

# Price impression products are key to higher prices



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TO BE A HIGH PERFORMANCE Wholesaler (HPW) or to manage pricing for improved profits, you must understand the short but important list of "Price Impression" products carried in the head of every customer. Someone in your business must know the products that shape the customer's mental and emotional impression or perception of your pricing. That person must be responsible for setting your prices and generating profits for your company.

The challenge is complicated by the fact that as the breadth of your targeted customers increases, your list of these special price impression products also grows. If you do not keep the identification process very focused and in the hands of the smallest group of executives, proper price perception administration is almost impossible.

It may be hard for your people to accept this fact, but it's true: *your bottom line improves as fewer people have pricing authority and as fewer people share profit responsibility.* The more people **with** authority to override prices but **without** accountability for the delivery of budgeted gross profit dollars, the more "out of control" your pricing will be.

There are a very few products in your entire offering which are so common in use, so competitive in nature, so "footballed" around, that every customer knows the going market price. Most product groups will have, at most, a couple of these items. Some product groups will have a single item; some will have no items that customers know the up-to-date, current price from memory.

To give you an out-of-industry example: there is one grade of milk and one size of container of that grade which is the "price impression" line item in the supermarket. To convince the housewife that her favorite store has

fair pricing and therefore is the one she wants to shop, this one line item must be priced very close to her mental price target. If the price is close, then other factors do come into play. The more services offered and the more pleasant the atmosphere, the less that price is the total concern.

After the buyer is convinced that the pricing is fair, the lowest price is not always necessary. If the pricing is not close, then the nod goes to a store with perceived fair pricing. And if the store has published a promotional price, even for a short period of time, a powerful price impression is created in the mind of the shopper. While there may be other stops on the shopping trip, the first stop is controlled by a price impression promotion.

Let's bring the example back to our industry. If you don't have the common 1/2" CxC 90° ELL priced aggressively, you'll never know the true and perhaps startling potential sales volume and total profit dollars which you can achieve on that complete product group!

Notice that we gave a specific, single line item out of a large number of line items; and we did not say and we do not infer that any other ELL you stock must be priced as aggressively. In your entire line of copper solder fittings there may be a total of six line items that have such extreme price sensitivity. If you were to price your entire stock of those fittings at the same low margin as the six items, the line would be a dead loser for your company.

Many companies try to solve the pricing problem with a mediocre solution: a "compromise" margin percentage across the line. The result: prices that customers perceive as too high (since they are only looking at the price sensitive items) and prices that produce profits that are too low on just about everything else.

This is what is called, “Shooting yourself in both feet!”

In short, you need to be sensitive to the need for “loss leaders.” You need to be even more alert

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to the importance of preventing the rape of a potentially very profitable product line by those in your company who think the loss leader defines the target margin for the product line.

If you become expert in defining the very few true loss leaders and in identifying the higher margins which can be charged for the less price sensitive products, you will find that three magic things will happen.

1. **Sales of the highly sensitive products will increase.** Your margin percentage will be down, but if you manage the turns properly, the “turn and earn” can be quite satisfactory. In many cases, your total gross dollars on these items will increase because you will sell more.

2. **Total sales of the whole product line will increase** substantially even though you are yielding higher overall margins than ever before.

3. **Your company will have developed the image of being fair and aggressively priced for the product line.** As a bonus, some of this “fair and aggressively priced” perception splashes onto the other products you sell. This is exactly the image you want in the marketplace. Properly done, it comes with no profit penalty while it builds your reputation for being aggressively priced.

Every customer has a very short list of products whose prices they know and which they expect you to sell competitively. One study found that normal humans are able to remember only seven prices. The number of items and the actual list may vary from customer to customer, but the total number of “price perception” items for your entire company, considering all lines and all customers will probably be less than 100 line items.

You will always be under constant pressure from all sides, both internally and externally, to expand the list and thus jeopardize the major goal of the company, to make a fair and more than adequate profit.

The few highly price sensitive products--call them your “A” items--are not the same as the “A” items in your inventory report defined by dollars, units or “hits.” Your current, neat inventory stratification report will not provide the basis for your list of “A”s.

You would probably, for example, find several ¾” copper fittings on the first page of your unit sales and dollar sales rankings, yet it is highly unlikely that any of them are “A”s. The report might make for interesting discussion, but it has little or nothing to do with the price impression “A” list you must build.

The price sensitivity of a product must be determined by a human being, someone in your company who understands both the product and the value your customers place on the product. Eventually your pricing will take into account the sensitivity differences between different types of customers. Your big mechanicals don’t care about the price of that ½” copper 90° ELL we discussed, but your pricing on their list of larger copper “A’s” better be right.

Most of your people probably don’t have a firm grip on this important price impression concept. To prove the point, start a casual conversation with one of them. Ask the person to name price sensitive items in one of your important product lines.

If you ask for sensitive items in copper solder fittings and the response is as loose as the word ELLs, the responder doesn’t understand “A” items as we expect you to understand them. Of all of the perhaps scores of ELLs in a copper solder fitting line, only one of them is going to be an “A” item. Usually it will be the classic ½” CxC item but there could be special cases where it is some other size.

The important thing to understand is that the

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price impression product is not a group of items at all; it is one item. All the other items represent opportunities for higher profit without sullyng your reputation for aggressive prices. To make all ELLs highly competitive is to throw away

significant profit opportunity with absolutely no offsetting gain.

After you've agreed that a product is suspected of being an "A" item, the next question is, "What is the price in the market?" If the answer takes the form of a percentage discount or cost markup, the product is probably not an "A." "A" products are defined by a "dollars and cents" price. If the respondent happens to be involved in the selling process, then you know one of two things: either the product is not really an "A" or the sales person is not really in touch with the market.

"A"s are always linked to a specific dollar price by customers. A wholesaler who understands this and who understands his customers' Hot Buttons, can improve the gross margin in solder fittings from the low 20's to the mid to high 20's and in so doing, improve unit sales, gross sales and total dollars of gross profit on the line.

Over the years we have found that a High Performance Wholesaler only needs six basic pricing categories. Six categories are enough to clearly define the kinds of products in each pricing group while keeping the pricing process

"A" items are the products that shape the customer's mental and emotional impression or perception of your pricing.

"B" items are important but are not as price sensitive and can generate slightly higher margins. An example here would be a ¾" CxC 90° ELL. The difference may only be 1 or 1.5 gross margin points above the "A"s, but the profits can really grow if you learn to make just a little more on a lot of items.

"C" items represent the bulk of the items in any product line and should hopefully generate at least the target margin for the entire product line.

"D" items have little price sensitivity and if you have properly identified the "A"s, "B"s and "C"s they flow onto the order at higher margins than you ever dreamed possible.

"E"s are rarely used items. Having them in stock justifies the higher margins.

"F" items are so rare that the debate should not be about the higher margin but whether you should stock them at any price.

High Performance Wholesaling can't be achieved without a firm grasp of these six basic pricing categories and especially of the products

simple enough to be effectively managed.

that create the price impression in your customers' minds.