Pricing For Profits

2106 SAF Annual Convention

florist**ware**

Introduction

The flower business is tough. For most consumers flowers are a discretionary purchase, something they don't have to buy. Competition is fierce and deception is rampant. It's easy to think that this might be the toughest business of all.

But there are others, some of them quite similar to the flower business. Travel for example – like florists airlines and hotels face insanely busy peak periods they need to capitalize on. Like florists they deal with perishable products and face stiff competition. And they created the science of revenue management as a result – a variable pricing strategy, based on understanding, anticipating and influencing consumer behavior in order to maximize profits from a fixed, perishable resource such as airline seats or hotel room reservations.

Hollywood too…. ever since VCRs first became popular in the 1980s people have been talking about the end of the movie business. But today, even when anyone with a little determination and an internet connection can have their product for free, they keep making money.

And other companies like Apple make record profits. A big part of that is because they applied the principles of revenue management. They also looked to behaviour economists and psychologists to go beyond the cost plus formula and look at pricing based not on their costs but on our willingness to pay. The goal is greater profitability by charging each customer the most they are willing to spend.

This session looks at how at how all this can be applied to the flower business.

1.00 Pricing Basics

Basic pricing tricks you can use to increase sales immediately.

2.00 Presenting Multiple Products & Prices

How to present multiple prices to avoid procrastination and influence spending.

3.00 One Product, Many Prices

More customers & sales by selling at the maximum price each customer is prepared to pay.

4.00 Other Pricing Models

A look at some advanced pricing models that can be applied in the flower business.

5.00 Special Situations In The Flower Business

A look at how pricing can be used to address some of the special situations in the retail flower business.

1.00 Pricing Basics

The terms, concepts and tactics that are the foundation of a more profitable pricing strategy.

The larger goal of a pricing strategy is to have a price, *the most profitable possible price,* for every customer. That means higher and more profitable prices for customers that are willing to spend more, with lower and less (but still) profitable prices for customers not currently buying from you.

This section looks at the basics – the terms, concepts and tactics that will become the building blocks of a more profitable pricing strategy. It addresses some of the most important pricing questions & considerations and how they relate to retail floral sales. It ends by looking at how they would all work together in the production of a Valentine's Day marketing postcard.

1.01 There Is No One Size Fits All

Just like different flowers, colors and design styles appeal to different customers, different pricing models stimulate them into buying, often more profitably.

Florists understand that different people are attracted to different flowers, colors and design styles. There is no one-size-fits-all when it comes to floral design because tastes are so different. A shop that offered only a single design, even a perennial favorite like roses, would not succeed.

Pricing is much the same. Different models and approaches appeal to different customers. We need to respect that and offer a variety of pricing models and options to motivate them into buying at the most profitable possible price.

If you get emails from a company like Lands' End you have seen this in action. They don't just let you know about new designs and styles – they're constantly hitting you with different pricing models, discounting schemes, etc.

One day it might be a blanket 20% off, which appeals to the customer that loves a discount. The next day it might be free shipping for orders over a certain dollar amount, which appeals to the kind of customer that hates paying for delivery.

It's much like they are fishing – going through a variety of lures until they find the one that draws a strike and lands a fish.

As we go on it is important to keep this in mind. You may see a pricing model that would not appeal to you as a customer, but that doesn't mean it won't appeal to others. You will in fact see models that likely appeal to only a small percentage of customers…. but if that model is profitable and almost irresistible to any customers we can't ignore it.

In Your Flower Shop

Hopefully you are reaching out to your customers and marketing your shop through email, social media, mailers, etc. Now, just like Lands' End, you're going to start dangling different pricing models in front of them, stimulating more (and more profitable) sales.

1.02 Charm Pricing

Just like different flowers, colors and design styles appeal to different customers, different pricing models stimulate them into buying, often more profitably.

Charm pricing is the practice of ending prices with the number nine. It is not essential to use 99 cents, it only matters that the right-most digit is a nine. Though there is debate about the origin of the practice it has been in place for over one hundred years and is, overwhelmingly, the most common approach to retail pricing.

