

Is Your Business Charging Enough For Goods & Services?

A small increase in what you charge for your goods and services can make a tremendous difference to your bottom line. The fact is that many businesses could charge more for their goods and services than they do, but fail to do so. Owners often do not realize the great value of charging just one-percent more. In this article, we'll explore how charging even slightly more can dramatically impact your business.



Let's consider a hypothetical example. A business owner tells a potential buyer that he or she could safely increase their prices by 1.5% and do so without the price increase causing any negative impact to sales or business disruption. The savvy buyer quickly realizes that the business, which has \$70 million in sales, is leaving \$1 million dollars on the table by not increasing its prices by 1.5%. A smart buyer realizes that after purchasing the business, all he or she has to do is institute this small price increase in order to achieve a sizable increase in profits.

In his best-selling book *The Art of Pricing*, Rafi Mohammed explores the often-overlooked area of pricing. He keenly observes that one of the biggest fallacies in all of business is to believe that a product's price should be based on the cost of the product. In *The Art of Pricing*, Mohammed points to several examples. One comes from the restaurant industry. He points to the fact that McDonald's keeps entrée prices attractive with the idea of making up profit shortfalls in other areas, ranging from desserts to drinks and more. Or as Mohammed points out, McDonald's profits on hamburgers is marginal. However, its profits on French fries are considerable.

Mohammed's view is that companies should always be looking to develop a culture of producing profits. He states, "through better pricing, companies can increase profits and generate growth." Importantly, Mohammed points out that it is through what he calls "smart pricing" that it is possible to extract hidden profits from a business. Summed up another way, pricing couldn't matter more.

All too often business owners, in the course of their day-to-day operations, fail to place sufficient importance of pricing. Any business looking to achieve more will be well served by first stopping and taking a good look at its pricing structure.

Likewise, buyers should be vigilant in their quest to find businesses that can safely increase prices without experiencing any disruption. At the end of the day, small changes to pricing can have a profound impact on a company's bottom line.

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