

IT'S ALL ABOUT THE LITTLE THINGS!



FOUR BAD BUSINESS BEHAVIORS

Learn the common bad behaviors that cost you money and the strategies to change them.

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INTRODUCTION

I haven't met many independent business owners who went to business school to learn pricing strategy. Most were really good at a particular technical skill and somehow or another ended up as a business owner. Product and service pricing was likely trial and error, as a reaction to customer feedback and pricing low for survival! I did it myself when I started my business over 25 years ago. I know first-hand the responsibility for pricing products and services to keep the customers happy enough to pay their bills while still collecting enough cash to keep the doors open. I completely understand that pricing is a very challenging task.

Over the last 20 years, I have been there in the trenches beside my business owner clients tackling the pricing challenges head-on. While every small business is different, I discovered the common barriers to success and the practical tools to implement profitable changes. My clients live and work in their communities, entwined with their customers and even some of their competitors.

It's important to note that implementing a successful profit improvement strategy is not about figuring out how to gouge your customers. Establishing a profitable pricing and differentiation strategy is about simply getting paid fairly for the real value you bring to the marketplace.

By definition, each independent business is made up of people. The owners and the sales team bring their uniquely human factors to work with them every day. The challenge of extracting fair value from the market requires some business knowledge and skills, but more importantly, it is a mindset and behavior change challenge. We need to openly and respectfully embrace the existing habits, mindsets, beliefs and behaviors that currently make up your business processes and workflows. Past experiences create inertia for everything to remain as it is.

In order to make change happen, there needs to be a desire and the courage to shake things up a little bit. The goal of this resource is to explore some bad strategies and behaviors which take cash out of small business owners pockets every day. You might even find out that a lot of the damage is self-inflicted! If it turns out your business is giving away cash flow due to poor or missing strategies, we share some solutions we have used with many independent businesses to implement profitable behavior changes.



Bad behavior #1: Voluntary Discounting

It drives me crazy to see businesses giving discounts to customers who don't ask for them! This voluntary discounting is the equivalent to the salespeople taking cash out of the owner's wallet and handing it out to customers.

Why do discounting strategies happen so often? Is it because the competition does it? That's not a good reason. It is also a very easy strategy to implement. Understandably, there are exceptional circumstances where a price reduction might make business sense. But these should be only exceptions! We often discover a discount policy is applied across the board. If you do this, then you are giving away profits by giving discounts to the majority of customers who don't ask for them. If your business makes it too easy for your sales team to give discounts to get sales, you are making it too easy to give away profits.

Is this type of dysfunctional activity happening in your business? Maybe it's time to have a conversation with your sales team to see how often they discount and give away profits without your permission. If so, just ask them if they don't mind splitting their generosity with you, say take half the lost profits from their paycheques as a discount!

A price strategy that aligns the business owners pay with the sales team pay should include strict rules around how and when discounts are given. There are two strategies we recommend you consider, to address this bad behavior.

Strategy #1: "Value Adding" is More Profitable than Discounting

Consider a "value-adding" strategy as a customer incentive as opposed to a "discount". If your product is priced at \$100, then a 10% discount will cost you actual cash of \$10. Rather than discounting 10%, consider adding value by complementing the product with an additional item with a value of \$10.

From the customer perspective, the increase in value is \$10 in each example. From the business profit perspective, the \$10 value add items has a cost of less than \$10. Depending on what you add, the cost may be as low as zero, but the value to the customer is still \$10.

Strategy #2: Compute The Actual Cost of Price Reductions

Have you ever figured out the actual cost of a price reduction? By way of an example, let's say your business currently has a gross profit margin of 30%. If you reduce your selling price by 10%, you will need to increase your volume of business by 50% in order to replace the profits you just gave away with the price decrease!

What if your gross profit margin is 30% and you decide to increase your prices by 10%? Did you know your sales volume has to go down by more than 25% before you get less profit as a result of the new pricing?



Bad behavior #2 – “One Size Fits All” Pricing

A business model that tries to be all things to all customers is challenging at the very least. The assumption that all your customers are the same or one size fits them all is flawed. Within your customer base, there are smaller segments of customers with different unmet needs and problems they want to be solved.

The one size fits all strategy ends up giving away valuable aspects of your product and service offering to certain customers who don't value it. Imagine if an airline used one size fits all pricing instead of segmenting first class from coach tickets. They would have to make the whole plane first-class pricing (and would likely only fill the first class seats), or price all the tickets at coach prices and fill the plane seats that way. By splitting the airline customers into first class and coach class segments, they can offer coach to the more price-conscious segment while still extracting full value from the customers who are willing to pay for the extra perks of first-class tickets. Luckily, we have two recommendations on how you can address this bad behavior in your business.