It is also true that most people don't "like" it, and this is confirmed by research. Nobody filling their car tries to round it off at $19.99, they try and get it to $20. When a consumer is given the chance to set prices, as is the case when a florist opens a shop, they often eschew charm pricing in favor of round pricing.

In doing so they forfeit the power of charm pricing The law of demand says that as price goes up demand goes down, but the effect of charm pricing is so powerful it overcomes this. Study after study shows that people will spend more on an item with a charm price than one without. In one study people bought an item more at $49 than $45, at $59 than $55. No matter what people think they feel about charm pricing it works and they respond to it. Almost any retailer that ignores charm pricing does so at their peril.

> *Use of a $9 price ending increased demand in all three experiments…$9 endings convey favorable information that increases demand for an item.*
>
> **Effects of $9 Price Endings on Retail Sales: Evidence from Field Experiments**
>
> Author(s): Eric T. Anderson, University of Chicago, Graduate School of Business
> Duncan I. Simester, Sloan School of Management, MIT,
>
> Source: Quantitative Marketing and Economics, 1, 93–110, 2003. # 2003

For more evidence look at the websites of the largest and most successful order-gatherers. They continue to exist because they are so good at getting orders, and they have the resources and traffic to do extensive testing on what works better. Almost universally they choose charm pricing. It is sad to think that the typical consumer would rather pay an order gatherer $49.99 than a real florist $45, but that is what happens.

It is however worth noting that there can be another consequence to charm pricing.

> *The 99 ending increases the likelihood that viewers judge an advertised price as relatively low and as representing a discount. However, in addition to these price-image effects, the 99 ending has negative effects on quality image in the ads sponsored by higher quality retailers.*
>
> **Image Communicated by the Use of 99 Endings in Advertised Prices**
>
> Author(s): Robert M. Schindler & Thomas M. Kibarian
>
> Source: Journal of Advertising, Vol. 30, Issue. 4 (2001), pp. 95-99

There is also research that shows that items with charm prices are more attractive to people that are making a considered and dispassionate purchase, and that those people will regard (prior to purchase) and remember (after purchase) the charm price as being better value. Meanwhile items with round prices are more attractive to people that are making an emotional purchase, and that they will regard (prior to purchase) and remember (after purchase) the product as being higher quality.

That information can vex florists, who typically want their product to be seen as high quality and high value, but there are a few things to keep in mind.

The second study ("Image Communicated…") looked specifically at prices like $49.99, not $49. The research mentioned earlier ("Effects of $9 Price Endings…") looked at prices like $49. A charm price like $49 is proven to increase demand, likely without all of the negative implications that come with adding .99. There is additional research (discussed later) that shows the benefit of omitting the cents anyway, so charm prices like $49 may offer much of the best of both worlds.

Another thing to consider is that being remembered as high quality only matters if you can compete in the initial price comparison. Look around in your daily life. Round prices are relatively uncommon and there are only a few Tiffany brands – brands that really don't have to worry about comparison shopping – that can afford to make them the norm.

Most important is the fact that, again, there is no one-size-fits-all approach. The best approach is to offer charm prices for people that are focussed on price/value and round prices (maybe a special signature or premium line) for people that are more interested in quality.

The key is finding the balance. If you truly are the Tiffany of your local market you should use primarily round pricing. If you are worried about comparison shoppers or perceived value use mostly charm pricing.

It is often asked at what amount round pricing should replace charm pricing – what is the magic number, the dividing line between value and prestige, at which round pricing becomes more effective? Should all products over say $200 use round pricing?

It doesn’t work like that because it’s about the buyer, not the amount. The customer that is drawn to round pricing on a $300 sympathy piece is also likely to be drawn to a $30 price on a boutonniere. And the customer that is drawn to charm pricing on a $29 corsage is likely to prefer a $299 sympathy piece.

