Rise Advisors – Pricing for Profits

Tactics & Strategy

Disclaimer

The information in this guide is general in nature; it discusses pricing tactics and strategy matters in a broad sense. Consult your Rise CPA office in order to receive specific advice appropriate to your specific situation.

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Rise Advisors
Pricing for Profits – Tactics & Strategy

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Welcome to the Rise Advisors Guide on Pricing for Profits – Tactics & Strategy

Our mission at Rise Advisors is to help you raise your business to new heights and guide you on your journey to Absolute Financial Performance. Absolute Financial Performance is defined by the profit your company generates from year to year, the cash your company generates and the value of your company.

Price management is fundamental to achieving absolute financial performance because pricing is the most sensitive profit lever that managers can influence. Pricing has the most direct impact on a company's profitability. An increase in prices, all other things being constant, has an immediate positive effect on the bottom line. A decrease in prices has an immediate negative bottom line effect.

We have also included our guide to Value Pricing and Premium Pricing based on our observations of pricing tactics deployed in the Vancouver region and in other BC regions.

Profit Sensitivity – The 1% Price Effect

Getting prices right is the fastest and most sustainable way to increase profits. Getting prices wrong has the exact opposite effect.

The following chart illustrates the effect of a 1% price increase on Operating Profit in different profit environments. The chart also illustrates the effect of a 1% improvement of other profit levers.

Effect of a 1% Improvement of Profit Levers

Profit Levers	Operating Profit % Improvement in a 5% Operating Profit Company	Operating Profit % Improvement in a 10% Operating Profit Company	Operating Profit % Improvement in a 15% Operating Profit Company	Operating Profit % Improvement in a 20% Operating Profit Company
Price	22%	10%	7%	5%
Variable Costs	15%	7%	4%	3%
Volume	10%	5%	3%	2.6%
Fixed Costs	6%	3%	2%	1%

After pricing, an improvement in Variable Costs has the most dramatic effect on operating profits. However, reducing variable costs can be very challenging, in particular, the reduction of labour costs.

Many people are surprised by the disparity between a 1% price improvement and a 1% volume improvement. In every profit environment, improving the price lever by 1% increases profits more dramatically than a 1% volume improvement. Ironically though the sales and marketing efforts at most companies are focused on increasing volume, at times even lowering prices to get more volume.

We see the profit lift that a company gets when they manage to increase their prices and maintain or grow their volume. We also see why it is so important to prevent price leakage, particularly in low operating profit environments. Designing High Leverage pricing policies starts with an understanding of the power of price changes.

Transaction Pricing – Pocket Price Waterfalls

Managing transaction pricing is the most effective way to leverage the power of the 1% effect. By the same token, neglecting to manage transaction pricing results in profit leaks that often outweigh the benefits of excellent marketing strategy and value pricing initiatives.

The task is to manage the exact price for each purchase or transaction with the goal of achieving the highest price for each transaction.

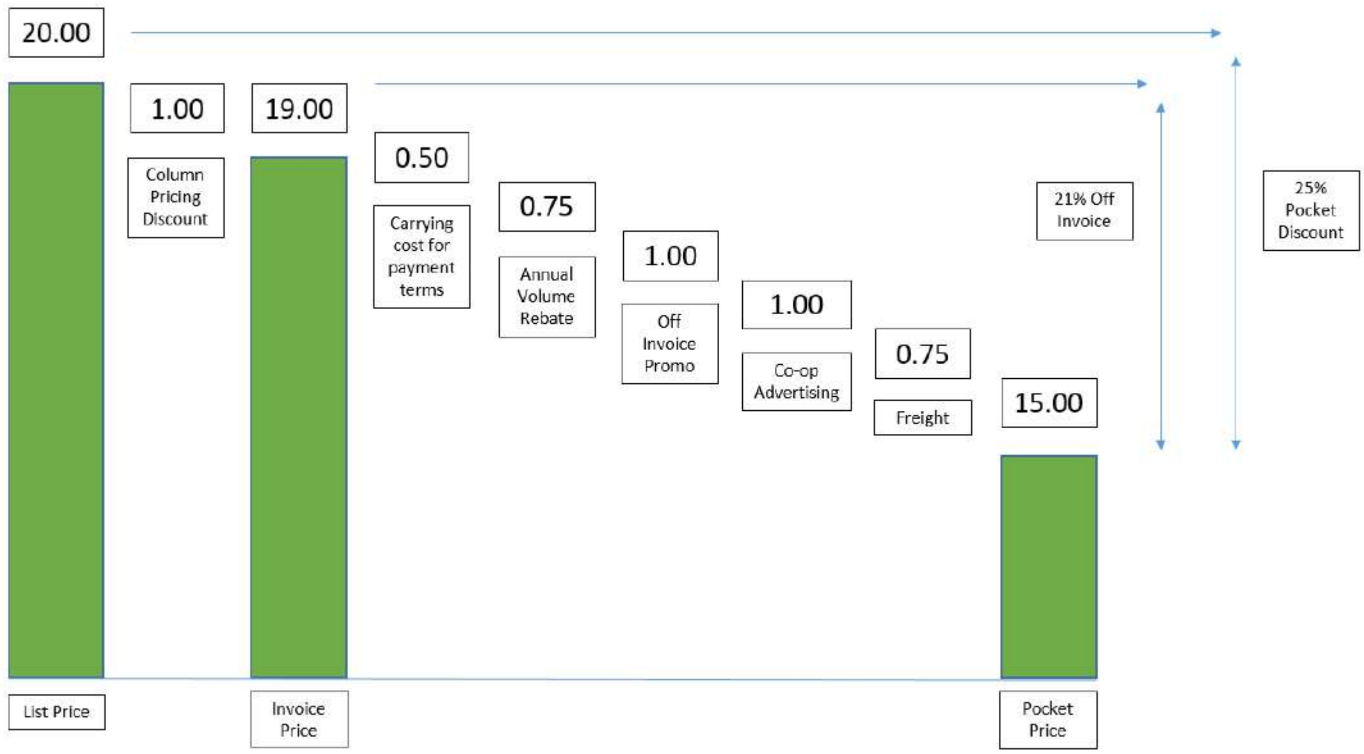
The transaction price that a customer pays starts with a List Price that is reduced by concessions such as:

- Competitive discounts
- Volume rebates
- Freight allowances
- Co-op advertising discounts
- Cash payment discounts
- End user rebates
- Seasonal promotion discounts
- On-line order discounts
- Accounts receivable carrying costs
- Shelf space
- Product positioning allowances and stocking allowances

When all the concessions are deducted from the list price we are left with the “Pocket Price”. The actual amount that transfers from the customer’s pocket to the seller’s pocket.

A tool used to measure the transition from the List Price to the pocket price is the Pocket Price Waterfall. Here is an example of Pocket Price Waterfall for a paint manufacturer selling to a retailer.

Pocket Price Waterfall for a Paint Manufacturer



Pocket Price is the actual amount of cash that comes out of a customer's pocket and goes into the company's pocket to cover the costs of the transaction and the profit on the transaction. Pocket-Price, not List Price is the accurate measure of the revenue that is generated in a transaction.

Looking at our Pocket Price Waterfall for our Paint Manufacturer, we see that taken individually, none of the off-invoice discounts significantly affect the transaction, but each cascade of the waterfall represents a revenue leak. In total, our paint dealer receives a 25% reduction or 25% pocket discount from the dealer list price. The focus for most companies is on the List or Invoice price with little attention being paid to the cascades in the Pocket Price Waterfall. There are two reasons for this:

1. There is a lack of appreciation of the 1% effect and the total of the Pocket Discounts from one customer to the next.
2. Managers don't see the Pocket Discounts because their company's accounting system groups the off-invoice discounts. Payment terms can be grouped with interest expense. Co-op advertising is grouped with the all company advertising costs. Freight allowances are grouped with all other business freight costs. When pocket discount items are accounted for on a company-wide basis, managers don't see and measure them on a customer by customer basis. As the saying goes "You can't manage what you don't measure".

