

How to Raise Your Prices Without Killing Your Business, Part 1

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This is the first of a two-part series on how to raise your prices effectively. Here's the premise: The quickest and most effective way to grow your business is to raise your prices.



Don't Grow by Doing More

Most people think that growing their business means doing more inspections, which may involve working longer hours, working more days, hiring and training other inspectors or some combination of these. Others look to add more services. Although these strategies are traditional and effective, there is another way to grow that doesn't require nearly as much time, effort or money.

Raise Your Prices

You can grow your business without having to do more work, find more people or add more services—simply raise your prices.

Keep Up With Inflation

You might increase your prices to increase your profit. Or, at the very least, you should increase your prices to keep up with inflation. If your prices are static, you will make less and less over time as your costs increase. Inflation in the United States has totaled approximately 8.8% since 2010. Have your fees kept up? For example, if your fees were \$350 in 2010, they should be \$383 now (Sources: World Bank, Multpl.com, Inflationdata.com).

What Happens When you Change Your Prices?

The assumption and the fear is this: "If I raise my prices, I will lose business." That's logical, but it may be a bad assumption. It assumes that prices are elastic, which means that increasing prices will reduce demand and dropping prices will increase demand. We can tell you that, from our 37 years of experience in home inspection, increasing prices does not reduce demand for a home inspection company. In fact, people rarely notice when we change our prices.

Here's the Secret

We keep our prices at odd numbers that are not memorable. We change them in small amounts twice a year on no specific dates. We don't announce our price changes. If asked about a price increase, we say that we are trying to keep up with inflation so that we can continue to provide the outstanding service that people expect of us.

Many other sectors regularly increase prices without announcing the change. Examples include medical care fees and auto repair service fees.

Timing matters. It's better to raise your prices when you are busy rather than during a slow time of year. To avoid any perception of price fixing, pricing decisions should be made independently of, not in cooperation with, other service providers.

Another example: If you had raised your 2010 fees of \$350 by 1% twice a year for 5 years, you would have kept up with inflation and your fees would now be roughly \$383.

If your fees are higher than average, people often will perceive that you will provide a higher quality service. Make sure you deliver at that level!

There are several studies that show that, for many things, the impact of price change on demand is negligible. Prices are inelastic for things like gasoline and tobacco—things that people perceive they need. Prices for luxury items such as diamonds are also relatively inelastic. It turns out that prices for occasionally used consulting services are inelastic as well.

What if Volume Goes Down?

Let's say that we are wrong—you raise your prices and your business does slow down. That's great! You now have more time to do marketing, sales and promotion. In short order, your business volume will be back up to where it was before, only now you are making more money on every inspection. You can then repeat the process. This is called a **ratcheting technique** to grow your business.

The premise is simple: Increase your prices and business volume decreases. Market yourself well and business volume increases. Increase your prices again and so on.

For the pessimists: How much business can you lose before you are worse off than before you raised your prices? Let's look at a dramatic example:

Very Hard to Lose

We'll assume that you do 200 inspections per year. You charge an average of \$350. Your sales are $200 \times \$350 = \$70,000$.

Here's a simplified income statement:

Sales: \$70,000

Expenses: \$50,000 (for example, your salary, vehicle, sales and marketing, insurance, phones, rent)

Profit: \$20,000

Let's raise your price by 10%. (Crazy, I know.) And let's assume that you lose 10% of your business volume. Your new fee is \$385 ($\350×1.1 [that is, 110% of your previous fee]) and your new business volume is 180 inspections (200×0.9 [that is, 90% of your previous business volume]). Your sales are now \$69,700 ($180 \times \385).

So, your sales are down by \$700 ($\$70,000 - \$69,300$), but you are only working 90% as much for 99% of the sales revenue. Your expenses also went down! This is because you are only doing 90% of the inspections, writing 90% as many reports and driving 90% as much. If you save even \$1,000 in expenses, your profit actually goes up!

A calculation done by the accounting firm Vine and Partners suggests that if your margin is 60% (meaning 40% of your income goes to expenses, which is typical for a sole proprietor), then you could raise your prices by 20%, decrease your sales volume by 25% and still break even. If your margin is 40% (60% of your sales goes to expenses, which is typical for firms with multiple inspectors), you could raise your prices by 20%, decrease sales by 33% and still break even!

Again, these are dramatic examples and we don't expect you to raise your prices by 10%, even though you probably should. The same principles apply to smaller price increases. We hope this convinces you to raise your prices in small increments on a regular basis.



