

PRICING FOR BUSINESS GROWTH

The purpose of this paper is to discuss the challenges of running a business and how to properly price your product or service.

When you start a business, sometimes you have to take *any* customer at *any* cost just to pay your bills. We have all done that and some continue to do so.

If you are a business owner – be it a professional groomer or any service/product business – you need to understand the basics of costing and therefore pricing your service or product.

What you need to strive for is not to be the biggest but rather, the company who has the lion's share of the profitable customers.

So what is a “profitable” customer?

To each company, a definition of a profitable customer will vary. For our discussion, we will define a profitable customer as a customer who nets us a profit after we subtract our “nut”. Our nut makes up all the fixed expenses we incur in running our business (rent, utilities, phone, insurance, etc.).

We do not start making money until we have made enough revenue to cover our monthly expenses.

Trading Customers

Once your business is comfortably covering your monthly expenses, it is time to evaluate the type of customers you are serving. Some groomers are excellent in doing this.

If a customer books in advance, does not argue with you about your pricing and knows the service they are receiving is worth the price they pay, these are the customers you want.

If a customer does not meet this criteria, is always trying to negotiate a lower price, makes you feel that your expertise is on par with the teen stock boy at Wal-Mart – trade this customer in.

What if you could only have great customers? How much less stress would that be on you? What if your customers rewarded you for your continuing education on grooming styles and practices?

What if your local competitor- be it PetSmart, or a local shop – had all the difficult customers?

As long as you continue to serve the “bad” customers, you are doing a disservice to your good customers. Why?

Because your good customers are subsidizing the money lost on your bad customers.

Example:

Customer A pre-books, brings Fido in every 6 weeks and rewards you with a nice tip showing appreciation for your service. For round numbers, let's say you charge \$50 and this groom takes one hour. This customer rewards you with a modest \$10 tip.

Customer B never pre-books, only brings Spot in every 4 months because they can't stand the smell anymore, expects you to de-mat without shaving and balks at any price higher than a normal grooming price. Because you are so sweet and have more heart than business sense (we all do to some degree), you charge \$60 and that is pulling teeth to get it. Of course, this customer does not tip because they think you are over priced to begin with.

If this is you, then listen up.

If Spot takes twice as long what Fido takes to bath, trim, cut, brush, file, etc., then Spot should cost \$100 to be fair to Customer A.

In reality you have worked 3 hours for \$50 (Fido) plus \$60 (Spot) or \$110.00 total (we will disregard the tip).

3 hours for \$110.00.

This comes to \$36 per hour for your work.

At that price, Customer A – your good customer – was over-charged.

The extra \$14 you charged for Fido went toward the grooming of Spot!
Your good customer subsidized the low cost of the bad customer!

So what do I do?

Our first objective is to keep our good profitable customers. Reward them. Tell them you love them. Greet them by name. Go the extra mile for them.

What about the bad customer? If you need them, **reform** them. You do this by not catering to their whims. First of all, when they call, you are **not available** today or tomorrow **even if** you have a slot available. Re-train them that you are busy and that your time is valuable. Force them to make an appointment in advance – even if it is only 2-3 days. Next time, it will be 3-5 days, and so on if they will not pre-book.

Second, before they leave – advise them that if they bring Spot in again all matted, nasty and smelly, the groom will be \$100 minimum. Now you have empowered them to make a change or face the consequences. Highly recommend a pre-book appointment in 6 weeks so that the fee will not be double the normal. Again – you are giving them a choice. The worse case scenario is that they ignore your professional advice and bring Spot back and you relent to another \$60 groom. The best scenario is that you reform this customer into a good customer. The middle

scenario is that they go to your competitor down the street. Let them take 2-3 hours on a groom they will be subsidizing with their good customers. Do this enough and that groomer down the street will not have any good customers left to groom.

Increasing Prices

“Yes I want to but I cant.”

“All my customers will leave me.”

“I can’t justify it to my customers.”

I challenge you today to increase prices \$5.00 a groom. Why? Because your time is valuable and \$5.00 is not that much.

In your business, that \$5.00 per groom will drop right to your bottom line on profit. For example, if you groom 6 dogs a day, 5 days a week, 50 weeks a year – the net profit by raising your prices a modest \$5.00 is \$7,500 per year.

If you are charging an average of \$50 per groom, you can “lose” up to 150 grooms per year and net out the same profit you have before the price increase. So you can groom 3 less dogs per week and make the same money.

Will you lose 150 grooms in a year? Not from a \$5.00 price increase. Yes some customers are price shoppers but not your good customers. They trust you with their “child” and \$5 will not make that go away.

Alternate: Another way of raising prices is selectively. Perhaps you raise prices on the small dogs by \$3.00; Medium dogs by \$5.00 and large dogs by \$7.00. In your business model, this may make more sense.

Either way – pass on a price increase now.

Next Paper – **Productivity: Identifying the Bottlenecks in your Business**

Before you add people, consider doing a time study to analyze if you need more people or better processes.

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