Calculating Pocket Price Waterfalls and using them to manage transactions allows managers to go beyond just setting list prices and standard discounts. The Pocket Price Waterfall is where managers can look for those percentage by percentage price improvements that have such a dramatic effect on company profits. Companies that neglect to manage all the revenue leaks in their pocket price waterfalls miss all kinds of opportunities to improve their price performance.

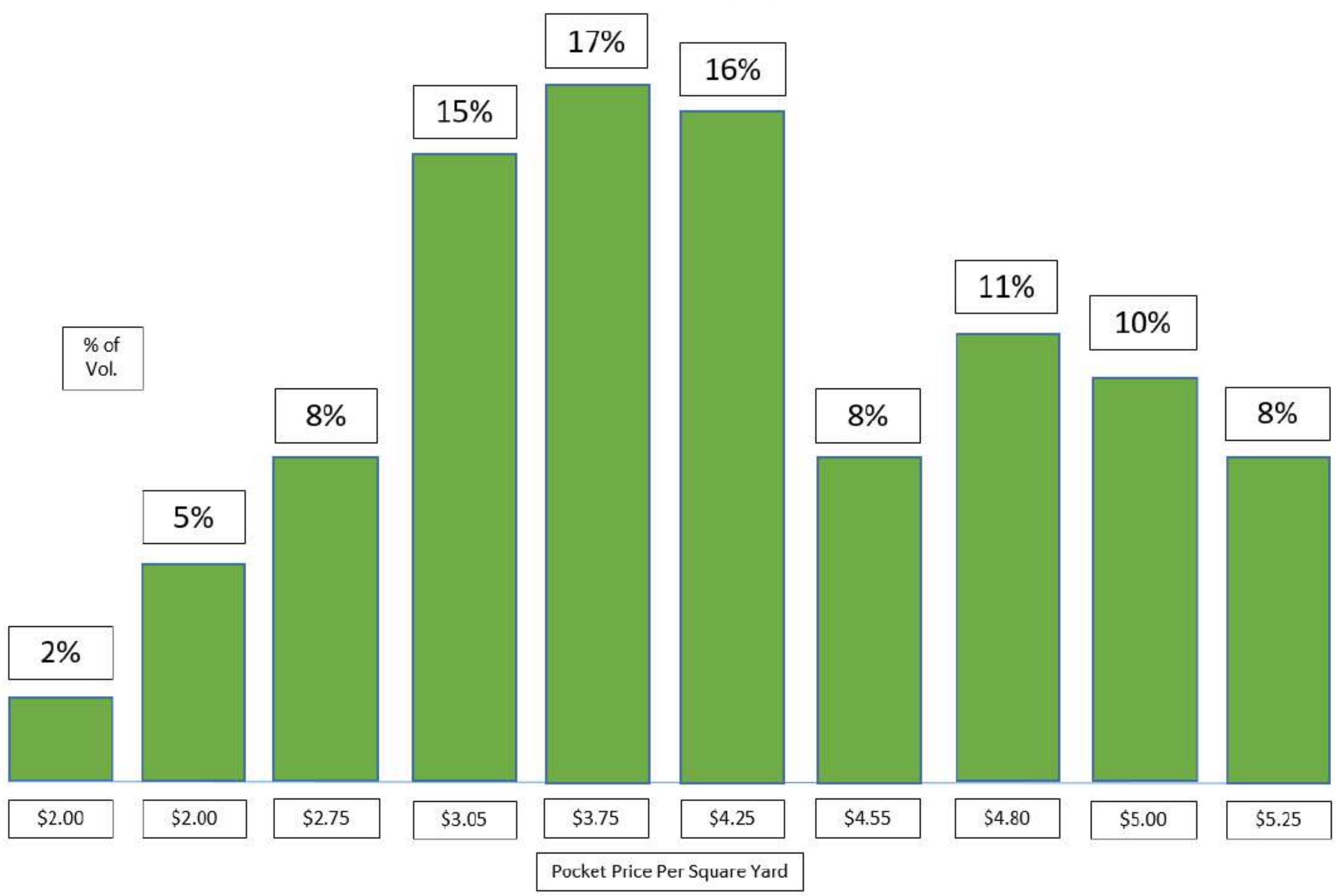
Transaction Pricing – Pocket Price Bands

Pocket Price Waterfalls often vary from customer to customer. The discount categories can vary and the size of the cascade from one discount to the next can vary. The starting List or Invoice prices can vary across different customer types and segments. Discounts can scale up or down with order quantity size and rebate levels can scale up or down based on annual sales volumes. Cash discounts and accounts receivable carrying costs are affected by the way customers pay their invoices and when they pay their invoices.

Managers are often surprised that the products or services that their company's sell have such a wide range of pocket prices spread over their customer base. The spread of the sales volume for a product over the range of pocket prices that a company realizes for that product is called the Pocket Price Band.

The following example of a Pocket Price Band for a Drapery Manufacturer shows Pocket Prices per square yard on the horizontal axis and the percentage of sales at each Pocket Price is represented by the height of the bars.

Pocket Price Band for a Drapery Manufacturer



This graph shows that 8% of the drapery sales generate a Pocket Price of $5.25 and 2% of the sales generate a pocket price of $2.00. The largest segment of sales (17%) generated pocket prices of $3.75.

Wide Pocket Price Bands are a fact of business life. Our drapery example is a wide Pocket Price Band but much wider bands are commonplace.

When managers first see their Pocket-Price Bands they are usually surprised by how wide the band is and who the customers are that are on the opposite ends of the band. Pocket Price Bands are very compelling because they show the combined effect of all the on and off invoice discounts and they show true prices that customers are paying.

Customers thought to be very profitable (due to a high invoice price) can end up at the low end of the band, because of high off invoice discounting that is not always transparent to managers. Other customers thought to be unprofitable end up at the high end of the pocket price band because their discounts and off invoice revenue leaks are relatively light.

The shape of a Pocket Price Band gives an attentive manager an image of the business. This band reveals the group of customers that are consistently paying higher prices, the percentage of sales that are being made at deep discounts, and how effectively the authority to grant discounts is being applied in the field.

Wide Pocket Price Bands are invariably a strong indication of price management opportunity. The goal is not necessarily to narrow the band but to make the small changes in the shape of the band that will move the average prices up by multiple percentage points. Wide Pocket Price bands indicate the differences from one market to the next. These differences can be leveraged with customers such as how they value products, how they order, how sophisticated they are, how costly they are to serve, segments or territories were there are more or fewer competitors, and situations where a competitor's strength varies.

The shape of the Pocket Price Band also reflects the variability in the selling company. This indicates markets where the product is strong and markets where the product is weak as well as segments where the products or services are a better fit with customer needs. The variation in the price management and negotiation skills amongst the sales force is also a factor.

When Pocket Price Bands are wide, the first objective is to study them and gain a detailed understanding of why they are as wide as they are. This understanding reveals the pricing and profit opportunities inherent in Pocket Price Bands.

Two of the largest contributors to band width are variance and slippage. Variance occurs when two customers who should be paying the same price pay different prices because the prices were negotiated differently. Variance issues need to be dealt with quickly by bringing full transparency to low price transactions and instituting processes to catch bad deals before they make it to customers. As a result, businesses should incentivize sales staff to achieve higher pocket prices not just more sales volume.

Slippage is when a customer agrees to a price discount, condition or payment term, but does not comply with the term. Customers who take a 2% discount if the pay within 30 days, but pay outside 30 days or customers who are granted a volume discount, but do not reach the volume threshold. Slippage issues are best dealt with through better transparency and enforcement of the pricing terms and rules that were agreed to.

Three measures that leverage the insights gained from Pocket Price Band analysis are:

- Price variance reduction programs
- Stimulation of increased sales with high Pocket Price customers
- Establishing pocket price as the universal measure of price performance in the systems used to manage transaction price performance

Managing transaction prices with pocket prices and pocket price bands management is the foundation of overall price management.

