

Section 2

Pricing It Right

In section two your goal is to ensure that your services are priced right for your business mission, market and profitability. The key elements of your pricing system should include:



1. Clearly Defined Position – pricing should align with your company mission, your niche market, and ensure profitability goals are met
2. Pricing Analysis – analyze your service pricing using the three pricing models outlined
3. Annual Price Adjustment Plan – establish the system you will use annually to review and adjust service pricing

Clearly Defined Position

At the time you started your pet care business you made a decision on your target market and pricing strategy. This decision should be a reflection of your business mission. Now is a good time to step back and review your written business mission (put this in writing now, if you have not done so previously).

Pricing Analysis

For services that generate the majority of your revenue you should analyze pricing using all three models described in this step. Each approaches pricing from a different perspective and are important inputs to your final pricing decisions.

Keep in mind that most small businesses undercharge for the services provided. The goal of a sound pricing strategy is to provide your business with an acceptable profit level *and* have your clients value that they get their money's worth. In reality, this is a very difficult goal to balance.

The three pricing models that provide input to your final decision are:

1. Actual cost plus profit margin
2. Value pricing (benefit versus price)
3. Competitor pricing

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ACTION STEP 1

ANSWER ALL THE FOLLOWING
QUESTIONS:

1. Do current business operations align with your mission statement?
 - a. If no, do you need to change your mission statement, or
 - b. Do you need to make changes in your operations to align with your mission?
2. Does your current client base reflect the niche market you defined?
 - a. If no, update your target market profile
3. Are you satisfied with your market pricing position? (e.g., top prices in market, lowest prices, mid-range). Keep in mind that most competition is in the mid-range sector of pricing.
 - a. If no, you will need to create a plan to make changes in your pricing policies and marketing strategies
4. Does your defined position fit your facility design, look and feel?
 - a. If no, you will need to make the changes to be accepted in the marketplace in your new price position

Knowing your actual costs of providing each type of service offered is critical to remaining in business. Many times only the direct cost of providing the service (e.g., labor and supplies) is included in this calculation. However, your business has other fixed expenses that must be paid. To remain in business and thrive your revenue must pay for these costs too (e.g., rent or mortgage payment, utilities, receptionist/cleaning staff, insurance, etc.).

ADDITIONAL RESOURCE:



You can get assistance in determining the cost of providing your key services with our Know Your Numbers Workbook.

What level of profit margin do you expect from each service provided? This is a key number to define so you have a benchmark to use in making decisions on each revenue stream in your business. This is also a key number to the final amount you are paid as the business owner.

The problem with **cost plus pricing** is that it does not consider what a client is willing to pay or what competitors charge. These are our next two models or inputs to the final pricing decision.

Value pricing considers what a service is worth to our clients. This is an area where many small business owners underestimate. Obviously, your clients are willing to pay your current prices.

Now I want you to think about how many times you have been told your rates are too high by potential customers. If never, then you should feel good about making an increase as you are probably priced too low.

Another aspect of **value pricing** is to consider what unique “value-added” is in your services versus the competition; what sets your business apart (e.g., a unique service, your background and training, staffed 24/7, investment in staff training program, etc.).

Competitor pricing analysis is how most businesses established pricing initially. The problem with this model is it is an outward view.

A sample of calculating these costs is included in Chapter 9 of Counting Noses and Know Your Numbers includes an excel template to plug in your numbers.

It does not consider the cost structure of your business model that could vary significantly from your competitor. When was the last time you checked pricing of your competitor? They could easily have changed rates since your initial analysis.



ACTION STEP 2

ANSWER ALL THE FOLLOWING

QUESTIONS:

- Perform pricing analysis using all three models for your primary service revenue streams (e.g., dog daycare, dog lodging). Extra points if you take time to complete for each revenue area!