Bonus Scenario

Just for fun, let's say we are right and raising your prices won't reduce sales. If we raise prices by that crazy 10%, sales go from \$70,000 to \$77,000, and you get to keep the entire 10% or \$7,000. So, if your profit was \$20,000, it's now \$27,000—a 35% increase in profit! Let that sink in for a bit. The numbers work, even if you increase your prices by 1%, 2%, 5%, 15% or whatever.

In this article, we explained the rationale for raising your prices to grow your business. We discussed pricing versus volume and price elasticity. In Part 2 of this article, we will discuss prestige pricing, as well as agent reactions, and we will touch on experimenting.

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How to Raise Your Prices Without Killing Your Business, Part 2

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In Part 1 of this article, we introduced the reasoning behind raising your prices to grow your business. We discussed this in terms of pricing versus volume and a concept called price elasticity. In Part 2, we turn our attention to what it means to have prestige pricing, as well as the reaction to price increases from real estate professionals.

Prestige Pricing

Prestige pricing refers to a strategy that convinces a client that a product or service is as high quality as the price tag suggests. This strategy is also called price signaling. The price signals the quality. Even if the quality of a product is low, the high price encourages people to buy it anyway. Cosmetics present the classic example for price signaling. Inexpensive cosmetics don't sell well. If you make cosmetics, don't worry about on whom or what it was tested, just make it expensive and it will sell!

Every marketing textbook has the story about the store owner who can't unload the overstock of widgets. The widgets are priced to sell, but no one will buy them. Due to a miscommunication between management and staff, an employee raises the price of the widgets by 50 percent. Suddenly, the widgets start selling like hotcakes.

In the home inspection industry, the combination of prestige pricing and the inspection's highly intangible nature means that the demand is not only inelastic, but sometimes, there is an inverse relationship between price and business volume. Depending on where you sit in the market, you may find that raising your prices increases your business volume.

Agent Reaction to Price Increases

Prospective customers don't generally have a problem with inspectors raising their prices periodically. Our experience, however, shows that some real estate agents react with temporary sticker shock each time that inspectors raise their prices. Although your prospective clients won't perceive anything out of the ordinary in your pricing (because they may have not had a home inspection recently or at all), the agents know how much you charged previously.

The agents like to look good to their client. If the agent refers a home inspection company and the client finds out that a different company charges \$50 less, the client might wonder why the agent did not tell them about that option. The agent wants to be the one who gets a good deal for their clients on all fronts related to the house transaction.

Keep Your Agent in the Loop

The agent looks uninformed and sloppy if he or she tells the client that you charge \$375 and you subsequently tell the client that the price is actually \$450. The agent's frustration with you is understandable. They are trying to look well-connected and on top of the transaction. If you don't keep the agents up to date, you have hurt their ego and possibly their pocketbook if they lose the client's confidence. It's an issue of trust.

Keep Agents' Perspective in Mind

Educate the agent about your pricing. Remember, agents don't have to think in terms of increasing their fee because they generally get paid a percentage of the selling price. This pricing strategy guarantees that they always stay in step with inflation. In addition, although their commission is negotiable, the range is more or less within an industry standard. In short, agents do not function in the same world or in the same

way as professional service providers who compete with other professional service providers. They don't rely on pricing strategies as a marketing tool that gets them a bigger piece of the pie. Some real estate organizations do use reduced rates as their marketing strategy, but these companies are the exception rather than the rule.

Whatever the cause of the backlash over prices from the agents, experience shows that it's temporary. If the agents are loyal and are in the habit of referring business to you, they will continue to do so in spite of your increased fees, as long as you keep them in the loop.

Experiment with Pricing

Why not experiment with increasing your prices? You have little to lose and a whole lot to gain. You can always go back to your original pricing, but you'll never know what it's like to earn more and work less unless you raise your prices. Don't forget to keep everyone in the loop, except, of course, your prospective clients. They didn't know what you charged before, so why inform them of a price increase?

In the end, your goal should be to separate yourself as a service that is a commodity. Not all home inspectors are the same. Better lawyers charge more. Better accountants charge more. Why not home inspectors? A higher fee means that you do have to be better than the others. By charging more money, you may have some extra time to increase your skill sets, as well as put together marketing efforts to target customers who are focused on receiving a quality service instead of simply a lower price.

Good luck on your efforts! 