Pricing & Key Value Items

Customers choose to patronize a business or purchase a product based on their ranking of Key Value Items (KVI). Key Value Items for Sport Utility Vehicles include:

- Exterior and interior design
- Power and handling
- Comfort
- Interior materials and amenities
- Tech interface
- Storage
- Fuel economy
- Price

Knowing what the KVIs are for a product and knowing how customers rank these KVIs is fundamental to maintaining and growing market share and setting profitable prices. Price is the universal KVI. Every product has a price, but price is never the only KVI, and in many cases, price is not the highest ranked KVI in a buying decision.

Because price is not always the highest ranked KVI, it is not automatically the driver of market share and sales volume. This is illustrated by these Canadian SUV sales and price rankings.

Sales Rank High to Low	Brand	Price Rank High to Low
1	Toyota Rav-4	3
2	Honda CR-V	1
3	Ford Escape	5
4	Nissan Rogue	4
5	Hyundai Tucson	6
6	Mazda Cx-5	2

The Honda CR-V is the highest priced SUV and it ranks second in sales. Meanwhile, the Hyundai Tucson is the lowest priced SUV, but it ranks 5th in sales. The non-price KVIs in the Toyota Rav-4 and Honda CR-V outweigh the price advantage of the Hyundai Tucson and Ford Escape.

Companies design and engineer features and benefits into their products. Their bet is that the features and benefits will become powerful KVIs in the minds of their customers. Not all the KVIs being contemplated in the design stage will hit the mark. Therefore, it is important to survey customers about the items that attract them to your product or the competitions' product. This is time well spent because sorting out and ranking product KVIs informs the pricing decisions for that product.

When your KVIs are valued much higher than your competition's you want to capture the value of your KVIs with higher prices. But when KVIs are valued lower than those of your competitors, you can consider lowering the price to attract customers. Keep in mind, that lowering your price is not the best reaction for two reasons:

1. A lower price erodes profit and can start a price war and a lower price does not necessarily vault a product ahead of the higher priced choices.
2. A better reaction is to improve your product by enhancing or adding the KVIs that customers value.

When your competitors decide to lower their prices to combat your product's superior KVIs, your best response to combat the move is to improve or add to your product's KVIs and keep your prices up.

Pricing, Key Value Items & Value Mapping

Pricing and KVIs need to be managed in tandem to gain tactical advantage and execute a profitable strategy. Your company's pricing and KVIs also need to be managed in relation to your competitor's pricing and KVIs.

When you make a change to your pricing or your KVIs you need to anticipate how your competition will respond. When your competition makes a change to their pricing or their KVIs you need to decide on how you are going to react to their move and you also need to think about how the other players in the market will react to their move.

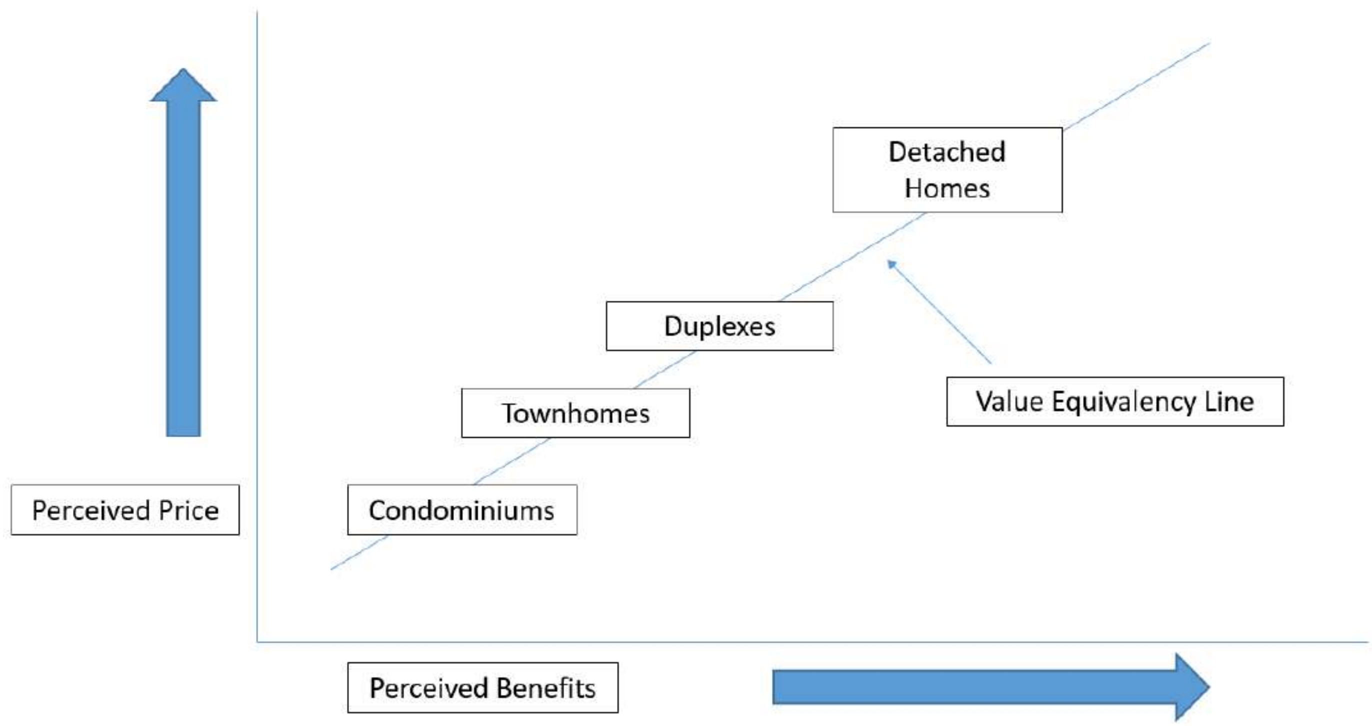
There is a very simple and powerful tool that has been used for decades to explore the dynamic effects of proactive and reactive pricing and KVI changes. This tool is a Value Map. On a Value Map product perceived prices are plotted on a vertical axis and product perceived benefits are plotted on a horizontal axis. Perceived benefits are driven by a products KVIs.

The assumption that underlies Value Mapping is that customers buy products based on their perception of value, not solely on price. Value is defined as the difference between the perceived benefits that a company or product provides, and the price charged for the product. By this definition the more you pay the more benefit you receive. A classic case of "you get what you pay for".

Value Maps can be used in any competitive environment, for example the housing market.

A condominium in a neighbour hood sells for less than a townhome which sells for less than a duplex which sells for less than a detached house. Detached homes have a higher perceived benefit based on their high quality KVIs, the primary one being separation from neighbours and usually more interior and exterior living space. Accordingly, detached homes fall at the top right corner of the Housing Market Value Map and condominiums with their lower pricing and lower quality KVIs will be at the bottom left of the value map. with the other housing options in between.

<u>Housing Market Value Map – Stable Market Shares</u>



In the housing market there is a clear choice between each home segment. Higher prices buy higher quality KVIs and translate into a higher perception of benefits.

