The Psychology of the Price Rise

(Or …we ARE going to have to do this!)

There can be no doubt that costs are rising if you are a UK building products company, especially one that imports components or materials, imports are more expensive it's as simple as that, the Pound is worth around 10% less than it was before the decision to leave the EU (May 2013 the £ was worth over €1.30) and despite recent ticks up it remains lower against both the Doller and the Euro than when many purchase prices were agreed. Even if you don't import or if that part of your cost base is not significant the rise in minimum wage is set to have a major effect on the cost base of many in our sector whether you like it or not and no matter what your principled view is it's the business that has to pay this. And energy prices? Well let's not even start!

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Many businesses have little room to accommodate that kind of hit to their margin by implementing cost savings or efficiencies although that of course is a major theme with clients. Quality in particular is a theme on the chat boards and twitter and that for example is a huge opportunity to reduce cost, good quality is by far the cheapest way of delivering goods and services however often it suffers as businesses look to cut costs, this approach usually leads to reduced throughput (unhappy customers) and increased (and often less visible) costs like labour.

Reducing costs then is a limited way of grabbing back margin and it's a finite 'pot' to call on, after all getting costs to zero is easy (shut the business!) but getting them to a minimum is an exercise in the classical Zeno's paradox (you can never get to the destination!). Increasing throughput will also claw back the effect of reduced margin but again many businesses are not able to do that or are limited in their ability either to sell increased capacity or indeed increase capacity in the first place. This pressure was of course the birthplace of lean manufacturing and the quest for continuous improvement goes on regardless of input costs.

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Be honest – tell your customers honestly that you are looking to recover costs and not increase your margin (unless of course you are!) explain that you have done all you can to mitigate the cost increases and that you will continue to do this. Don't be afraid to pick up the phone to your customers and have the hard conversation, similarly the sales team who have to deliver the news need to believe they are doing the right thing for the business and the customer (it won't help the customer if you go bust!). Don't try and link your increase directly to your input costs unless you want the debate every time the € moves against the £, show the customer the need but unless you are truly doing cost plus pricing direct linking is fraught with pitfalls.

Be Upfront – No-one likes bad news but forewarned is forearmed and you can make sure that your customers have time to adjust their own businesses to take account of their new costs. Offering to take some of the pain yourself by delaying passing on costs is usually a gesture that is appreciated. Customers hate 'surcharges' it makes life uncertain and most hate that. Doing some sort of fixed deal (especially if you can back to back this with suppliers) is much better.

Be Prepared To 'Spook The Cattle' - a price rise will get customers that would not usually do so looking around the market, make sure you are looking after them and that you are alert to changes in buying patterns whether you are selling retail or trade you'll see what is going on.

Use The Opportunity To Maximise Customer Value – knowing the true value of a customer, not their turnover but their true margin contribution after the cost of servicing them is vital, if you have 'tail' customers who are not adding value for you then use the opportunity to make sure their prices reflect the cost of doing business with them, if they leave you haven't lost much but it will free capacity to replace them with a new target customer

Be Strong But Be Fair – giving in to a customer that bullies your sales team may well put other customers at a competitive disadvantage, if a system company increases my prices but not another fabricator's for example then that can be very damaging, especially in the next negotiation when you need to do this again (and you will!), don't believe that word won't get out. On the other hand bargaining away an increase for an increase in volume from your customer may well benefit you both, promises need to be delivered though on both sides.

Make Sure The 'Bank of Goodwill' Is In credit - a price rise off the back of poor performance is obviously a bad move but adding some goodwill, some value that you can seek to give the customer along with the bad news is a positive move. Being able to launch a new initiative to help them sell or improved delivery times becoming easier to deal with or some other benefit goes a long way to making sure your 'bank of goodwill' does not become overdrawn.

Actually now is the best time you will ever see to deliver a price increase, there will not be a company in the country that isn't already experiencing them or expecting the conversation. As always a win\win is the aim, 'we stay in business and you have a supplier that helps you make money too'. Sometimes hard conversations can't be ducked but they can be made more productive.

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