An Epicor® White Paper

Managing Your Margins

How to grow more quickly, build loyalty, and maximize profits

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Profits and growth are everything—so why do margins matter so much?

With big box stores and online retailers causing price wars, it can seem that the only strategy for growth is to simply match price. However, price matching may not be possible for independent retailers, with their significantly lower volumes and incrementally higher costs.

Smaller retailers offer value the other channels can't—personalized service, location convenience, localized focus, and other charms. Still, today's consumers demand at least a sense of price competitiveness. How can you pull this off?

That's where margin management comes in—providing a scientific, measurable way to set optimal prices and enable independent retailers to grow revenues, maintain profits, and keep customers coming back.

Price perception

Choose your promotional image

How can independent retailers attract (and keep) consumers who may feel like small shops deliver great service at the cost of higher prices? Change their perception—not through any deceptive means, but by knowing where and when to price competitively.

For any given product category, department, or other slice of inventory, retailers can choose from two pricing images:

- Everyday low pricing. Consumers who see you this way think you're the place to shop every day, because they can rely on competitive, discounted pricing.
- Full price plus heavy promotions.This is the common perception of big department stores—carry quality brands and private labels, mark up "retail" prices, then perpetually discount to give buyers a sense of urgency.

Combining pricing strategies

Independent retailers can enjoy the best of both worlds by setting everyday low prices on some items and by using promotions and discounts on other items. The trick is to choose the right items for each approach. Here's how:

- Set everyday low prices on fast-moving items. Fast-moving items—those bought frequently and repeatedly by consumers—are also the most price-sensitive items.
- Keep those low-prices visible. Set these items on end caps and at the point of sale (POS), where they'll get plenty of attention. That gives buyers the perception that your store has the low prices they prefer—and, if you've chosen well, you'll enjoy higher sales volumes on these lower-margin items.
- Set prices and margins higher on slower-moving items. Here's where you create the bulk of your profit. Consumers will make these purchases from you because of your convenient location, your knowledge, and the fact that you're stocking an item that might be harder to find.

Tip: Take the time to identify items that only you sell. These are prime candidates more aggressive mark-ups.

Review your POS system's reports

There's no need for guesswork about which pricing approach you should use for which items. If it's a good approach, your POS/Retail business management system will tell you which items are most popular. Your system should:

- Categorize items by department, class, and fine line
- Give you a way to designate items as commonly available and hard-to-find
- Give you a way to rank an item's popularity yourself
- Use algorithms to rank popularity for you

Get in the habit of checking the reports available to you. Watch for:

- Fast-moving, high-margin items—these undercut your pricing image
- Slow-moving, low-margin items—these shrink your profits
- Dead items—these are tying up your capital, and will wind up selling for a loss
- Everything else. The faster an item moves, the more competitively you'll have to price it, and the more you'll want to merchandise it prominently

Tip: Co-op suggested prices don't take your local market into account. Adjust accordingly—and don't forget to take advantage if you're the only place in town offering an item for sale.

Continuously fine-tune for optimal pricing

Once you've begun setting more informed prices, fine-tune them continuously.
Best practices include:

- Discount only where you must—only where it will help customers see you as a price leader. Consider discounting certain categories to certain customers.
- Use a pricing matrix model by using your POS or enterprise resource planning (ERP) system to create more granular pricing categories among customers, customer types, and various item groupings.
- Raise margins on impulse purchases, even if they're fast-moving items—and boost margins further by displaying and promoting complementary items.
- Test item elasticity. Use technology that measures how demand reacts to price adjustments, then fearlessly experiment with higher markups.
- Take advantage of price modeling. The best POS/ERP systems let you propose price changes and analyze expected impact on sales and margin dollars before you commit to a change.

Margin adjustments

Optimize up your prices, then round up your revenues

Once you've used pricing perception strategy to get margins approximately where they should be, shape the resulting prices to meet consumer expectations. Round up the pennies to end with a nine. Customers are comfortable with this familiar pricing standard, and it yields extra pennies for you on each transaction.

Those pennies add up—even if you have just a three-cent average upward round, every $1 million in revenue rises by another $6,000.