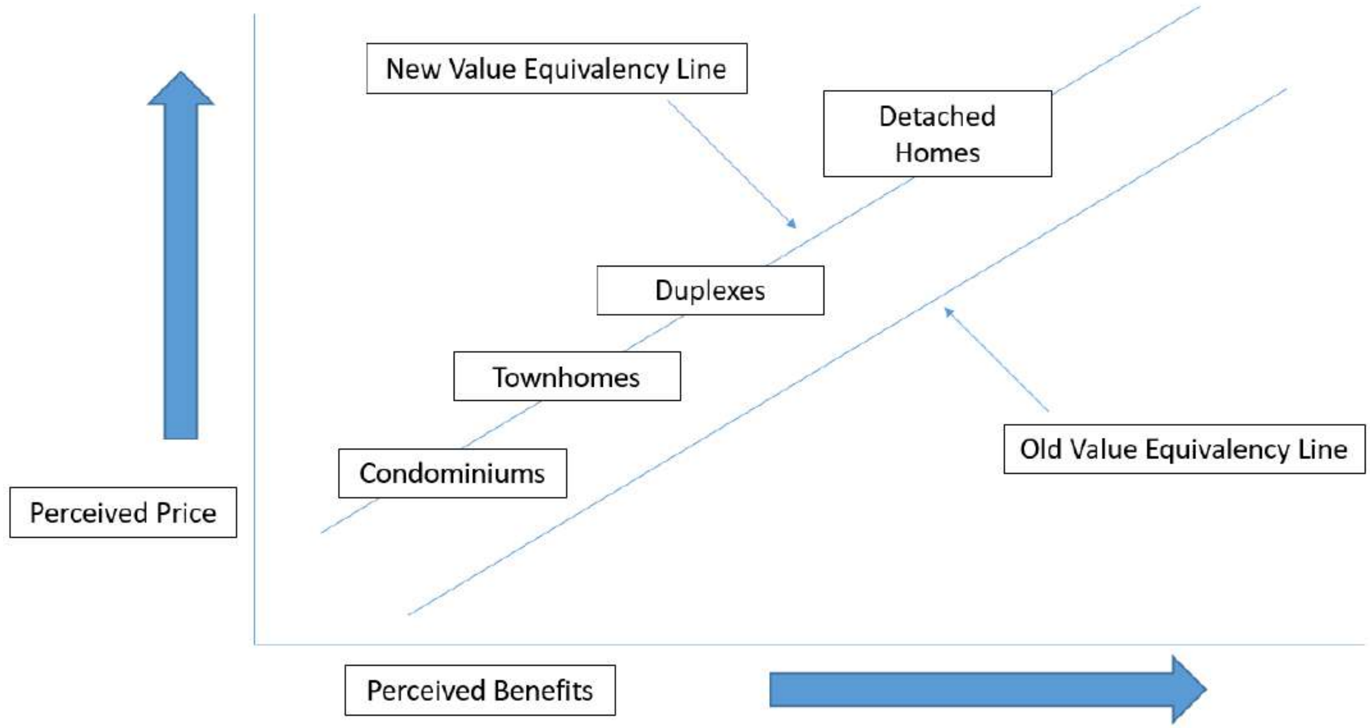
Because there is a clear distinction between each of the price and benefit levels the housing segments align on a straight diagonal line. This line is called the Value Equivalency Line (VEL). When each product segment is on the VEL the market is stable but not necessarily equal.

The power of a Value Map comes to light when we consider the effects of the VEL moving or a move off the VEL.

Moving the VEL

Let's say in our Housing Market scenario there is a heightened demand for detached homes. Supply is not keeping up with demand and owners of detached homes decide to take advantage of the higher prices and they decide to sell. Detached homes move off the VEL. They move up the price axis but stay on the same benefit axis. The people who have sold their detached homes still need a place to live so they start buying duplexes, townhomes and condominiums. All the prices go up with the result being the VEL moving up to the higher price points for the same perceived benefits.

<u>Housing Market Value Map - VEL Moves Up</u>

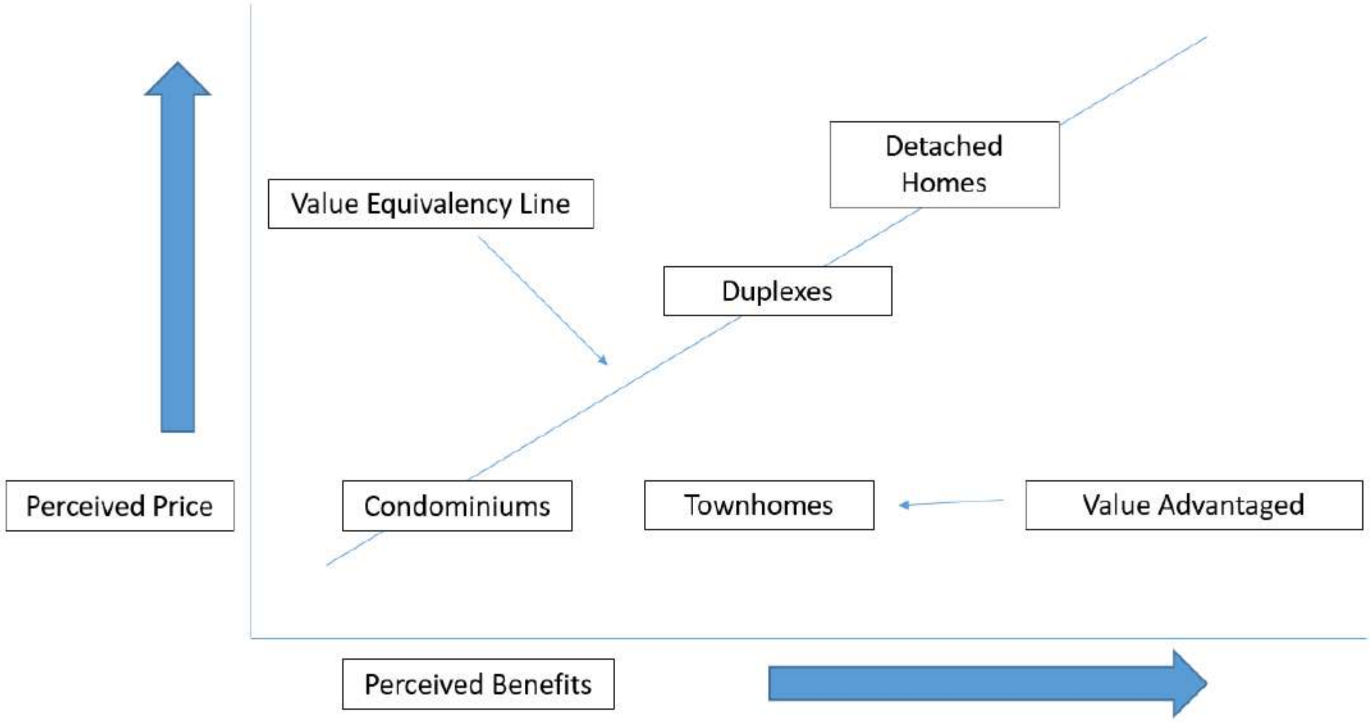


Moving Off the VEL

Let’s say in our Housing Market that the there is a glut in the supply of town homes and the sellers of town homes decide to reduce their prices to attract buyers.

Now the market share stability in the market is threatened. For the price of a Condominium buyers can get the higher quality KVIs and higher perceived benefits that come with a town home. Town homes have moved below the VEL. Town Homes, having more KVIs than condominiums are Value Advantaged, and they will take market share away from Condominiums. Now the builders and owners of Condominiums have a decision to make. It is not possible to improve their KVIs to match those of town homes. If they need to sell, they will need to lower their prices. Lower prices for will see them move below the VEL.

Housing Market Value Map – Town Homes Below the VEL



Now the question is: Will the prices of duplexes and detached homes follow suit causing the entire Housing Market VEL to move down? The answer is not likely. The reason is the role that Benefit Bracketed Customers and Price Capped Customers play in the housing market.

Some of the people living in duplexes and detached homes may be looking to downsize but most of the people living in these segments are Benefit Bracketed. They like the KVIs and benefits that come with detached homes or duplexes and they do not want to forego them to live in a town home regardless of the lower cost.

Most owners of town homes and condominiums are price capped. They like the higher quality KVIs and perceived benefits that come with the duplexes and detached homes, but they are price capped out of these two options. The likely scenario is that the glut of town homes will be sorted with a short span of lower prices for town homes and condominiums. Lower prices will bring new buyers into the market who were previously price capped. After the excess inventory of town homes is sold the old prices will be restored and town homes and condominiums will go back on the VEL.

