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The Guts to Raise Prices

by Jeremy Nulik

(For a look at a business owner who uses Dale Furtwengler's philsophies, see [Case Study: Cynergy Ergonomics.](#))

Business owners do not need to be told that this "new economy" has not been kind. A study from Hoffman Clark, a Clayton-based accounting firm, shows St. Louis business bankruptcies up 19% in 2009. And, for the past few years many surviving businesses have been grasping at ways to hold on to customers and attract new ones. But before you resort to getting out that red pen to slash your prices or have another clearance sale, Dale Furtwenlger has some advice…don't. Backing him up is 21 years of business consulting experience, five published books on business leadership and a contrarian philosophy that flies in the face of conventional wisdom and even human nature. One example of his philosophy can be seen in his read of the current economic conditions.

"This economy is the ideal time for businesses to get back in touch with who their ideal customers really are and what it is that they value," says Furtwengler, president of Furtwengler and Associates and author of "Pricing for Profit: How to Command Higher Prices for Your Products and Services." "When they do that, they can become more profitable by shrinking the customer base and providing great value rather than salvage market share with people that are only moderately interested."

We sat down with Furtwengler to get a deeper look at his approach to building long-term profitability and why now is the best time to raise your price.

What is it that price represents? Price should represent value. That is one of the things that's disturbing today. Buyers have a difficult time determining the value based on the prices they see. When you have incongruities between price and value, then buyers get confused. If I tell you that an item has a $100 value, but I am going to sell it to you for $60, your reaction is going to be "Well, which is it? Is it really that good? Why aren't you charging me $100?" When there are incongruities between price and value, then the customer is left in the awkward position of wondering which to believe. And, they are typically going to believe the price because anybody can claim value.

Let's say I'm a business owner in an industry where the standard is to charge by the hour for services. What is the problem with selling my services the way every one else does? You are not in the business of selling time. There are only three things that any of us sell. We sell image, innovation or time savings. That is it. You can take any business you want, and it fits into one of those three. To get a sense for the premiums that are available for something like image, you can take the example of the Chevy Aveo versus the Mercedes S-Class Sedan. The Aveo retails for $12,500 and the Mercedes is $90,000. That is a big ticket item selling for image that is seven times the cost of the basic transportation. So you should determine what your value is worth to the individual and price accordingly.

At some point, if I am that same business owner and I increase my prices to reflect the increased value I bring, aren't I saying, "no" to a lot of potential business? You will have to say "no," but the way that you say it makes a big difference. You need to say, "We are not the right people for you. You are looking for this and I provide that. Here are the names of some people that will provide you what you are looking for." You are still serving them and not denigrating what they want. You are just saying. I am not the right guy for you. That allows you to forego business and maintain a relationship. You are educating the buyer. They appreciate people that will help them to make an informed decision.

If raising my price may force me to say "no" to some business, then what is the cost of having lower prices? The cost is lost revenue. Let's say you lose a $250 job, but if you spent time attracting the people to get $1000, you only need one-fourth of the customers to get the same revenues, and you don't confuse the market. If you tell the market that you are going to provide high quality, they are expecting to pay a lot for that. If you turn around and give them a discounted price, they are going to say, "Are you really?" When you confuse the customer, you have lost the high end.

One business owner, a writer, told us that in her industry, raising prices is like shooting yourself in the foot. Some people are willing to write for free and companies are willing to hire those people because they want quantity, not quality. How do you respond to that? In every human interaction, one person is training another on how to behave. If she wants to be compensated well then she has to train the customers, so they understand the quality she is providing versus the free services. And, she has to be willing to forego the people who are not willing to pay.

What does customer training look like? You start with what they are trying to accomplish. Find out what it means to them in terms of image, innovation or time savings. The people who value what you have to offer will pay the price regardless of circumstances or industry standards. But, you have to communicate that value and hold firmly to it. If they want a lower price, if it doesn't fit their budget, then offer them a lower-price option, but they are giving up something in the process.

So you think that, at times, a business should offer a discount? How should owners go about discounting prices? Yes, you can offer discounts, but if you reduce the price and they did not give something up, then they will think that you have been gouging them. You can say, "This is the price for the package. If that does not fit your budget, then you can forego a few things and that will reduce the price." Discounting to get your foot in the door is okay if you do it intelligently. Sometimes businesses will lower the price and get the sale, but typically they have not told the buyer that this is a one-time price. If you tell the customer, "To give you a reason to take a risk, for this order only, we can reduce the price." Make sure that is not only verbally stated, but it is on the invoice and contract. The second part is that you want to tell the buyer, “We know you will be so pleased with us that you will be delighted to pay our regular price after that.” That’s a statement of confidence and a commitment to wow them.