Take rounding to the next level. Try these profitable strategies:

- Go beyond the nine-cent round. For higher-priced items, round more aggressively. For example, on priced between $4.00 and $4.99, use a rounding scheme that includes only target amounts of $4.29, $4.40, $4.79, and $4.99. For the next dollar range, target only $5.49, $5.79, and $5.99. Use only $6.49 and $6.99 for the next range, and for items above $8, round to the next $.99. Tailor these ranges even more finely and you'll boost margins even farther.
- Round dollars, too. For products that only you stock, or for items rarely purchased more than once, round up on the left side of the decimal. Customers purchasing toilet flappers, for example, aren't likely to differentiate much between $6.99 or $11.99. You're still giving your customer value—convenience—while collecting the higher margin that convenience commands.

Tip: Use your POS/ERP system to help with rounding. Good systems let you set up rounding schemes—on both sides of the decimal—so you don't have to do the work manually.

Promoting higher margins

Using discounts and promotions to grow revenues and loyalty

Price promotions are powerful tools for keeping your business and brand in front of customers—and, of course, for driving store traffic and sales. These time-bound, discount-oriented events must be executed carefully, or customer satisfaction, loyalty, and profits can suffer. Follow these proven practices to keep things streamlined and effective:

- Focus on the entire "market basket" of goods customers buy when promotions run, and merchandise non-discounted, complementary items alongside discounted goods. You'll get higher sales volumes and keep overall margins higher. Your POS/ERP system can help you analyze purchases to get this right.
- Use buy-one-get-one promotions to support your blended price-perception strategy, and simultaneously foster impulse buys and customer satisfaction.
- Use coupons to bring in new customers tempted by the offers, and to "train" current customers to scan for deals at your store. You'll grow your customer base and increase loyalty.
- Use simple discounts to steer customer behavior, but mix things up as needed. Volume discounts can help you move non-elastic, high-margin items, and you can use days-of-week, age-group, or other discount strategies to build loyalty, store traffic, and sales.
- Measure results regularly. Always track promotions to learn how both discounted and complementary, market-basket items performed, so you can fine-tune future offerings. Always compare your results with each promotion's goals—whether increased transactions, higher transaction size, related-items sales, or clearing out stock.
- Use your POS/ERP system to define, prepare for, and track promotions. The best systems let you set up "start-and-end" promotions in advance, print out signage and shelf labels, and prepare your POS system to charge correctly. Reporting and analytics help you understand the results.

One more margin-boosting tip: it's okay to run a promotion without dropping prices. You'll build brand awareness, and consumers will assume your advertised price is a good one.

Sustaining success

Margin maintenance—easier than you thought

With your pricing strategy and practices in place, you'll need a few ongoing processes to ensure success—and, in some states, to stay compliant with retail pricing laws. To protect margins, it's essential to adjust prices when costs change. Here are some tips:

- Keep system, shelf prices—and prices actually charged—in sync. Walk the aisles periodically with your mobile device or scanner, checking label prices randomly to make sure they match system prices.
- Respond properly to changes in cost. When costs increase, mark up all inventory immediately. When costs decrease, cut prices only after you've sold most or all of the items acquired at the earlier, higher cost.
- Automate price changes. Use your POS/ERP system to update costs, calculate new prices, and print new labels when a vendor notifies you of across-the-board cost adjustments. You'll save time and avoid errors.
- Minimize price exceptions. To protect your margins, set up your POS/ERP system to alert you when clerks make price exceptions at the POS.
- Actively manage prices across stores. It's fine to set the same prices across multiple locations for some items, but for others—for reasons we've discussed above—you'll want to vary prices by location. Use your POS/ERP system to determine which items fall into which category.

About Epicor

Epicor Software Corporation drives business growth. We provide flexible, industry-specific software designed to fit the precise needs of our manufacturing, distribution, retail, and service industry customers. More than 45 years of experience with our customers' unique business processes and operational requirements are built into every solution—in the cloud or on premises. With this deep understanding of your industry, Epicor solutions dramatically improve performance and profitability while easing complexity so you can focus on growth. For more information, connect with Epicor or visit www.epicor.com.

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