Tactics and Strategy

How Value mapping is used to explore the following Pricing and KVI tactical and strategic initiatives:

- Repositioning along the Value Equivalency Line (VEL)
- How to avoid moving the VEL down and negatively effecting overall market prices and profitability.
- Moving below the VEL to gain market share
- Responding when competitors make a move below the VEL

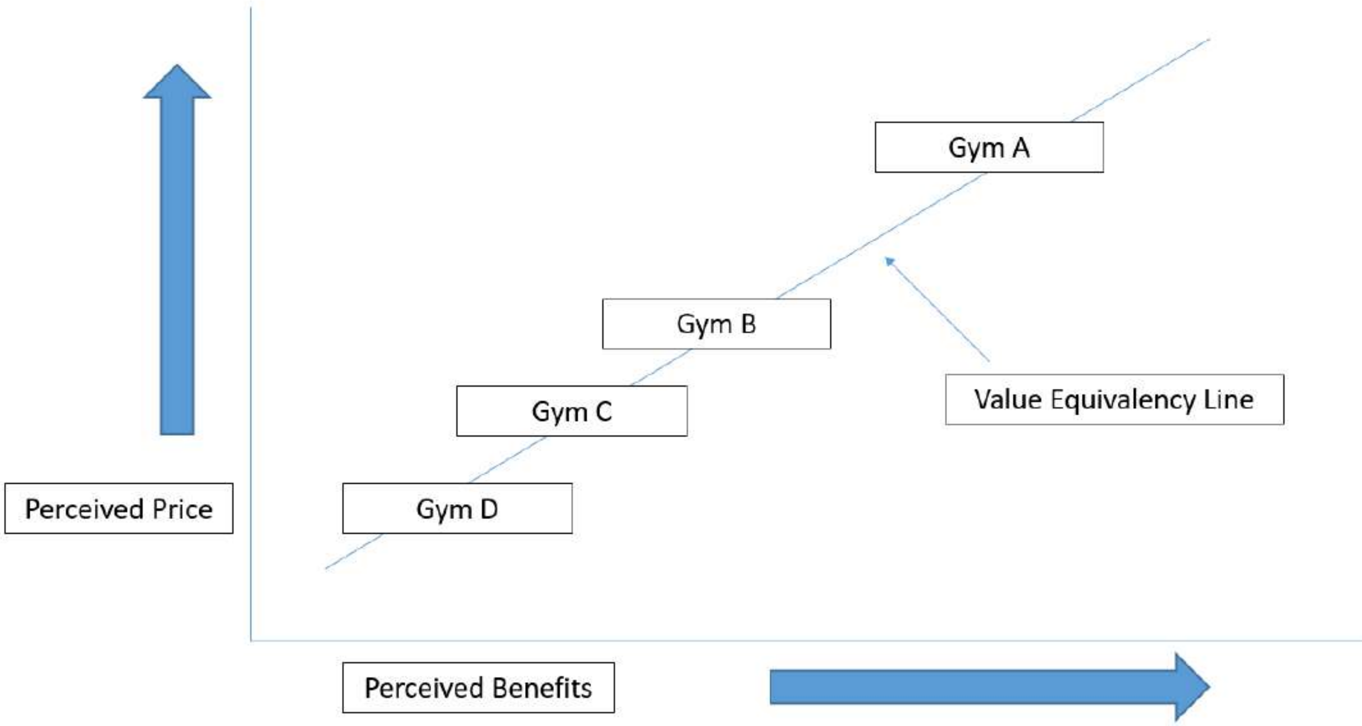
Moving the VEL Up: Adding Revenue Streams and Maintaining Your Position on the VEL

To illustrate the how of Value Mapping we are going to explore the interaction of four gyms that operate on a monthly membership basis in the same market area. The Key Value Items for each gym are:

Key Value Items	Gym A - $100 Month	Gym B - $50 Month	Gym C - $30 Month	Gym D - $20 Month
• Quality & Condition of Training Equipment				
• Variety of equipment & training areas, stretching, cardio, free weights, specialized machines, cross fit, spin classes				
• Overall Square footage and layout	15,000 Sq. Ft.	20,000 Sq. Ft.	25,000 Sq. Ft	30,000 Sq. Ft.
• Appearance lighting and cleanliness				
• Time to wait for access to training areas and equipment				
• Culture, and gym etiquette				
• Professional and courteous staff				
• Ladies only section	N/A	N/A		
• Ventilation & air conditioning				
• Group Fitness Studio	N/A	N/A		
• Lounge and juice bar				N/A
• Big screen TVs & Cable Access				
• Change rooms				
• Saunas			N/A	N/A
• Tanning beds	N/A	N/A		

Highest Rank Second Highest Rank Third Highest Rank Lowest Rank

Gym Value Map



At this point the four-gym market is stable. At each price and benefit level there is a clear choice for gym customers. Gym A is the most exclusive of the four gyms with the smallest membership numbers and the most gold star KVIs. Gym A is an exclusive gym with a loyal member base who pay fees that are five times more than Gym D's. Gym D is the least exclusive of the four gyms. Gym D caters to the broadest spectrum of the public. It has the largest square footage and the lowest membership fees. Gym B is a hard-core gym that caters to a loyal base of members who train more frequently than the members at the other three gyms. Gym C has a mix of some very regular attending members and rarely attending members. Gym C does not need the same volume of members that Gym D requires to be profitable. Gym C and Gym D have higher gym membership cancellation rates than Gym B and Gym A.

Repositioning Along the VEL

Repositioning along the VEL requires a change in benefits combined with a change in price. This is different than a move off the VEL which is either a change in benefits without a change in price or a change in price without a change in benefits.

A repositioning along the VEL will involve a tradeoff between the customers who liked the benefits and pricing of your current position and the customers who like the new benefits and price combination. When you do attract new customers to your new position on the VEL they will likely have been your competitor's customers. Keeping this in mind, you need to anticipate your competitor's response to your repositioning move.

On our 4 Gym Value Map Gym C is between Gym D and Gym B. Gym C can initiate a repositioning down the VEL that targets Gym D's members, or it could initiate a repositioning up the VEL that targets Gym B's members. Gym C would either need to change it KVIs to become a volume gym or change its KVIs to become a hard-core gym.

A price cut from $30 a month to $20 a month is prohibitive for Gym C.

Gym B has the most loyal members of the four gyms in the market and Gym C would be hard pressed to make the transition to the hard-core gym atmosphere that Gym B's members value.

Gym B is in a similar set of circumstances as Gym C on the VEL. Gym B's hard-core atmosphere will not appeal to the exclusive members of Gym A and the hard-core atmosphere is too intimidating for the Gym C membership.

Gym A would need to make a wholesale change in KVIs to appeal to the Gym B's hard-core members. Gym A's current members would not be happy with these changes. In the meantime, Gym B's loyal members are not likely to entertain joining another gym.

There is very little chance that any of the 4 Gyms will decide to re-position on the current VEL.

Preventing the VEL from Moving Down

Gym C determines that it needs to boost its membership count. The fastest way to do this is to lower its monthly fees. They decide to lower their fees from $30 per month to $25. They believe that they can draw members away from both Gym B and Gym D based on the "Time to wait for access to training areas and equipment". At Gym C the wait times are the same as Gym B's and less than at Gym D's. Gym C is correct in their assessment of the perceived benefit of the wait time KVI. Over time they draw members away from both Gym B and Gym D.

Neither Gym B nor Gym D can afford to get into a price war with Gym C. They will incur huge losses if they make a significant cut in their monthly membership fees.

For both Gym B and Gym D the best response is to improve their wait time KVI. Gym B assesses their situation. They see many members are sitting at work out stations between sets while they check their cell phones. This makes it hard for other members to work in and share stations. Gym B installs seats separate from the work out seats for members to sit at while they check their cell phones. This improves the working in and sharing of workout stations. Gym B improves to a gold star ranking on their wait time KVI. Their members are no longer induced to switch to Gym C.

Gym D's remedy for improving their wait time ranking is not as simple as Gym C's. Gym D is a high-volume operation and they do not have the room for extra seats. Their solution is to put visible timers on many of their machines. This move is not as effective as Gym B's remedy, but it does improve their wait times and prevents many members from leaving to join Gym C.

