

Pricing for Profit

The sign was plain yellow with the price \$4.57 in big bold numbers in the middle. Nothing else, just the price. I was in the middle of a Babies R Us store in Sterling Heights, Michigan. Underneath the sign was a wire bin filled with nylon mesh bath toy bags from Safety 1st, the kind with the suction cups that cling to the bathtub wall to hold toys between baths.



Standing next to me was my Safety 1st sales rep. After first laughing about the basic, no-frills sign – *notice the sign doesn't say "Sale", "Special Price", "Huge Discount", "Big Savings" or anything like that* – my rep turned to me and said, "Hey, aren't those bath toy bags a \$2.00 cost?"

The *Fact* was, they cost \$2 and were \$3.99 at every other store and Babies R Us was charging 58 cents more per item than everyone else. But the *Perception* at Babies R Us was that these are \$5 items now on sale for \$4.57.

While we stood there, three moms walked by. Each picked one up, looked at the sign, and threw it in their respective carts. Perception was winning.

We had to laugh, just to keep from crying.

Perception - That which somebody believes to be true

There is a distinction that needs to be made between Facts and Perceptions. They are not necessarily the same.



The **Fact** is that this room is 68 degrees. Some like to say that is the truth. The **Perception** to some, however, is that it is Hot in this room. The **Perception** to others is that it is Cold in this room.

Hot and Cold are not Facts, they are Perceptions. But just like facts, they are **every bit as true**

to the person who perceives them. If you believe you are Hot, then you are Hot. That is *your* reality.

Therefore, **PERCEPTION IS REALITY**

All Specialty Stores are Expensive

In 2005 and 2007 we hired a statistics class from a local college to do a market survey. One of the results was that our store was strongly perceived to be both "Over-priced" and "Expensive".



It makes sense. We don't do any advertising otherwise, yet Wal-Mart, K-Mart, Target and Toys R Us almost exclusively advertise "Low Price". And even if we did try advertising "Low Price" we could never come close to the millions of dollars spent by the aforementioned stores.

Nope, no one will ever think otherwise. Yet, over 50,000 customers walked through our doors last year. Maybe price doesn't mean everything? In the same survey we rated very high for "Value". Hmmmm...

Perceived Worth



The amount someone **believes or perceives** a product to be worth.

When you look at a product you immediately begin to evaluate it. What is it? What does it do? Do I need it? Do I want it? How much am I willing to pay for it? How much *should* it cost?

All of these evaluations happen in the blink of an eye. If it is not something you want, it has no perceived worth and you walk on by. If it is something you want, you immediately put a dollar value on it. The more you might want or need it, or the more it might do, the higher your dollar value. This is the

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Perceived Worth of an item – and it is different for every single person. But like discussed before – **Perception IS reality.**

For those who might want or need that product, their Perceived Worth of the item is critical to your ability to sell it.

Value - When Perceived Worth is Equal to Actual Price of an item.



Once you evaluate an item and come up with a Perceived Worth in your mind, you then compare it to the Actual Price.

If the Actual Price is much higher than your Perceived Worth, you aren't buying. If the Actual Price is the same or just slightly lower, it goes in your shopping basket, because it has VALUE. If the Actual Price is *much* lower than your Perceived Worth

your cynical side immediately asks, "What's wrong with it?" Until you answer that question, the item stays on the shelf.

This is the evaluation that drives almost all purchasing decisions.

Key to Higher Sales

Increase Value!

When customers see "value" in an item, they purchase it. You have heard statistics like 70% of all purchasing decisions are made in the store. This is because until you actually see a product you can't fully determine *your* Perceived Worth of that product.

In the same surveys done in 2005 and 2007 that showed people believed our store to be "Over-priced" and "Expensive", we also scored very high on "Value".

"Value" and "Expensive" are not contradictory.

Think of it this way... Which store is more expensive – a jewelry store or a dollar store? Easy answer – a jewelry store. Which of those stores sells more products of value? Hmmm, not so easy.

You can have a store that sells expensive items and still have value.

You can increase Value two ways... Raise Perceived Worth or Change Actual Price

Raising the Perceived Worth (PW)

Signage – Just by putting a sign next to something, you make it seem more valuable. "Wow, this item warranted a sign." The information on the sign also increases the PW by showing off the benefits of the product.