Steps for each model are outlined below:

1. Cost Plus Profit Margin

- a. Determine your costs to provide the service (Use most recent actual data; prior fiscal year)
 - i. Total labor (wages plus taxes and benefits); if your labor is not broken down by service then estimate using percentage of time staff spent working in each revenue area. Split their total wage into portions allocated to each service (e.g, 40% boarding and 60% daycare). Don't worry if you don't have actual numbers now, it is better to use an estimate and complete the exercise than to not do it. (Note: You must decide whether to include your owner base wage in the calculation. It can be done as part of labor cost or in item d, profit required).
 - ii. Total supply costs required to provide service. Include supplies you purchase specifically for that service (e.g., toys, bedding, food, treats, etc).
 - iii. Allocate a portion of remaining costs to each service area (This is total of all the other expenses from your Profit & Loss statement not included in a or b above; don't include labor or supply costs for other revenue streams). One allocation method is to calculate how much square footage is required in your building to provide each service (e.g., 45% daycare, 35% boarding, 20% grooming). Use this space percentage to allocate the shared general costs required to operate your business. Don't spend a lot of time here, just list your revenue streams and assign an allocation percentage that makes sense to you.
- b. Determine how many units of the service you provided in prior fiscal year. This should be total number of daycare days or dog nights, etc. For this calculation it is important to include each dog in your center regardless of what they paid for the service. You incurred costs to take care of them. Your point of sale system should provide this information
- c. Your cost to provide the service is amount in item a divided by b.
- d. Determine the amount of profit you desire in addition to cost. This could range from 10-50% depending on the type of service you are analyzing. Play with percentages using the total profit percentage from the prior fiscal year as a starting point. To determine the profit per dog for this calculation you will divide your profit earned for the year by the total number of pets served.
- e. Your final cost plus profit is total of item c plus item d.

2. Value Pricing

- a. Start with your current rate paid by majority of your clients
- b. Increase by 20% if you have never had anyone tell you rates are too high
- c. Increase by 10% if you had less than 10 people in prior year question your rates
- d. Increase by 5% if each month you have someone questioning your rates

3. Competitor Pricing

- a. Review your competitor listing and update for new facilities
- b. Find out their current pricing for the services you are analyzing.
- c. It can be helpful to create a service feature chart to ensure you are comparing like services. Some models are all-inclusive and others price ala carte, so keep this in mind as you collect data.

4. Analyze

- a. Your current rate, compared to:
- b. Cost from item 1, compared to:
- c. Value from item 2, compared to:
- d. Competitor from item 3.
- e. Decide on best rate for your business

At a minimum your rates must cover your costs or you won't stay in business long-term. The goal is to cover costs plus provide your targeted profit percentage.

Next we will look at break-even and loss leading pricing strategies. If your analysis indicates a large price increase is warranted read the section on Annual Planning below prior to finalizing your pricing adjustment decision.

Break-even & Loss Leader Pricing Strategies

Both of these strategies have value in business, the key is to have a valid reason for offering a service at break-even or a loss. In most instances these strategies are used to gain market share and would be from a secondary revenue source in your business. Examples in the pet industry could be cat lodging or nail trims.

Chapter 9 of Counting Noses includes a sample lifetime client financial value calculation.

You may want to keep your clients from using another facility for these services so you offer them at break-even or a small loss. There is a "lifetime" value of a customer to you that can justify these strategies.

Another time to use this strategy is when you introduce a new service offering; you want current clients to try it at a reduced rate, love it and then be willing to pay full price later. Most importantly you must know when any service that you provide is operating at break-even or loss-leading pricing. They should be a strategy tool for your business and not one of your primary revenue streams.

Total impact of discounts you offer is a calculation in the Know Your Numbers workbook template

Discounts

Providing discounts in the pet industry is common and typical for multiple pets. Make sure that the discounts offered make sense for your business. Multiple pet discounts for lodging when sharing an



ACTION STEP 3

PERFORM COST ANALYSIS ON ALL SERVICE REVENUE STREAMS.