Moving Below the VEL

Gym B is a hardcore gym. Gym B has dedicated members who work out more frequently than the members of the other three gyms. Gym B members place the most value on over all energy in the gym and the gym etiquette. Unlike the other 3 gyms Gym B has large bay doors at one wall that can be opened during spring, summer and fall. Gym B members love the natural light and fresh air when the bay doors are open.

During the hot days of summer, bay doors open or not, Gym B was unbearable. The longstanding members put up with the discomfort, but new members were complaining, and Gym B was getting the reputation of being a miserable place to train in the summer. This was the reason why some memberships were being cancelled and why prospective members were joining the other air-conditioned gyms. Gym B knew that if they improved this one KVI they would improve they're over all reputation and increase their membership base.

Their solution was to install a long blade ceiling fan rather than a very costly air conditioning system, which would necessitate the closing of the bay doors. The long blade fan provides excellent cooling and air flow during hot summer days.

This was a move below the VEL because Gym B did not increase their membership fees in line with the improvement in their air-conditioning and ventilation KVI. The move below the VEL was designed to attract and keep the hardcore gym users who are the mainstay of Gym B's membership count. Gym B did not need to be concerned about any of the other three gyms reacting because those gyms do not cater to hardcore gym users. The hardcore gym users are "benefit-bracketed customers". They want a level of benefits that neither Gym C nor Gym D offers.

Responding When Competitors Decide to Move Below the VEL

Not every move below the VEL requires a response. After Gym B improved on their air conditioning and ventilation KVI there was no effective response available to the other three gyms. The only reason that they were able to attract any hardcore gym members away from Gym B was better air conditioning and ventilation. After they lost that advantage the hardcore gym users had no reason to want to train at any gym other than Gym B.

There are times when a competitor moves below the VEL with a new KVI or an improved KVI that needs to be matched by the other players in the market. In the auto industry there was a time when only a few brands came with ABS brakes. Now every brand has ABS brakes. In the gym world this is synonymous with the artificial turf that every gym now has for cross fit training. Every gym in the market installed AstroTurf strips without a corresponding increase in their monthly membership fees.

When a competitor moves below the VEL with a lower price you need to decide if the lower price is going to pull customers away from your offering. Benefit bracketed customers will not move for a lower price. The members of Gym A are willing to pay their $100 per month for the exclusivity and gold star rankings that come with their membership. Gym A does not need to get caught up in price wars that are going on below them on the VEL.

If the lower price is going to pull customers away from your offering you need to look at improving KVIs to keep your customers loyal. Ask your customers about the KVIs that you can improve on and the KVIs that are drawing them to the lower priced competitor. Use this intelligence to improve your KVIs, keep your pricing stable and keep your customers coming back for your KVIs.

Moving the VEL Up: Adding Revenues and Maintaining Your Position on the VEL

There are opportunities for each of our 4 gyms to expand their revenues and profitability by adding complimentary KVIs that their customers will pay for. The goal is to add revenue streams without provoking competitor moves that will displace their position on the VEL.

Gym D added a Juice, Snack bar and Apparel Lounge: Gym D had a section of cubicles reserved for personal trainers. The personal trainers would use the cubicles to review training and nutrition plans with their clients. As the personal trainers and their clients transitioned from laptops to mobile apps for training and nutrition monitoring the cubicles were sitting vacant. Gym D took the cubicles out and put in a lounge where members could purchase Juice, Shakes, Snack and Apparel.

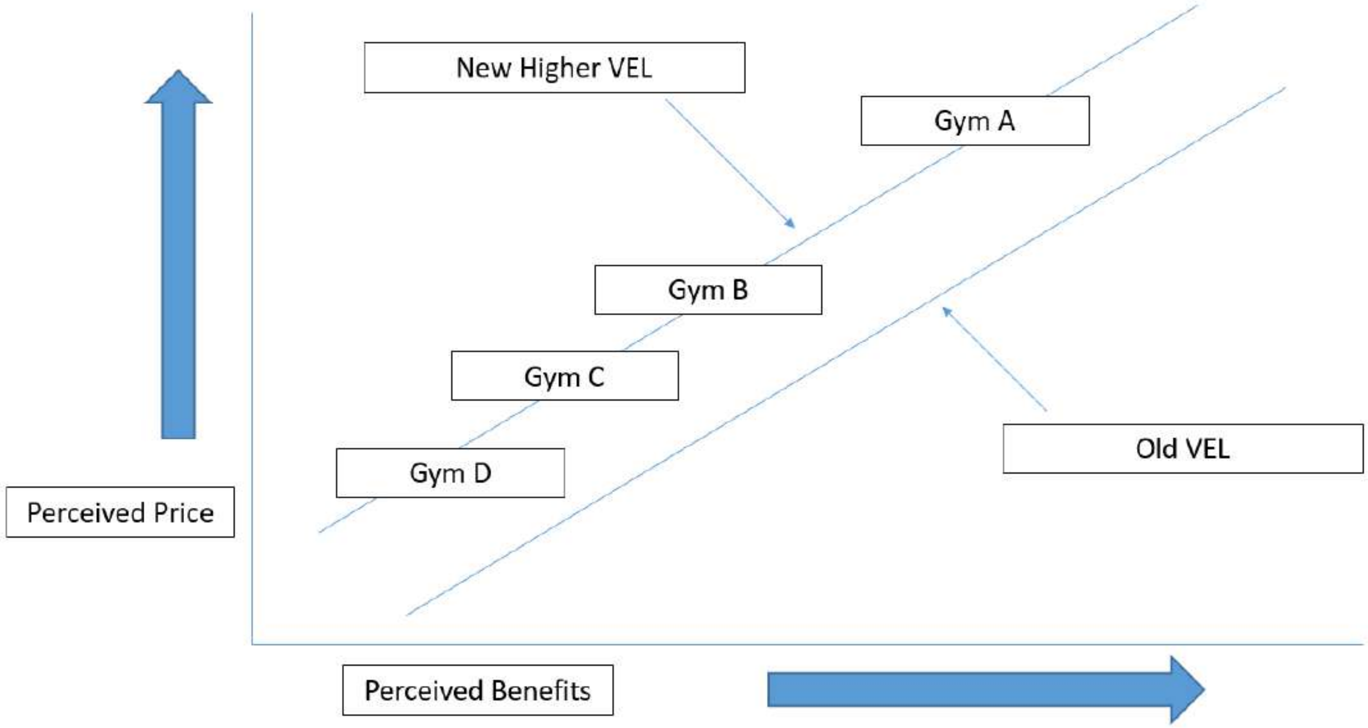
Gym C installs a Health Bar: Gym C had a juice bar that was an extension of their greeting counter. They surveyed their membership and determined that they would pay for fresh prepared, high quality, clean nutrition bowls, wraps and smoothies. They added a new bar with seating where they prepared the bowls, wraps and smoothies for eat in or take out. They were not concerned about Gym D copying this move because they knew that Gym D's membership was price capped to the point where they would not pay for the cost of the high-quality ingredients that Gym C was selling at their health bar. Gym C also counted on the fact that the addition of the Health Bar would improve their membership loyalty.

Gym B Expands its Supplement and Fitness Apparel Section: Gym B already had a popular lounge and juice bar. A survey of their members revealed an opportunity to sell more supplements for pre-workout, post work out and between meal snacks. Being a hard-core gym many of their members were on training programs designed to achieve specific fitness and strength levels for personal goals or to improve performance in a sport. Gym B sourced and sold the supplements that their members wanted to add to the nutrition segment of their training programs.

Gym A Coordinates a Fitness, Nutrition and Sleep Program: Gym A members are not price-capped, but they are benefit bracketed. They have a minimum standard that they will not go below. They want and pay for gold star rated benefits and they will not accept anything less than blue star rated benefits. They place the most value on exclusivity and the gym needs to look and act exclusive. None the less Gym A members do want to maintain and improve their overall health and well-being. Some of the members use personal trainers but many of them have busy schedules that fluctuate from week to week, so it is difficult for them to employ a personal trainer effectively.

