BUSINESS CORNER

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DON'T BATTLE TODAY WITH YESTERDAY'S PRICING ARRANGEMENT

Pricing is key to a successful business.

In today's transport environment customers are shopping their work around to achieve lower prices.

So how do you price strategically in today's environment?

It is not all about increasing prices but more about working out how to pursue appropriate opportunities to keep in business. In transport companies there are a lot of fixed costs that need cashflow to maintain the business.

It is worth considering the following:

Postponement of non essential costs can be a key focus. In good times businesses can get 'soft around the belly' so it may be necessary to trim a little.

When thinking cashflow consider offering 'credit note discounts' for payment on time and if the agreed volume is achieved. Keep control by crediting the discount the following month if the arrangements have been fully met. Control is maintained as the customer must meet their obligations. Often pricing is subject to certain volumes but these are often forgotten by the customer leaving the transport operator to suffer due to volumes not being at the agreed level. These pricing tactics can achieve the appropriate demand behaviour from your customer.

Negotiation is now key to pricing decisions. Whilst prices have in recent years been stable this is now not the case. It is interesting to note many transport companies (often at the customer's request) include a fuel adjustment factor to their pricing, which is probably a surcharge by a different name. I am not sure if the Commerce Commission were aware of these fuel adjustment factors they would not take action as they previously did when they became aware of the surcharge pricing arrangements. With more than rising fuel costs making up the current business environment cost increases e.g. wages, it is important to ensure customer volumes are at the required levels for the pricing agreed. This does require information, which can be available from computer systems, to determine the revenue trucks are earning is measured against the costs of running the truck and the kilometres run.

Negotiations can use operational tactics based on the service offered. Usually customers seek an 'a la carte' service but often only have the money for a 'hamburger'. Negotiating the service by reconfiguration can lead to an appropriate price for both parties based on the service required and the money available. This takes time and effort to establish the operational efficiencies for the transport operator and an appropriate price for the customer. This focus on the appropriate service can meet resistance from people involved in the dispatch of the work. However by appropriate planning revenue can be achieved with no additional costs, resulting in an appropriate price for the work done.

Transport revenue leakage can occur if consignment notes are not processed. Vigilance is necessary to ensure all revenue flows through the systems and spot checks of drivers' work can identify if leakage is occurring. There is no use doing the work if you are not getting paid for it. At this point it does not matter what the price is if the customer is not billed.

In pricing decisions it is necessary to take care of your existing customers as they can easily be offended if they become aware of new customers being offered better pricing arrangements than they are receiving. This can have adverse effects on the existing client base so it is necessary to ensure pricing decisions are understood by all involved in the pricing process. Often sale's targets can effect pricing decisions which are made to achieve the target rather than a profitable return to the business. In this case it may be better to reduce the sales target as achieving a dollar of sales at a cost of more than a dollar is not an effective pricing strategy. In this case the more sales that are made the less profit the business makes. Sales people need to be rewarded on the customer profitability as well as the total revenue as it can cause inappropriate pricing decisions to reward on the sales value alone.

Education on pricing strategies is worth investing in as it helps understand the customer and the tactics that can be used to achieve an appropriate price. Poor pricing decisions can have major impact on the business.

Understanding what components make up your costing model are key to achieving a fair return (profit) for the work done. Use benchmarking and information as a means of validating what your costs are compared to others in the same sector or industry. This benchmarking information is often challenged as different operators in the same sector often have different costs due to the operating environment. There will always be reasons why there are differences but at least they are known in the pricing model can be used for comparison purposes. These reasons need to be valid and tested to ensure it is not due to unnecessarily high input costs that the selling price must be higher.

Without an effective pricing strategy and knowing the costs and method of servicing the customers yesterday pricing arrangement may not win you the battle today.

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