



White Paper

Margin Management

How to save time, sell more
and increase profits.



Are you paying attention to your margins?

With the increased competitiveness of the hardware, building supplies, and paint retail sector, price matching might seem like the only option to keep turning a decent profit. However, this isn't always possible if you're a smaller operator who moves less stock.

Maybe it's time you took a look at your margin management? This is a proven and measurable way for independent retailers to keep competitive and grow profits.

It's all about how customers perceive your prices

Independent retailers have a well-earned reputation as being able to deliver the kind of personalised service the bigger chains can't. However, along with this reputation comes a belief that you charge higher prices in order to keep your business profitable. This is a belief you can easily change.

There are two major pricing models at your disposal:

Reliably low pricing

You're seen as the place to shop regularly because customers know you'll give them competitive pricing, with the odd promotion or discount thrown in the mix.

Higher pricing with bigger promotions

You carry big-name brands alongside boutique labels, which you can mark-up and discount as you choose. This gives customers a sense of missing out if they don't 'buy now'.

Be flexible with your approach to pricing

Why not combine the two pricing models to reap the benefits of both? It's a simple matter of choosing which products are best suited to which model. Here are a few tips to get you started:

1. Items or products that are the fastest-moving or the most popular will be the most price sensitive, so are best suited to lower pricing.
2. Put some thought into where you place these popular items around the store. Consider placing them near the point of purchase, or any other prominent, high-traffic areas. This will give your customers the idea that you've got the low prices they're after, while also increasing the sales of these low-margin items – which all means more profit for your business.
3. Items or products that move more slowly are your best bet for higher prices and therefore higher margins. Your consumers won't mind paying more for what they perceive as your specialist products and this will be where you make your real profit.

Regularly review your reports

A top-grade POS system will provide the reports you need to decide which pricing model to apply to which products. These reports should give you the ability to:

- Rank a product's popularity
- Classify a product as specialised / difficult to find
- Categorise products by departments.

Check these reports regularly so you can find the low-margin / slow moving products that are lessening your profits, as well as the high-margin / fast-moving items that can really grow them. This will also help you decide which items to put more marketing and merchandising capital behind.

Experiment to find your optimal pricing model

Choosing pricing models for your products should be an ongoing process. You'll get the best results by continuously trying different things. Once again, your POS system should allow you to:

- Raise the margins on the products you consider impulse purchases and consider pairing them with similar products at the point of purchase.
- Experiment with creating more targeted pricing categories – using your POS's pricing matrix you can target based on things like customer types and product groupings.
- Use your POS system to measure how your customers react to price changes. If they're responding positively, then take it further and go for higher mark-ups.

Make adjustments to your margins

Be confident enough to round up

There's a definite psychology to pricing and how your customers respond. Prices ending in '.99' appeal to customers and signal to them that they're getting a good deal. Round UP your prices so your cents end in '99' and you'll be making more on each transaction. In the course of a day involving lots of transactions, you're earning significantly more in profits.

You can round up your dollars too. For products that aren't your best-sellers, you can afford to be bold. Research suggests that customers don't perceive a massive difference when you round up your dollar amount, as long as it ends in the magic '.99'. So an electric hedge trimmer priced at \$119.99 compared to \$110.99, won't seem like much of a difference to your customer, but it will make a difference to you.

Make your margins even higher

Promotions and discounts create a loyal customer base

Discounts and special promotions are a tried and tested way of reminding customers of your business and brand. There are lots of different discount strategies and as long as they're not over-used, they can be very effective at growing your profits.

Here are just a couple of examples:

- A limited time 'buy-one-get-one free promotion' should encourage impulse buys and return customers.
- Discounts on popular products should also increase your loyal customer base. The key here is variety – try discounts based on volume of purchase, days of the week, or even age-groups.

You can use your POS system to design and track these promotions, right from beginning to end. You'll be able to print labels and signage and set up the discounted charges in advance. Use the reporting and analytics functions to understand the results and help inform your next discount strategy.

What should follow is an increase in customers and most importantly, profits.

Stay successful

Rely on your POS system to make margin maintenance easy

Margin maintenance is an ongoing process, but it's one that can be almost entirely automated once you put a few systems in place:

- When your own costs increase, mark-up all your inventory accordingly. If for some reason your costs decrease, it's okay to wait until you've moved your existing stock at the original price, before lowering prices in-store.
- Use your POS system to either set the same prices across all your stores, or to adjust prices based on factors like location.
- Your POS system should allow you to automatically update your costs, prices and labels to match a change in what a vendor is charging you. This will save you time and help you avoid errors.
- Utilise consolidated supplier updates from your member head offices. This will enable the reduction of manual data entry, while ensuring the most up-to-date costs and retail prices are being used.

To recap:

- Identify the products that are unique to your business. Your customers will know these are specialist items so they're the best ones to significantly mark-up.
- Be careful not to overuse discounts and consider discounting certain products to a select group of customers.
- You can run a promotion without discounting prices and use it as a brand building exercise.
- Your POS system should make setting up price rounding easy – don't think this is something you have to do manually.
- Set up an alert in your POS system so you know if a salesperson has made a price exception at the point of purchase. This is something you want to minimise.
- Take the time to walk the aisles of your store and scan your products to make sure they match what's in your POS system.

About Striven

Striven's POS software solution has been developed by store owners, for store owners. We are Australian-owned with more than 15 years' experience, and proud to be the only POS provider that owns and operates both a Mitre 10 and an IGA store.

With a deep understanding of your industry, Striven solutions will support your growth, while managing complexity. The result is a powerful solution that frees your resources so you can grow your business. For more information, contact Striven, www.striven.com.au.

Our Services:

- Striven POS
- Business Consulting
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