Gym A decided to become an Uber for personal trainers: They worked with a group of personal trainers and developed a mobile interface for coaching on fitness routines, nutrition and sleep improvement. A Gym A member can set their degree of interaction with the coaches while training at the gym, training away from the gym and during the rest of their day. Biometrics and activity levels are monitored throughout the day. The member enters their food and beverage intake. A dashboard is updated throughout the day and the personal trainers and the member review the results on a minimum weekly basis. The members pay for the service through Gym A. Gym A reimburses the personal trainers and retains a markup for coordinating the services.

Gym Market – VEL Moves Up



Value Maps are flexible tools that apply to every competitive environment. Value Maps are an essential tool for managing the dynamic link between benefits and pricing. The best way to appreciate them and leverage their power is to map out the market for your products.

Market Strategy

Market strategy in general is defined by the marketing mix categories: product, place, price and promotion. Each element plays a role in a company's desire to achieve its marketing goals such as increasing market share, expansion into new markets, launching new products or increasing profitability.

Getting the market strategy price component right is more involved than just setting a price for a product and waiting for a market response. Setting prices needs to be based on:

- Knowledge of current price levels in the market
- The ability to predict future price levels
- The ability to influence prices in a positive direction

To excel at market strategy pricing, companies need to make the investment required to understand the drivers of industry price trends.

At the high level there are three factors to monitor for changes in industry price levels:

- ***Cost Changes*** due to changes in the supply of raw materials, new technology and new manufacturing or distribution approaches.
- ***Supply Changes*** resulting from new capacity coming on-line, plant closures or patents expiring.
- ***Demand Changes*** created by the introduction of substitute products, change in consumer tastes, new benefits that create new demand for the product, or new regulations.

Companies that understand the supply and demand situation, the costs and other factors that affect industry prices can out-perform the market by adjusting their price tactics before market changes take hold.

Price forecasting ability is so valuable because it allows managers to take positive action before a price change. For example, entering long or short-term sales contracts depending on the direction of the price change and adjusting production levels for changes in product demand related to prices moving up or down.

Companies that excel at the Market Strategy component of price management influence prices in a positive direction by avoiding price wars, maintaining regular price increases, capturing the full value of innovation and knowing the right time and best way to move prices higher. These companies make a positive contribution to increasing their industry’s overall profitability.

The Market Strategy component of price management can generate multiple percentage point increases in prices. It also lowers the risk of competitor’s making aggressive price reductions and supports the price gains achieved through Transaction Price management and Customer Value management.

The Value Pricing Tactic

Value pricing is a market position tactic that is deployed across industries. The value pricing tactic is about providing the most “Bang for the Buck” where the customer perceives a benefit of getting more of what they value for less money. Companies that deploy this tactic make it a cornerstone of their brand. Walmart with their tag line “Save Money. Live Better.”, McDonalds with their “Value Pick Menu”.

Value pricing is not an easy tactic to deploy but companies that are the value price leaders in their market are next to impossible to displace. This is because value price leaders command so much sales volume and have so much purchasing power. A company looking to displace the value price leader needs to convince a lot of customers and suppliers to switch their loyalties.

Because the value price leader’s position is so defendable it is worth the usually large investment that it takes to establish the position in the first place. Value Price Leaders need customer volume to survive and thrive. To leverage a value price tactic, policies and procedures need to be designed to attract and manage a high volume of customers.

Let's look at a local example of a Value Price Leader in action. Anton's Pasta bar opened in 1983 on East Hastings in Burnaby with 9 tables, a 4-burner oven and served pasta with 3 different sauces. Today Anton's is so popular that it is not uncommon to see a lineup of patrons outside waiting for a table. Anton's serves over 70 traditional and original fresh pasta dishes that are made and cooked on site. The portions are large, and the pricing is simple. Most of the pasta dinners are $18.50 with the odd one at $21.50. Baked entrees are $20.50, and you need to allow a half hour for baking.

Anton's has perfected a smooth and efficient flow. It starts with an elegant easy to read menu design. The dinner menu has a total of 107 Items listed but the simple pricing makes it easy to decide on what to order. Servers take patrons orders soon after they are seated. Orders come from the kitchen to the table quickly. Patrons are not encouraged to rush their dining, but their empty dishes are bused immediately, and the bill is presented as soon as they are finished dining. The serving team takes a "pit crew" approach to clearing and cleaning tables so that they are ready for the next patrons who are often lined up outside waiting to be seated. Patron's tolerate the lineup out-side because they know that they will be seated and served quickly once they make it through the door.

The goal at Anton's is to never let a seat get cold. The line ups that are common outside Anton's create a buffer of patron's who are eager to be seated and place their order. The lineup buffer ensures that empty seats are filled immediately. Anton's has designed and implemented the policies required to attract and serve the high volume of customers they need to maintain their value pricing leadership. They make value pricing work with their combination of affordable pricing, large portions of high-quality food and fast, friendly professional service.

The Premium Pricing Tactic

The Premium Pricing tactic is at the opposite end of the price spectrum from the Value Pricing tactic. Those who buy a value priced product or service pay at the lower end of the price scale. Those who buy a premium priced product or service pay at the high end of the price scale.

A premium price shopper pays $2,000,000 to $3,000,000 for a shoreline home on Alderside Drive in Port Moody when they could buy a similar sized home on Heritage Mountain for less than $1,000,000.

A premium price shopper pays $36 for a dozen Cartem's donuts when they could buy a dozen Dream Donuts at Tim Hortons for $19.98 or a dozen regular donuts for $9.99.

People pay a premium price for something that is special to them. That "specialness" lies in the Key Value Items of the product or service. It may be a single Key Value Item or a combination of Key Value Items.

Living in an ocean front home in the GVRD is a terrific experience. It is at the same time rare, prestigious and memorable for families and friends who enjoy the home. Ocean front homes are also viewed as solid long-term investments.

Arc’teryx clothing, a Vancouver based brand, is special because of its specific use functionality, comfort, fit, ease of care and durability. The materials and the craftsmanship displayed in the construction are of the highest quality. Arc’teryx has become an iconic brand.

Robert Allan Ltd. a Vancouver based Naval Architect and Marine Engineering company, is a world leader in the development of high-performance tugboats and other innovative working vessels. Almost every week a vessel is built to a Robert Allan design somewhere in the world.

Bill Reid sculptures are also iconic. The designs are distinctive, the craftsmanship is excellent, and they are the most well know Haida sculptures in Canada and around the world.

The “Specialness” that compels premium prices can come from one or more of the functionality, the design, the craftsmanship, the quality of the materials, the authenticity, the rarity, the collectability, the investment potential, the positive feeling of the experience, the positive memory, or status and prestige.

Premium Price Environments

There are environments, or areas, where premium priced products and services flourish. Vancouver and the GVRD is one of Canada’s richest Premium Price Environments.

In practically every product or service category, from dog walking to donuts there is a premium price offering in and around Vancouver.

Vancouver is included on the Conde Nast list of the 50 most beautiful cities in the world. Vancouver has a diverse high performing economy, stable political environment and is particularly welcoming to immigrants and tourists from most countries of the world.

Real estate buyers in Vancouver pay the highest prices in Canada, for homes and recreational property. In Vancouver luxury and exotic vehicles, jets, planes, helicopters, yachts, resorts, hotels, spas, gyms, restaurants, and high-end grocery, retail and clothing stores, are readily available. Premium prices are paid for professional advice and services including private medical clinics, and a wide variety of sports events, art and entertainment.

The Tourism Virtual Circle

The wide variety of premium price offerings that are available in Premium Price Environments like Vancouver and other parts of BC, is a magnet for tourists. As more tourists patronize the Premium Price Environment, more Premium Price offerings take hold in that environment.

BC’s tourism virtual circle has spawned: ski resorts, the resorts on Vancouver Island, the Okanagan and the Cariboo, deep-sea fishing resorts, the Vancouver cruise ship terminal and Rocky Mountaineer rail tours. The tourism virtual circle is the reason why Vancouver has a world class convention center, an award-winning airport and the longest automated transit system in North America.