But, if a buyer gets sticker shock when they see the price on the proposal, aren’t they just going to throw it out? Hopefully, you would have given them some ballpark numbers before you get to the proposal. You want to offer options. Offering options takes it out of the realm of “yes” or “no” and gives them a choice of three. In my business, I offer three options and do the highest one first. People find it easy to say “no” one time, but with each subsequent offer, they find it harder to resist. So you have to give a higher level offer up front. I state clearly in the proposals that there are things they are giving up with each option. I also state very carefully that I am telling them this so they can make an informed decision. It is amazing how often you will get the highest or the second-highest.

I’m going to run through some excuses for not raising prices and you tell me how you would respond. The first one is - We don’t have the name awareness of our competitors. With this one, I find a common medium that they and their competitors are using to get the word out. Typically, they are charging less. I ask them “What impression do you think it sends when a buyer sees your competitor’s ad next to yours and your prices are ten percent lower?” They usually say that the buyer will think that they are cutting corners, and that is just the opposite of what they have told me in relation to competitors.

Our customers only care about price. As I said before, we train people. When we add something and don’t charge more or when we cut the price to beat a competitor’s, we train buyers to focus on price and not on value. If we take the opposite approach in the value they will get in our offering versus the competitor’s, then they become educated and begin to see the value. Other people are not educating, and they see value in that alone.

Our competitors won’t raise prices. By the time they say that, I have just listened to them tell me how much better they are than their competitors. So my question is, “Why would you expect your competitors to raise prices when their offering is inferior?” They need to distinguish themselves from competitors, and price is a way to do that. If they are of better value, then they need to allow the price to reflect that value.

I will lose market share. That would be legitimate if business owners had a clear idea of who their market share is. Usually, they don’t. With every offering there are three types of customers: There are people who really value what you offer and are willing to pay the price to get it. There are people who are moderately interested and don’t want to pay full price. And the third group won’t buy from you no matter what. The problem is that companies will see a need to grow and rather than finding ways to grow within their customer base, they will try to attract buyers at another range. The only way to get other buyers is to lower the price. If you are selling the same quality at a lower price, it reduces the revenues while sales numbers increase. Customers who are not interested in what you offer are also the ones that are the most dissatisfied, because they did not want your product passionately. It is counter-productive.

Some people are feeling the crunch of this economy in real ways. How do you respond to people that say the economy should influence pricing? There is a common misconception that people become more price conscious as the economy worsens. My experience is actually that they become more value conscious. A simple example is let’s say you go into the grocery store. You typically buy the name-brand canned vegetables, but you see the store-brand is 40 cents less. And let’s assume that you buy one corn and one green bean. You go home and you cook the green beans. You don't like it, and you end up pitching most of it. You are going to go back to your name-brand because it is more expensive to throw it away. But, let's say you cook the corn the next night, and you really can't tell much of a difference. Then you will go back and buy the store-brand corn. Both of those are value decisions. On the case of the green beans, the value wasn't there, so the higher price makes more sense. With the corn, the lower price makes sense because the value was there. But from the outside looking in, many will look at that and say, "People are buying the store brand. They are more cost conscious." That is not the case. They found the better value.

Are there people who only buy on price? From the studies I have seen, only 14% of the buyers are strictly price buyers. So, 86% of the market out there places value on other things such as quality, service, dependability or the knowledge of the sales force. Price is between fifth and ninth on the list in terms of where value buyers place price.

So, what you are saying is that statistic does not change in a bad economy? People don't become price buyers? No, it does not change. Let's say you're a value buyer. You have a restaurant that you really enjoy the food. Rather than go to places that are less expensive, you will just go to your favorite restaurant less often. You want the value of that experience. People will spend money on what they value the most.

Let's say that you have sold me, and I want to start raising my prices tomorrow. Where should I start? You start by ascertaining which of product or service offerings generate the highest margins. Then, identify which of your customers in that group are providing the highest margins. Next, you determine why they're willing to pay this premium – is it image, innovation or time-savings? Calculate the value in real numbers that these customers get that make them willing to pay the premium. Set your sales script to communicate that real number value, and then revamp your marketing to attract those customers.

So, after I do all of that, what is the conversation I should have with my salespeople? It is an education process. You have to quantify and understand the value yourself first. If you don't, they will feel like you have abandoned them. In essence you trained your sales force to sell on price and they told the customers to buy on price. So, you need to retrain them to help them train customers to understand the value you offer. You may need to revisited your sales compensation plan as well.