Merchandising – Using endcaps to highlight items, putting them under a spotlight, giving them prominent locations in the store, dressing up the shelf with decorations, taking an item out of the box and putting it on display – all these merchandising tips can raise the PW of a product

Sales Staff Knowledge – The better your staff knows the product, the better they can explain and talk it up to a customer, thus raising the PW

Store Reputation – Your store is known for carrying higher quality goods. Your layout, location, and look tell people you carry only the best. People expect your products to be a higher caliber, and are willing to pay more – they *expect* a higher PW before they even enter the store. Don't disappoint them.

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Actual Price

To increase Value you might have to **change** the Actual Price. But...

You don't have to **lower** the Actual Price to increase the Value. Remember that Value is when Perceived Worth **equals** Actual Price. You just have to find the Actual Price that **maximizes** the Perceived Worth a customer has of an item.

More money is given away, more profits are lost because the Actual Price is **lower** than the Perceived Worth. And sometimes, sales are lost by having too low of a price that makes the customer uncomfortable and unwilling to buy.

Actual Price has a Perception all it's own. And like before – *Perception is Reality.*

You just have to have a basic understanding of the Retail Psychology of Numbers, or how customers see and perceive prices in their own mind. I call this *Retail Numerology.*

Once you understand the way prices are perceived you will unlock the key to higher profits. And you only need to learn three rules to do so.

3 Rules of Actual Price

- 99 Cent Rule
- 5-10-20 Rule
- Bad, Okay, Good, Giveaway (BOGG)

99 Cent Rule: The Right Hand Numbers

Some brilliant person (probably a marketer) found that when you changed a price from an even dollar amount to the .99 just below it, sales increased dramatically. The reason is that it lowered the left-hand number. We read from left to right and to make life simple we ignore the right hand numbers



(numbers after the decimal). So .99 gives the perception of a "discount price" even though it is only one penny less because it lowers the left hand number. The same is true for .97 and .98. And conversely, .00 is seen as "regular price" or the more negative "full price".

But then some pre-priced items came in at .95 and .95 replaced .00 as the suffix for regular/full price.

Some stores like to use weird numbers like .87, .53 and others. Those are gimmicks. You're not the gimmick store. You're the trustworthy store. But you still want the *perception* of discounts. Therefore, you use .99 as the Right Hand numbers for ALL your prices – not .97 or .98 – to maximize your profit. Otherwise, you're just giving away pennies at the front door.

By the way, .49 should be reserved only for items under \$2. No one will buy an item for \$2.49 but put it back at \$2.99.

The psychology of the numbers right of the decimal point is that we are simple people who don't like to do a lot of figuring. We take a quick glance at the numbers, and if there isn't any issue, we immediately forget about them.

The number to the left of the decimal now gets all our attention.

Point 99 has been used for so long that it is immediately perceived to be a "value" or "discount" price. A customer who sees it, recognizes it instantly and it is a reassuring number of value.

Other endings are gimmicky and throw customers off - not something you want to do when trying to build trust and relationships with your customers.

The best way to maximize the Actual Price and still show value is to standardize all your pricing to 99 cents. This tells customers that you are not going to play gim-



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micks, but you are going to offer value. And that is always a strong message.

5-10-20 Rule

We are visual people. When we see a price for an item under \$20 we immediately envision the type of bill we need to pull out of our wallet to pay for it. We even classify it that way.



Items priced at \$4.99 are a “five dollar bill item”, \$7.99 is a “ten dollar bill item”, etc.

When a customer is looking for a “five dollar gift” she means everything priced \$4.99 or less. That means \$3.99 and \$4.99 are now the same price in the mind of a customer. Both are a “five dollar gift”.

On the other hand, \$5.99 is a bad price – too much for a “five dollar gift.” And a customer looking for a “ten dollar gift” will also deem a \$5.99 item unworthy of her attention. Now it is too low. You can change the price on many of your \$5.99 items to \$7.99 and you will actually sell them faster (and make more money!)

The same phenomenon happens for items in the \$10.99 to \$13.99 range. They will sell just as well at \$14.99 (or more).

In fact, the two worst prices in the 5-10-20 Rule are \$5.99 and \$10.99. Avoid them whenever possible.

Bad, Okay, Good, Giveaway – The Left Hand Numbers

Unfortunately, we spend so much effort calculating margins that we fail to recognize the psychology that a bad number can have on the sale of a product. Remember that the goal is to get the customer to “like” the price of the item. Then she will see “value” and make the purchase.

We have already discussed how using .99 as the Right Hand numbers is best. Now we focus on the Left Hand numbers.