The premium priced offerings that are a draw for tourists are also a draw for the residents of the Premium Price Environment. This adds to the value of the environment and draws more wealth into the environment. The environment grows richer and there are more opportunities for premium priced offerings.

The Premium Price Customer Profile

A Premium Price Customer wants a special product or service and they will pay a premium price to get it.

Premium price shopping is not exclusive to people with the most buying power. There are people of modest means who will buy the premium priced offering because they appreciate the special features and benefits. They may not be able to afford to live in Point Grey, but they can afford a Range Rover.

At the same time there are people who can afford to buy a premium priced offering, but they don't need its "special" characteristics enough to pay the premium price. They will buy a less expensive alternative instead.

Premium Priced offerings may be exclusive to a market. There is only one Rocky Mountaineer train tour through the Rocky Mountains. There is only one Empress Hotel in Victoria. There is only one Gabby & Jules in Port Moody.

An offering does not need to be exclusive to command a premium price. Premium price shoppers do appreciate having a choice. There are 18 ocean fishing resorts to choose from located on the BC coast from Port Renfrew to Haida Gwaii. There are ocean view homes in White Rock, Point Grey, Marine Drive and West Vancouver. There are premium priced sushi restaurants such as Miku, Tom, Yuji, Kaide and Toshi amongst the 600 sushi restaurants in Vancouver. Premium priced donuts are sold at Lees ($35.99 / doz.), Cartems ($36 / doz.), Lucky ($37 /doz.) and Mello ($42 / doz.).

The Origin of Premium Priced Products and Services

Premium Priced Products and Services have three origins. They are spawned by the local environment and culture or they are global brands that are imported. The richest Premium Price Environments have a combination of all three.

Local Environment

Consider the broad range of activities and products and services that are a response to the BC environment. Here is a partial list: Yachting needs oceans and lakes, sailing needs wind and open waters, deep sea fishing lodges need access to an ocean and deep-sea fish, surfing needs crashing waves, wind and kite surfing needs winds and water, white water rafting needs rivers with rapids, ski resorts need mountains and snow, railway tours need tracks through mountain scenery, mountain biking needs trails down mountains, ocean view homes need shoreline property.

Over time Premium Price Environments generate iconic brands. Authentic brands that ring true because of the natural environment that they come from, the natural conditions that they were designed to cope with. Arc'Tyrex is one of these brands.

Arc'tyrex is a world class brand that is a response to BC's alpine environment. Arc'Tyrex designs and manufactures alpine adventure clothing using BC's mountains as a proving ground. Arc'Tyrex clothing has been engineered for year-round weather protection, comfort and enhanced performance during:

- Alpine & Rock Climbing
- Hiking & Trekking
- Skiing & Snowboarding
- Trail Running
- Alpine Guiding
- Ski Guiding
- Heli Guiding
- Urban All-Weather Protection

Arc'Tyrex is a Vancouver based company that decided to improve the clothing experience of people who are were testing their limits in BC's Alpine environment. Arc'Tyrex has been so successful in their quest that mountain adventurers and professionals around the world are now paying premium prices for Arc'Tyrex clothing. The BC alpine origin of the design and manufacturing gives the Arc'tyrex brand its credibility and world class status.

Local Culture

Canada is an ethnically diverse nation populated by diverse indigenous first nations and immigrants from around the world. Because Canada's Premium Price Environments are the most attractive areas to live, work and play they naturally attract more ethnic groups.

Inevitably the best aspects of the culture that an ethnic group enjoyed in their home nation finds its way into their new neighborhood in Canada. Many of the new cultural products and services are Premium Priced and the result is that each unique culture adds to the richness of their neighborhood and enhances the overall Premium Price Environment of the region. It is a case of the rich getting richer.

Ethnic and cultural diversity of a region is also attractive to the tourists who visit Vancouver and other parts of BC.

Global Premium Priced Brands

Premium Price Environments are fertile ground for Global Premium Priced Brands. In a Premium Price Environment, Global Brands have access to local customers who recognize and appreciate their products and services and they have access to the tourists who are on the lookout for premium price products and services when they visit the region.

A reflection of how rich the Premium Price Environment is in Vancouver is that it is home to the only Cartier Boutique and McLaren car dealership west of Toronto. There are dozens of other Global Premium Price Brands available in Vancouver retail locations. Global Premium Priced brands, from Bugatti Cars to Blundstone boots, are well supported by the premium price customers who visit and live in Vancouver.

The Premium Pricing Tactic in Action

Sustaining an Established Premium Pricing Brand

If you have established a Premium Priced product or service in the market, there are three issues to monitor: the price, the specific product or service attributes, and the "specialness" characteristics.

Always maintain the premium price

At all times the price for the product or service needs to the highest in the market or at least equal to the highest in the market. The highest price is a benefit to the customer because it tells them that the product or service that they are buying is the best available. If there was something better that product or service would be commanding a higher price in the market.

Adapt the Product or Service Attributes

When the environment that your brand operates in changes you may need to adapt or add attributes to your offering. Robert Allan Ltd. is currently working with Abu Dhabi Ports to develop the world's first fully unmanned autonomous commercial marine tugs.

Push as Many Special Buttons as Possible

Customers pay premium prices in return for special attributes of a brand (the Gore-Tex material in Arc'Tyrex clothing, oil treated leather used in Blundstone boots for water resistance). There may also exist non-product related special attributes. Premium Price shoppers can form of a relationship with the place where they buy the product and the people who sell them the product. Premium Price customers want to relate to the talented people who have created the special product or service offering that they are buying.

The Gourmet Warehouse on East Hastings is an excellent example of a premium price seller that pushes all the special attribute buttons. For "Foodies" a visit to the Gourmet Warehouse website is special. Even more so a visit to the store. The design, and layout are engaging, and the display of products is extensive. The staff in the store are both passionate and knowledgeable about the products. They listen to their customers and take a sincere interest in their cooking and baking needs. The Gourmet Warehouse makes the buying experience as special as the premium brands of ingredients, utensils and cooking and bakeware that they sell.

Tell the Story of the Brand

There is a story behind every brand. The story behind Premium Priced brands are always interesting and engaging. People are interested in people and there is always a person or group of people who initiated the Premium Priced brand. There is Chip Wilson and Lululemon, Bill Reid who in his early career was a radio announcer for the CBC, and Robert Allan, Robert F. Allan and Robert G. Allan who succeed each other at the helm of Robert Allan Ltd.

Launching a Premium Price Product or Service

As a rule, every market category has a place for a premium priced product or service.

When there is a category with no premium priced offering it is likely that when a premium priced offering is developed and launched there will be customers waiting to buy it.

Ayoub's launched a premium priced offering in the dried fruits and nut category. Since the early 1980's Chef Ayoub has been roasting nuts by hand using unique flavours. Nuts are roasted daily in store, by hand. Ingredients are sourced from over 20 countries. Ayoub's now has five locations in and around Vancouver and they ship across Canada.

If there are already premium priced brands in a category there may be room for another brand. This is because premium price shoppers, like all shoppers, appreciate having a choice.

There are 600 sushi restaurants in Vancouver. With so many sushi restaurants the competition is fierce and there is downward pressure on pricing. While most of the 600 sushi shops make a marginal profit, in Vancouver's fertile Premium Price Environment there is a demand for Premium Priced special sushi offerings. Premium priced restaurants like Miku, Tom, Tojo's, Minami or Yuji are all thriving.

Assess the level of demand in the Premium Price Environment that you want to operate in. Is it a rich environment like Vancouver or a medium to poor environment? There are buyers for premium priced products or services wherever people live or travel. The question is the volume of residents or travelers who will buy the premium priced brand that you want to offer.

Assess the market share and competitive strength of the established premium priced brands that you are considering competing with. The question that needs to be answered is if there is room in the market for another premium vodka, premium spa, premium donut shop, premium fishing lodge, etc.?

Ensure that the location and the design and layout of the location enhances the offering. The design needs to foster positive interactions between your staff and your customers. Examples are shopping for exotic cars on 2nd Avenue in Kitsilano and Shopping for food at Granville Island.

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