



# *Profit Power Pack*

# *The Psychology of Pricing For More Profit*

In my years as an independent specialty retailer I really got pricing down to a science. I didn't know at the time that it actually IS a science. Behavioral economics and the study of psychology of retail shoppers is fascinating.

What a person will pay is all based on their perception of the value of the item. I learned in my store that adding a couple of dollars here and there didn't change the customer's perception of the value. An item that is \$8 can be sold for \$10. Now look at an item that is \$11. It should just be \$12. It just looks better, doesn't it? And you would still buy it, right?

Adding that dollar or two has a HUGE impact on your profit.

It is imperative to strive for a minimum of a 55% initial markup (imu) for most stores. The easiest way to get that is to look at your inventory and see where you can use the pricing guidelines below. You will find it easier than you think. Many of my new clients fight me tooth and nail about this and then see how easy it is to mark up SOME items a little more. They become eager to do it as they see that impact is profound. For a store doing \$500,000, increasing your imu from 50% to 55% can give you an additional \$25,000.

ORIGINAL PRICE	PROFIT PRICING	NOTES
0 – \$3.00	Use only the .50 or the .00	Don't bother with the .25 or .75 – in most situations, it won't make a difference.
\$4.00 – \$5.00	\$5.00	A customer considers a \$4 item to really be a \$5 item anyway.
\$6.00 – \$8.00	\$8.00	Use only when you have to – think hard and consider if the value of the item is really \$10.
\$9.00 – \$10.00	\$10.00	In their heads, a customer considers it a \$10 item anyway.
\$11.00 – \$12.00	\$12.00	An \$11.00 looks like it should have been \$10.
\$13.00 – \$15.00	\$15.00	People like to think in 5's. If it is \$13 or \$14, it might as well be \$15.
\$18.00 – \$20.00	\$20.00	As the prices get higher, I find that the extra dollar or two or three won't stop a customer from buying it.
\$21.00 – \$22.00	\$22.00	Keep the extra few dollars for yourself.
\$23.00 – \$25.00	\$25.00	No discernible difference from the customers.
Above \$25.00	Increase by \$5 up to \$100	
Above \$100	You can primarily increase by \$25.00	Try it. Really look at an item. No one will buy an item at \$140 that they wouldn't buy at \$150.

These are the only prices that you should use in your store.

There is a groundbreaking book called *Predictably Irrational* written by Dan Ariely. He devotes a whole chapter to how consumers are “predictably irrational” when it comes to prices and how they over value ‘free’. At clearance sale time, I always liked to have some things in a basket marked ‘free’. They would be items that had already been marked down to the lowest price and I would mark them out of stock to just give away. It was fun to see the reactions of customers. More than once, they would try to give me money!

Most of all it was just fun to bless some kids with a treat!

# *Creating Your Never Out Of List*

**An excerpt from *On Sale: How Retailers Are Ignoring Their Numbers and Giving Away the Store*, by Cathy Donovan Wagner**

The second biggest mistake retailers make is ignoring what their raving fans are telling them.

Now why would you do that? Your raving fans vote with their dollars and tell you what they want you to carry more of. Not enough attention is paid to your best sellers. I know; I made this mistake too.

I was talking to a first time grandma about this wonderful wood rattle that my 6-month-old son just loved. It kept him occupied and happy for so long.

“I’ll take it,” she said.

As I walked to the spot where it hung, I started to wonder if we had them in stock. I got a sinking feeling in my stomach as I realized I couldn’t remember if I had reordered them. Sure enough, the spot was EMPTY. I was out of that best seller. I wanted to scream, “NOO!”

How many times has that happened to you too? That is when I created my N.O.O. list – which stands for Never Out Of.

Identify your best sellers in your store using your POS system and your team as resources. Then give the job to someone else.

You know what other people want to buy. Right? You have that fabulous new jean or great wrap bracelet or that fantastic floral scarf. Now imagine a customer comes in, walks up to you and tells you how they love that scarf that they bought from you a bit ago. Now they want one for their friend and you say with a big smile on your face, “Sure, let’s go pick one out. They are right over here.”

As you start walking to it, you are thinking “I so hope I have another one, I so hope I have another....” And then you look at a hole on the shelf. NOO!

We hate when that happens. It is hard to stay on top of all the items that move fast. Yet, you are throwing away dollars if you don’t find a way to do so.

The trick is to create your N.O.O. (Never Out Of) List. I can tell you precisely how to do this and how to follow-through with it – effortlessly and easily.

First, what goes on the list? Start with the 20 items that you sold the most units of in the last 12 months.... and lay that against the list of the items that you sold the most of last November and December because sometimes that can be different.

List these down on a sheet of paper and make 11 columns next to them.

In the first box next to each item write down how many you sell in a 1-month period. Presto. You have now set your minimum inventory requirement. That is the title of your first column.

Above the next cell write DATE and in the next write INV OH, which stands for inventory on hand.

You will track what your current inventory level is for every two weeks starting with today.

This takes us to my favorite part – the effortless part. You ARE NOT to count it. Because let's be honest – you have too much else to do. Give it to your most reliable person. They are to fill this report out each week with the date and the quantity and put it on your desk. (RETAILMavens Tip – this is the kind of detail that we love to help you with. Use neon colored paper and a clipboard.)

Now you place reorders for the items that your customers have voted that they love the most. That's how we look at it – every time a customer makes a purchase they are placing a vote with their dollars.

They tell you what they want you to carry. This is a great way of making sure that you are giving them what they want.

Every single time we have clients do this exercise, they find items that they are out of stock on. They have lost business because of it.

# *Use TNT to Blow Up Your Retail ADD!*

This is all about accomplishing something and sleeping better. It is going to be great, because you are going to be able to use it every day to get more accomplished.

So, I just want to know if this describes you: You walk into your store, you start getting into your work and then all of a sudden you see something over there that needs to be fixed in merchandise, and you go over there and fix it, and then all of sudden you see something over there...."Oh, you're out of bags", so you go over there and you have to replace the bags, and then "Oh gosh, we're almost out of curling ribbon here", so you go to the back and you fill that up, and then while you're in the back room, you realize that a return to vendor hasn't been taken care of...and in the blink of an eye, it's 6 o'clock and you have to go home, right?

Don't leave me alone here. You know it has happened to you too! Let's face it. We all have **Retail ADD**. We do. I was the first to admit that I have it, and I know that you do too.

This is what we're going to use to blow away your **Retail ADD**. It's **TNT**. We're literally going to use TNT dynamite to get rid of it. The "T" stands for **Top 3**. I want you, the night before you leave, to write down your Top 3 Things that you are going to get done tomorrow. So "T" stands for **Top 3**.

Then when you come in the next day, "N" stands for "**No Email**". Do not check your email first. **DO NOT CHECK YOUR EMAIL FIRST**. Your email is no more than somebody else's to-do list for you, right? So don't do this so you can take care of your other stuff first.

Ok, the last "T" stands for a "**Timer**". This is powerful and I use this most everyday. Use a timer and set it for 15 minutes. When you find yourself overwhelmed, you can't think about what you're going to do next, use a timer. Set it for 15 minutes, put your head down and just work until you hear it go off. I assure you that when you use **TNT**, it's going to blow away you're **Retail ADD**. You're going to get so much done, you're going to get so much accomplished, and you're going to sleep better.

**T stands for Top 3**  
**N stands for "No Email"**  
**T stands for Timer**

Say it loud and proud - "**I'm going to use TNT to blow up my Retail ADD!**"