Some numbers just don’t look right. We don’t like thirteen – it’s bad luck. Zero and one are lonely. Put too many sixes together and you have the sign of the devil. And some numbers look good. Sevens are lucky. Cats have nine lives. Fours are complete numbers – foursomes in golf, four corners of the earth, four horseman, four square, etc.

So to make your prices look better, you have to be able to distinguish the good numbers from the bad numbers. And you might as well know why other numbers are only okay, and some just cost you money.

Bad Numbers



Zeros are bad. Go back to the 5-10-20 rule for the first reason.

The second reason is that since they are just barely into the next series of “tens” they almost always look “overpriced” (\$20.99 is seen as *overpriced* for a \$19.99 item)

The psychology is that you see this price and you immediately think it is a dollar too much. The only way this price looks attractive is if your Perceived Worth is much, much higher. And if the PW is that much higher, shouldn’t your price be that much higher to match it? Of course it should.

Avoid the Zero at all costs. You’re far better off raising it **or** lowering it. Just get it off the Zero.

Threes are hurt by the stigma of “unlucky thirteen”. No matter what number comes before it, a price with a 3 in the dollar column brings up the “image” of thirteen.

Threes seem like they should be good because the rounded up number is a four (\$13.99 is “fourteen dollars”), but people don’t actually think that way and visually, the price just doesn’t look good.

Six 666 - the sign of the devil. Like threes, sixes have their

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own stigma.

The other problem with the six is that as with the zero and one in the 5-10-20 Rule, sixes are really low versions of the next bill to come out of your wallet.

You will sell more products when you avoid using zero, three or six in the dollar column.

Okay Numbers



Two is an okay number. We like pairs. Two is safe. It isn't very inspiring, but it won't hurt anything.

Twelve is a positive number. Twenty-two is a pair, which is often appealing.

The two looks okay, has no stigma, but it can be improved. Think of two as a "harbor number". A ship in a harbor is safe, but that is not what ships are for. Twos are safe, but that's not what your business was built for.

Fives are fairly safe, too, but do have problems.

The biggest problem is that it violates the 5-10-20 rule because the five is just above the next bill you need to pull out of your wallet.

This isn't as significant a problem once you get past \$5.99, but it still can be a mental stumbling block in finding an Actual Price that maximizes the Perceived Worth of an item.

Sevens are actually close to being a good number. Seven is lucky. Seven is the touchdown number (good if you sell to lots of male customers). Seven seas, seven sisters, seven effective habits, etc.

Seven also appears to be a "value" number. For instance, \$7.99 is a *value-priced* "ten dollar item". In the 5-10-20 rule, sevens are far better than twos or fives.

But then again, it may be that sevens are just a way to give

your customer money. In the mind of a customer, \$17.99 is a "twenty dollar item", but so are \$18.99 and \$19.99. What's the real difference in a customer's mind between \$37.99 and \$39.99? Nothing. Both are "forty dollar items".

Sevens are the best of the "Okay Numbers" but still not as good as the "Good Numbers". Use sevens when you need to differentiate from a product priced at the nine.

Good Numbers



Four – one of the best numbers!

It looks good as a price. It fits our preconceived notion of pricing. Think of it this way...Whenever someone mentally calculates the *Perceived Worth* of an item in their head, the answer is always in a multiple of five. It is always, "Oh, that looks like a \$25 item." No one says, "Oh, that looks like a \$43 item."

Four maximizes the 5-10-20 Rule.

Use four whenever possible!

(Disclaimer: If your market is largely Asian, four becomes a "bad" number. It is considered unlucky and in Chinese, it's pronunciation sounds like the word for "death".)

Nine – the absolute best of the numbers!

It looks *best* as a price. It completely maximizes the 5-10-20 Rule. 9.99 relates to the number ten, the easiest number by which to count and calculate.

Use nine whenever possible!

Giveaway Numbers



You could call the **One** an "Okay" number because it doesn't look bad, doesn't offend. But because it is directly below a number that will not change anyone's Perception, it is just a giveaway.

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No one will buy an item at \$11.99 but not at \$12.99 – both are a low-level twenty dollar bill items. And the higher you go, the less the difference. Do you really think someone is going to quibble over the difference between \$41.99 and \$42.99?

Using “One” is the equivalent of giving away dollar bills to every customer as they walk out the door.

(Side note: you would actually be more profitable if you stood at the door and gave away that dollar – what a marketing gimmick!!)

Eight is just like One - an “Okay” number because it doesn’t look bad, doesn’t offend, doesn’t have any negative stigmas. But it is directly below the absolute best number, making it also a giveaway.