In Your Flower Shop

- Whenever you are trying to prove value or savings use charm pricing. Even the most exclusive high end retailers that would never normally use charm pricing love it when they are having sales.
- If you truly are the Tiffany of your market concentrate on round pricing, use charm pricing only for sales, specials and gateway-drug type offers used to recruit new customers. If you are the least bit worried about comparison shoppers or lower-priced competitors you aren’t Tiffany (yet), and should focus more on charm pricing.
- If you are focussed on price/value shoppers you should concentrate on charm pricing, with a few round prices (in the form of “signature” or premium lines) to reinforce your brand and provide a more attractive option for shoppers focussed on quality.
- If you are in the middle you should use both, with the mix depending on where on the spectrum you fall. If you are closer to the high end you should have more round prices, if you are at the other end and competing on price you should have more charm prices.

1.03 Expressing Prices – Less Is More

There are many ways to express prices and slight differences in the approach can make a big difference in sales and profits.

Consider some of the different ways that you might verbally express a price of $149.99:

One hundred and forty-nine dollars and ninety-nine cents	14 syllables
One hundred forty-nine dollars and ninety-nine cents	13 syllables
One hundred and forty-nine ninety-nine	10 syllables
One hundred forty-nine ninety-nine	9 syllables
One forty-nine ninety-nine	7 syllables

The last option gets the same information across in half the syllables. Why does that matter?

> *When price information is presented and encoded in verbal format, then increasing the syllabic length of the price information will (a) increase the amount of time required to process that information, and (b) increase consumers' perceptions of its numerical magnitude.*
>
> **Comma N' Cents in Pricing:**
> The effects of auditory representation encoding on price magnitude perceptions
>
> Author(s): Keith S. Coulter, Pilsik Choi and Kent B. Monroe
> Source: Journal of Consumer Psychology – Volume 22, Issue 3, July 2012, Pages 395–407

More syllables sound more expensive. Florists are constantly quoting prices over the phone and this is an easy way to make larger prices more palatable.

Combined With Charm Pricing

The charm pricing research mentioned earlier (involving the mail order catalog) used prices like $49, not $49.99. It's not the cents that determine charm pricing, but the right-most digit, and $49 still benefits from the charm pricing effect.

We can express $49 with just three syllables while $49.99 takes twice as many. Research shows that $49.99 is perceived as being a higher price, and that makes selling at the price harder.

Giving up 1% of your revenue by changing a price from $99.99 doesn't seem like a big deal but the change costs you more as you move down in price. Going from $39.99 to $39 means giving up 2.5% of your revenue. Nobody likes to give that up but:

- a product will sell better at $39 than $34 – hopefully you are raising many of your prices
- getting rid of the extra syllables in .99 should increase sales by 10%-12%

In Your Flower Shop

Always use the fewest possible syllables when expressing any price, and consider skipping the cents and staying with whole dollar amounts, especially as prices climb higher.

1.04 Always Let Them Spend More

They may be less common than we'd like but there are always customers willing to pay more. We just have to give them the chance.

It's easy to get obsessed with the customers that don't like to spend money because they make the most noise and cause the most headaches. The ones that want a "make it nice" centerpiece for $20… the ones that think you should match supermarket prices on your higher quality poinsettias… the ones that call and want the unrealistic product photo/price combination found on ordergatherer.com. They infect our thinking and lead us to believe all customers are focussed on price.

But there are customers that don't mind paying more, and they do it without us realizing it. Too often we leave money on the table by undercharging them when they would happily pay more. In some cases they may choose to go elsewhere because they prefer paying more to a shop whose higher prices better align with the way they value flowers and perceive quality.

The solution? Always give them a chance to spend more money.

Organic ketchup isn't on the shelf because it has health benefits. Whole Foods doesn't open stores because they're trying to save the world. Both exist because of the realization that some people will happily pay more, a lot more, for food.

Hollywood is great at this. Casual movie-goers can watch the standard version of a new movie for one price. Enthusiasts can pay progressively more for enhanced versions – 3D, AVX, IMAX, IMAX 3D, motion seating, etc.