Strategy #1: Price Your Products to the 90%!

Using a one size fits all pricing strategy forces you to set prices to please the complainers! We call them the 10%. These are roughly 10% of every business's customers who will never be happy with the price. This group complains about prices no matter what you do. Because we as humans don't like to hear painful complaints, this small percentage of customers become a significant and costly influence on your pricing strategy. If nobody is complaining about your prices, they are too low! Instead of pricing to the 10%, price your products for the other 90% of your customers who value and appreciate your offering.



Strategy #2: Find The “Product-Market Fit”

The reality is that within any business's customer base, there are different groups of customers who value different aspects of the products or services. Some customer segments may have a time constraint, so they value the speed of service. Others want and need expertise with every aspect of the transaction. Some segments are more “do it yourselfers” and prefer to just cash and carry. The ability to segment your customers into groups based on which problems they want solving or what aspects they value most will allow you to package and target your offering to fit their specific needs. You have good “product-market fit” when the value proposition you design around a product or service fits with the group of customers who share the same needs and therefore value that you are offering. Finding the product-market fit is much more profitable than “one size fits all”.

Bad behavior #3 – Following Low-Priced Competitors

Competitors can cause a lot of grief. They get under your skin and affect your thinking more than they should. I love Henry Ford's view on competitors:

"The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time." – Henry Ford

If the only thing that is different about your business and the competitors is the price, then the lowest price wins. If your goal is to be the lowest price, then this resource is not for you! Our goal is to help you position yourself as different from the competition in order to change the conversation to be about anything but price!



If you're getting beat up on price by your competitors, you could be experiencing one of the following symptoms:

Your potential customers don't perceive any value different from your competitors.

- You and/or your sales team are not confident or fully aware of how your value is better or different than the competitors.
- You are having trouble positioning the better value due to a lack of proper customer segmentation (see Bad behavior #2).
- You have a "follow the competition" pricing strategy instead of more profitable differentiation strategy.

To address these symptoms, a profitable **differentiation strategy** can be used to create "unique" value propositions for your business.

What is a Differentiation Strategy?

A differentiation strategy uses unique value propositions, or “offers”, to differentiate your business from your competitors’. Accomplishing this is a focus on the relationship between your value proposition and your desired customer segments (product-market fit). The key point is that the difference must be created in the minds of your potential customers. There are three main ways you can accomplish this:

1. Actual Differentiators

This is what is genuinely unique about your products and services or the way you deliver them. An example would be a product featuring genuine leather compared to a vinyl product made to look like leather.

2. Created Differentiators

This is something you create to differentiate your business from the competition. An example would be a guarantee to deliver the product or service on time.

3. Perceived Differentiators

Customers often don't know how to differentiate businesses on the actual product or service. But they know the difference between clean and dirty. They can tell the difference between looking professional and looking amateur. A business that looks clean and professional is perceived to be better in all the other parts of the business too.

Don't let your lousy competitors pull you down that slippery slope of lowering prices. The skills and confidence to be perceived as different are far more fun and profitable.



Bad behavior #4 – Avoidance

It may not surprise you that one of the most common behaviors of business owners is just to avoid even thinking about reviewing their pricing strategy. It's too painful. It brings back memories of uncomfortable past experiences. It promotes anxiety around thoughts like "what if I increase my prices and I lose all my customers? These feelings are real, and the resistance it creates is the most significant barrier to making profitable changes. There is a reason our business is called "The Business Therapist®"! We are very aware of this challenge and have used one particular tool very successfully as a break-through to change: testing.



Testing prices and other changes

What if you could run a test to learn if a price strategy would work or not? Wouldn't that take the pressure off? If we really want to change lousy pricing behaviors like avoidance, we need to create a new experience to replace the memory of the previous experiences which caused all the past grief. We know the only way to build confidence in a new pricing and differentiation strategy is for you to experience success for yourself, first hand, with real customers. If you could design a test for only one customer first, just to experience what happened, would that ease some of the anxiety over price changes? Action solves anxiety! Testing the changes first is a necessary action.



Speaking of taking action...

I hope you have found this resource practical and useful. We have created a program for independent business owners and their teams to improve profits and cash flows with good pricing and differentiation strategies. To ensure that working together will provide a mutually beneficial relationship, we start with a one-hour discovery meeting. This is a free session, and this conversation always produces good value for the business owners all on its own. Our goal is simple: to give independent business owners the knowledge, tools and confidence to charge fair prices that capture the full value of the products and services they deserve.

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