No one will buy an item at \$28.99 but not at \$29.99.

Using eight is really even worse than using one because of it’s proximity to a great number. It is also the equivalent of giving away dollar bills to every customer as they walk out the door.

(Side note: I really mean it. You would be more profitable if you stood at the door and gave away that dollar – think of the word-of-mouth buzz you’ll get!!)

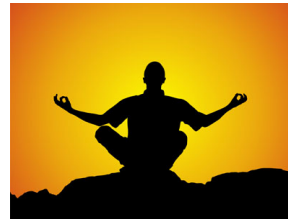
BOGG Recap

- The best numbers to use are 4 and 9.
- You should only use 2, 5 or 7 if necessary to differentiate between similar products in a category
- Avoid 1 and 8 whenever and wherever possible – unless you like to give away money with no return on the investment
- Never use 0, 3 or 6

Notice: The only okay number under 4 is 2. That limits your pricing structure in the low numbers. But that’s okay. There is nothing wrong with making a profit.

We only use \$9.99, \$12.99 or \$14.99 for prices between ten and fifteen dollars. Once we get over \$30 we only use 4, 7 or 9 (and rarely 7)

When to Raise the AP



When there is no competition on the product.

If no one else in your town carries this product, then you have no competition for it. You own that market. And, no, the Internet is not considered competition. Someone will ALWAYS have it cheaper on the Internet. Transactional customers are Internet Shoppers, and you aren’t worrying about them.

Also, if the item is under \$10 – then there is really *no competition* on the product. No one but the super insane Transactional Customers are price-shopping all over town for a \$6 item. And those customers probably won’t set foot in your store in the first place.

When you are at a bad or giveaway number right below a good number. Change those threes up to fours and eights up to nines. You’ll actually sell more at a better looking price.

Remember, it is all about **Perception**.

Sometimes the Perceived Worth helps you raise your actual price. If you have multiple levels of the same type item, you have to make sure the pricing is equal in “perception” to the value.

In other words, if you mark the cheapest one too low, someone might wonder either...

- Something must be wrong with this item
- The other items are too expensive



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This gives you room to adjust all of your pricing upward – as long as the differences in price are equal to the differences in PW

Also, when you can change the PW through better merchandising, signage and staff knowledge, you should raise the AP accordingly.

Lowering the Actual Price

Sometimes you have to lower the Actual Price to make it more attractive.

One of these reasons is because of stiff competition. If this item is found in many stores, or is a highly visible item (such as a "hot" toy like Webkins), you may have to keep the price at the recognized level or lower the AP to the next lower Good Price (note: always lower to the next Good or Okay number, never to a Bad or Giveaway number)

You also may find yourself lowering the AP to highlight the item in a Sale or Promotion. Just mark it down to an acceptable Good Number, put out the word, and watch them fly off the shelf!



Sometimes the PW just isn't high enough to raise the AP.

No matter what you try to do, you won't be able to raise the PW to justify the proper margin. Many products are really great products and would make your customers happy, but not at that price.

Rather than give up on the item, decide how much "value" it has to you for drawing traffic, filling a need, pleasing the customers. If it does all that, bring it in at a lower AP and make it up on the other items in your store.

Finally, there are some items that you just can't change the

price on. Pre-priced items such as books are one. You can go lower, but you can't go higher. Items that have extremely well known prices (i.e. Webkins) are also on this list.

But for everything else, it's just a matter of how much money you want to make and how much you want to give away.

Action Steps

1. Change ALL PRICES to end in .99 (except for pre-priced items like books)
2. Raise all items marked \$3.99 up to \$4.99
3. Raise all items marked \$5.99 up to \$7.99
4. Evaluate *every item that has no local competition* and raise prices to the next Good Number (\$x4.99 or \$x9.99)
5. Raise all prices over \$30 to the next Good Number
6. Put your Highest Margin items in the Best Locations and give them Great Signage
7. Evaluate all of the rest of the items in your store
 - a. Eliminate ALL Bad numbers
 - b. Eliminate ALL Giveaway numbers
 - c. Look for ways to raise the AP whenever and wherever you can



Create Value in Your Store

By understanding that **Perception is Reality** and using that knowledge to your advantage you can continue to offer quality products at fair prices to grow your profits and keep you, your employees and your customers happy at the same time.

Increase the Perceived Worth of your merchandise and find the best possible Actual Price to maximize your profits!