And it doesn't stop there. Blockbuster movies are frequently released simultaneously in as many as seven (sometimes even more) different versions (DVD, Blu-Ray, Blu-Ray 3D, Collectors Edition, etc.), with prices ranging from $14 to $40. All are essentially the same thing, the movie in optical disk format, but they're happy to provide more expensive options to enthusiasts that will cheerfully pay the higher price.

In Your Flower Shop

Always have a more expensive option and don't be shy about offering it. Yes, there are a lot of customers that are focussed on price and most won't jump at the chance to spend more, but it will happen. Even when you don't make the bigger sale you will be invoking the anchor effect and sending a powerful message about the quality of your shop – topics we'll discuss later.

And the Attributes section looks at how you can create more expensive (and more profitable versions) using attributes and offering the IMAX 3D version of your products.

1.05 Understand How Customers Value Your Product

A better understanding of how your customers value various attributes of your products can unlock new profits.

A great example is ebooks. They are much less expensive to produce than their printed equivalents (no printing, binding, shipping, etc.) and if they were priced using a cost-plus formula they would be cheaper. Instead e-books are almost always more expensive than paperbacks and often even more expensive than hardcovers.

The reason is that the publisher understands that ebooks offer other benefits that some customers value more than a physical book – convenience, less clutter, syncing across multiple devices, immediate gratification in the form of instant delivery (download). By understanding the values of these attributes they know they can charge more and realize much higher profits. Their costs have nothing to do with it.

Another example is professional sports. Teams used to insist that all games were of equal value – that fans were only interested in seeing the home team – and charged the same price for all games.

The truth of course is that some games are more valuable than others. Fans will pay more to see a popular team like the Yankees, and more for games on a Saturday afternoon in July than a Monday night in April.

With that understanding teams realized they could charge more for some games, and recovered profits they had previously been giving away to scalpers.

In Your Flower Shop

One florist was married to a graphic designer who had created a unique line of enclosure cards for her store. They were inexpensive to produce and the store did not charge for them. Once the store realized how much some clients did value the cards they started charging for them, unlocking additional profits.

Another store had an owner that was very visible in the community, frequently appearing on television etc. They realized that they could charge more for work that she prepared personally.

What do your customers value about your operation? Do you have a celebrity or well-known designer? A unique style, special containers, or exclusive line of giftware? The ability to offer timed delivery? Is there something customers value for which you are not currently charging? Can you charge more money for more of it? Or can you remove it to create a less expensive version that will appeal to only bargain hunters?

When it's time to reward, motivate or incentivize your customers it's best to try and reward, motivate or incentivize them with the things they value about your operation. If someone loves your value and low prices use a discount. If they love your service use more service – like an in-home consultation. If they love your product send them a free arrangement.

Understanding how customers value your product is an important first step towards greater profits.

1.06 Price Sensitivity

The degree to which the price of a product affects purchasing behavior.

Any discussion of strategic pricing involves references to “price sensitivity” which in this context means the degree to which pricing affects purchasing behavior. A customer that is highly sensitive to price is deterred by higher prices and motivated by lower prices – this the bargain hunter, the customer we hope to motivate with selective discounting and lower priced options. A customer with lower sensitivity to price is one that is less deterred by higher prices. We want to avoid giving them discounts they don’t care about, and give them more expensive options that allow them to spend more money.

It is important to understand that different customers display different degrees of price sensitivity. Someone might spend a lot of money on their car and their clothes (less price sensitive) but that doesn’t mean that they will not still be price sensitive when it comes to flowers.

It changes from situation to situation too. A customer may be more sensitive to price when buying for a client than when buying for a loved one.

Decreasing Price Sensitivity

There are a number of ways to make people less sensitive to price and more willing to spend money on your product. This is typically addressed through branding and marketing rather than pricing. Some of the areas most relevant to the flower business appear below.

