disappointed. However, isn't that exactly what I delivered? Open your mind to the world, or understanding the how, when, where and why of Correctly Pricing Jobs! Let me leave you with my favourite all time quote on prices: The great artist Picasso was reportedly having a coffee, sitting quietly when a American lady interrupted and asked if he could do a line drawing of her for her home. Ever the gentleman Pablo of course asked the lady to sit, while he worked his magic. A few masterful crayon strokes, a rub with his skillful hand for shading and the masterpiece emerged. She was amazed how in just a few stokes he had captured her smile and in fact her very essence. How much? She requested. Pablo proudly offered \$10,000. She retorted 'but it only took but a few moments!' Picasso calmly replied " No, madam it's taken my whole life!"

So, if your work is the result of years of training, investment in skills, knowledge, premises and equipment then isn't it up to you to set your prices? 