1. Perform actual cost calculations for each service revenue stream.
2. For each service at break-even or loss leader pricing
 - a. Confirm it is a secondary revenue source (e.g., less than 20% of total annual revenues)
 - b. If yes, document your marketing strategy that supports keeping current pricing
 - c. If no, then re-evaluate if your business can support this strategy long-term and seriously consider a rate increase (recommend you complete the value and competitor pricing analysis for these services as a comparison)



ACTION STEP 4

LIST THE DISCOUNTS OFFERED BY YOUR CENTER ON A REGULAR BASIS & ANSWER THE FOLLOWING QUESTIONS.

- 1. How much in total discounts did you offer in prior fiscal year?
- 2. What percentage of your total revenue are discounted services? (e.g., how many multiple pets do you service daily/weekly/monthly)
- 3. Do your discounted prices still cover your cost to provide service to that pet?

enclosure makes more sense than dog daycare. In daycare, the second dog is taking up a spot that you could charge full price.

Also make sure that the discount is not so deep as to totally eliminate your profit. Later in this workbook we will look more closely at discounts, but since they are an important part of pricing you should include an initial review now.

Annual Plan

A goal of this workbook is to formalize your financial system with key action steps you'll take each year. One of the best pieces of advice I received in this industry was to raise my rates every year. Clients would expect it and by making this a routine it removed angst that is often felt by owners that need to raise rates. A small regular increase is often easily accepted by clients rather than a larger increase every 2-3 years.

All rates do not need to increase every year, but you should plan for some rates to increase annually. Keep in mind your employees expect annual increases and many of your business expenses increase each year. If you don't raise rates, then you will be paying for these from your profits, effectively taking a pay-cut each year.

Include the following as part of your planning:

1. List all services on a spreadsheet, current price and date you set that rate. This worksheet provides a historical record in one place of last rate increase and amount of increase for each service you provide. This is a great tool to pull out each year as you go through your pricing action step.
2. Analyze your pricing as outlined in action step 2 to decide if a primary service rate needs adjustment.
 - a. If adjusting a primary service rate you may decide to keep rates the same on secondary services.
 - b. If no adjustment is required on your primary service rates you should adjust several of your secondary rates.
3. Plan the timing of your rate adjustment considering the following:
 - a. When it may be best received by your clients (January increases might be noticed more as they pay off their holiday shopping bills).
 - b. Prior to a peak period could maximize the benefit to your revenue.
 - c. Right after a peak period will boost revenues helping your bottom line in a slower period.



ACTION STEP 5

- Create your annual plan for adjusting rates.

4. Announce the rate adjustment to clients and give them an opportunity to prepay at old rates. This was always well-received by clients and can give you a cash flow boost.

Reflect

A pattern I notice with many pet business owners is not properly valuing the services we provide. We love pets, are excited to make this our career and yet we do not charge for the level of care we provide. We are also very quick to discount our services as we want to help or may feel guilty for charging full price. Once you understand your costs by service type you should gain confidence in standing by your published rate sheet. Discount where it is a win/win for your client and your business.



ACTION STEP 6

- Make a list of the value you provide clients that bring their pets to you. How do they benefit and how does their pet benefit? Review this list before you make the final decision on raising your rates.

We must be confident and clear in the level of care we provide first to ourselves and next to our clients. As you feel within you portray externally. When we doubt our value we keep rates low and offer deep discounts. You work hard at your business and strive to provide excellent pet care so you deserve to be paid for it. Once you can explain your services and resulting rates with confidence you will attract clients that expect and are willing to pay for it.

Section 2: Pricing It Right

Be sure to set a target date for the completion of all action items and add to the implementation checklist.

Due Date	Action Steps	Description	Notes
	1	Clearly define your business mission and pricing strategy	
	2	Perform pricing analysis for your primary service revenue streams using all 3 models	
	3	Perform cost model analysis on secondary service revenue streams	
	4	List discounts offered and analyze impact to your profit	
	5	Create your annual plan for analyzing and adjusting pricing	
	6	Reflect on the value you provide clients through your business	

Additional Notes: