3 Reasons Competing on Price Alone is Risky for Your Small Business_ Solocast (E69_Live with the Pricing Lady)

[00:00:00] **Janene:** Hello, everyone. Welcome to Live with the Pricing Lady. I'm Janene Liston, your hostess. This show is all about helping you do better in pricing in your business. I work with small business owners to help them build the right pricing strategies so they can more confidently charge for the value they deliver and build sustainably profitable businesses.

[00:00:23] Welcome to the show, everyone. Today, we're going to be talking all about three reasons why competing on price alone is risky for your business.

[00:00:36] Price competition is something most of us are used to seeing because as consumers, it is rife out there. Everywhere we go as a consumer when we're purchasing things, we're seeing it every single day.

[00:00:50]The retail industry in particular can be a very cutthroat environment. There are stores out there who are definitely competing [00:01:00] on price alone or at least primarily. The strategy they're employing is called an economy based strategy .

[00:01:07]When it comes to small businesses, fighting or competing on price alone is really, a challenge. The first reason why this is a challenge is because it immediately puts you in a position where potential customers will see what you're offering as a commodity. This in many ways can be the kiss of death, especially for a small business.

[00:01:35] What happens when, what you're offering is seen as a commodity is that people think, " I can get that anywhere. So I am just going to go and find the cheapest place I can get it from." And chances are small business that isn't going to be you, at least not for very long. We'll come back to that in a moment.

[00:01:58] As soon as people see what you offer as a [00:02:00] commodity, then it opens up the flood gates for what they perceive as alternative solutions, and then anything that they perceive as an alternative solution that has a lower price is going to beat you out. Right? This is one reason why it is so hard to, or so difficult to employ such a strategy because it automatically pushes your prices down even further than maybe you thought.

[00:02:30] The next reason that this is a really risky strategy, whether you're a new business or just the small business, I see this as a very similar situation. It's very difficult for a small business to have and maintain a low cost structure. The primary way that a business is able to deliver the lowest prices in the market, is by having a sustainably low cost [00:03:00] structure.

[00:03:01] Especially when we're talking about products, but also I would say in services by and large, but definitely the in products is very difficult for you as a small business to have what we call economies of scale. A company like Walmart or Aldi, can order large quantities

of things and then distribute them out to all of their stores, which enables them to get better prices from those who they're buying things from.

[00:03:28] Even if you think of their employees, let's say their employees get health insurance from them. Okay. Well, they can go out to the health insurance companies and get really good rates for that health insurance or bring it back to the employees. And then any share of that, that the company pays for is going to be lower than what you as a small business could deliver.

[00:03:48] Again, just that cost structure that you have internal to your business will limit how low you can actually go with your prices and still make any money at all. [00:04:00] It will also make you very vulnerable to even the slightest of cost changes. If you're costs go up of very, very tiny bit, then you're going to have to probably adjust your prices because your margins are so low.

[00:04:14] And if your prices are that elastic, meaning if you raise the price ever so slightly customers will stop buying from you, then all of a sudden you will not be able to earn that profit again. Cost structure is not only important in terms of the price that you offer, but in terms of the vulnerability that you have for changes in that, and it's not just the change necessarily in cost structure, but it's also going to be the change in your volumes that you're going to be vulnerable to.

[00:04:46] Right? Because you're going to need massive volumes in order to be able to make a profit, because of profit margin will be very low on each and every sale you make. Meaning that if your [00:05:00] volumes start to swing too much, then you're also going to be in a difficult position when it comes to getting enough volume in order to get a profit that is livable for you. And we want you to have a sustainable profit, right?

[00:05:14]That's really one of the big messages here is that this will make it very difficult for you, maybe in the short-term you can sustain these low prices, but in the longterm, if you can't maintain that cost structure, it's almost impossible for you.

[00:05:31] The third and last reason you don't want to compete on price alone or why that is a risky is low prices do not guarantee large volumes. This is probably one of the biggest misnomers or mistakes that people make. They think "...if my price is low, automatically more people will buy it." That's definitely not the case. In all the years that I've been doing pricing, I [00:06:00] have seen where prices are lowered and we've gotten more volume, but only once or twice have I actually seen us end up in a better profit position.

[00:06:12] Yeah, that's the key. You have to sell enough in order to be in a break even or better profit position before it will make sense. Here's, here's a really important message for you to listen to, and to hear and let this sink in. For example, if you have a product that has 40% gross profit, and you reduce the price by 10%.

[00:06:39] You need to do 33% more volume in order to break even. It's only at 34% that you actually would start earning more profit than before. 33% more volume is enormous. Generally, you're not going to [00:07:00] get that from just making a price reduction. You are

going to have to figure out where that extra volume is going to come from- new markets, new target groups, different types of offers.

[00:07:13] Where is that going to come from? Because it's probably not just going to come from lowering your price. Even if it does in the first step, once competition reacts or something else, like, you know, people realize the value isn't there you're not going to be able to sustain that over the term. Again, we're back to your being in a risky position.

[00:07:37]Low prices, don't automatically guarantee that you're going to get high volumes. When it comes to competing on price, you're dealing with razor thin margins, which means in order to earn enough money, to keep that business going, you're going to have to have high volumes. You need a solid plan for [00:08:00] how that volume is going to be achieved? Where is that volume going to be coming from?

[00:08:08] I hope that what I've done here in this talk today is helped you understand the risks around competing on price alone. Does this mean you can't have a low price strategy? No, of course it does not, but it means that you have to go about it in an intelligent way.

[00:08:25] When it comes to small businesses, quite often, what that means is having different revenue streams. Some with higher margins and others with lower margins. You see this in medium and big size companies as well. You don't usually rely on one single pricing strategy for everything. You can see this in a lot of industries, they come out with a generic line or a low cost line. They may brand it under a different name, but it's the same legal entity for a reason. Because they need to balance that out and bring some [00:09:00] longevity let's say into the business. If you're a small business, I encourage you to think about using such a strategy as well and knew your business.

[00:09:09] I know a lot of you, that I talk with, you really want to help people who can't afford to pay so much. I have a couple of things to say about that before I go. First of all, we as the people selling should never assume someone can't afford something it's almost arrogant of us to do so.

[00:09:28]I encourage you to let customers to decide for themselves what is affordable and what they think is fair. Second of all, you have to build a sustainable business model. For many of my clients, we talk about how can I serve this group that is either less willing or less able to pay, in a way that brings me a sustainable business.

[00:09:53]That usually will mean having another aspect of the business, where you are serving clients who [00:10:00] are more willing and more able to pay and looking for more value. So they're willing to pay more for what you're offering and that will help you. That will enable you. Let me put it this way that will enable you to be able to serve these clients better.

[00:10:16] But if you just start here, from the beginning, it will be an uphill battle because you won't be able to make enough profit to be able to reinvest that back into the business so that you can keep building and growing your business.

[00:10:30]Let me recap the three reasons why you don't want to be competing on price alone because it's a risky for your business.

[00:10:37] The first one is, when your prices are low people mistake you for a commodity. Second, it's hard to have an or maintain a low cross structure over the long, even medium term. Third, low prices do not guarantee larger volumes. That's what I have for you today folks. If you'd like to talk [00:11:00] to me about pricing in your business, you can head on over to www.janeneliston.com/discoverycall, book the call with me, and we'll talk about what's going on in your business.

[00:11:10] Until next time, I wish you all the best and as always Enjoy Pricing!