



Ask SCORE for Business Advice

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Time for Price Cuts? by Tina Dettman-Bielefeldt

It's one of the most difficult decisions for business owners. Especially in this uncertain economy, how does an owner decide when it's time to cut prices? And, how far can prices be cut without sacrificing any profit that the store might make?

There are a number of mistakes that businesses make. Panic sets in, and an adequate review of the situation falls by the wayside. Instead of reacting, there are steps that can be taken to avoid having a year-end income statement that shows record sales AND record losses.

The first step is to gather information and review pricing strategies. Owners should know what the competition is doing, which items are moving and which are not, and what other tactics can be utilized to increase sales without cutting prices. Margins should vary depending on how an item is selling, and "across the board" discounts should be avoided. The goal is to reduce inventory levels by the first of the year and make a profit.

C. Scott Copeland has 38 years of retail experience, most of it in senior store operations and marketing management. Currently, he is the Chief Operational Officer of Retail and Logistics for Goodwill NCW. He recommends that businesses ask three questions before making decisions about liquidating inventory: Is the product displayed correctly; is the product priced correctly, and does the customer have a need or a desire for the product?

"With the responses to these three questions, a plan can be developed to reduce inventory to the desired level," Copeland noted.

In reviewing product display, Copeland advises asking additional questions. "Will the product display maximize sales? Is the item displayed where a customer would expect to find it? Should it be displayed in multiple locations? Is it signed correctly? Does a newspaper, radio or TV ad communicate to a potential customer you have the item in stock?"

An owner might find that the displays are good, but a product still isn't selling. This is where pricing comes in. Assuming that it is an item that customers want, they may not see it as a value. Copeland explained, "If based on your ownership, you will not sell out of the item by your target date, then the price should be lowered to accelerate sales."

Once the price is lowered, Copeland emphasizes the need to inform the customer through in-store and exterior signage, advertising, special events, and other promotions.

If the store has perfected the display and lowered the price and the product still isn't moving, there is the possibility that there is no need or desire for the product. "Unfortunately, if you have made a bad decision on purchasing an item for which there is no demand, you are in trouble," said Copeland. At this point, he advises forgetting about the purchase price and taking a significant price reduction to liquidate the inventory as soon as possible.

In reviewing inventory and making pricing decisions, Copeland reminds stores that their goal is to make a profit and start the new year with an inventory plan that will produce positive results in 2009.

If you'd like help with pricing, contact the Green Bay Chapter of SCORE. Visit www.greenbayscore.org or call Cindy Gokey at 920-496-8930 for information.

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