Unique Value Effect / Substitute Awareness Effect / Difficult Comparison Effect

Customers are less sensitive to products that are seen as unique and have fewer acceptable substitutes and/or are difficult to compare on price. Tiffany can sell diamonds for two or three times more than their competition because only they have the Tiffany box. In the flower business, where so many websites are using the same product images, names and descriptions, it is easy for products to become commodified and for customers to focus on the lowest price. Original product photography, names and descriptions make your offerings appear unique, and it also becomes harder for customers to compare pricing. All of this makes the customer less sensitive to price.

Price Quality Effect

Brands and products perceived as being high quality, prestigious or exclusive lower price sensitivity. It is beneficial to promote these attributes.

Sunk Cost Effect / End Benefit Effect

This is what makes it relatively easy to sell inexpensive (but high margin) items like enclosure cards as part of of a delivery order. Price sensitivity decreases when the price of a component or related product (like a card) is low relative to the total order cost.

This is also why customers are less likely to object to a delivery charge introduced late in the order process – they already have a sunk cost (in both money and the time spent placing the order) making them less sensitive to the price of delivery. The Sunk Cost Effect is also harnessed by the high-low pricing model discussed later.

1.07 Anchoring

Consumers tend place too much importance on a single piece of information. Manipulating that piece of information can be very profitable.

Anchoring is a cognitive bias, a kind of mental shortcut, frequently exploited in pricing strategies. It's hard to truly understand the value of most items, so we tend to assign a lot of importance to one piece of information and base subsequent evaluations and decisions on that. This is referred to as anchoring, and carefully controlling that piece of information can be very profitable.

The best example is the price tag on a "sale" item that shows both the regular and sale price. The regular price acts as the anchor, establishing the value of the product, making the sale price more attractive.

Another tactic, very popular with luxury brands, is to attach an extraordinarily high price to special or limited editions, and much lower prices to very similar versions. The "much lower" prices are still of course very high by any other standard, but because of the anchor effect they seem like a great value. There is an additional benefit in that the expensive limited edition price adds credibility to the brand.

But just as important as the possibility of using anchoring to deliberately raise spending you need to avoid having anchoring accidentally lower spending. Introducing low prices can set the bar lower, but this can be a good thing. Lower priced options typically represent absolutely terrible value and act as anchors that push people up to the next tier because it seems like a relatively good deal (even though it might be far more than what the consumer ever intended to pay).

Consider an electronic device offered with three storage configurations: 16GB/$499, 32GB/$599 and 64GB/$699.

For $100 (20%) more you get twice the storage. $100 more for an extra 16GB seems like a good deal when you consider the first 16GB cost $499. Sounds tempting…

For 20% more than that you get your storage cost down even more. The first 16 GB cost you $499. The second 16GB cost you just $100. Then next 16GBs cost you just $50 each. Each price serves to reinforce the great value offered by the next price.

In Your Flower Shop

- Sale prices should almost always reference the regular price, since the regular price is the anchor that makes the sale price more appealing.
- High prices can act as anchors that make lower prices look more attractive and make your brand seem more prestigious.
- Lower priced items can act as anchors that drive customers to more expensive products as long as those more expensive items clearly offer greater value.
- Avoid accidentally introducing prices that will act as anchors in the wrong direction. If you see that a customer usually spends $75 don't start by mentioning something at $40.
- Always avoid questions like "how much do you want to spend?" and "what is your budget?". As soon as the answer is spoken the anchor has been set, and because it was spoken aloud by the customer it will be even harder to change.

1.08 Competing To Be The Most Expensive

Prices send a powerful message about the quality of your product and your brand.

It's easy to get focussed on competing on price but there are benefits to offering high prices. One is the anchoring effect covered earlier, but perceived quality is even more important.

Price is the single most powerful indicator of quality. Higher prices suggest higher quality, and with more authority than any marketing tagline. And high prices have even more authority when a product is not well understood by customers – a product like flowers.

The research is incredible. Studies have repeatedly shown that testers will give lower quality wines higher ratings if told they are expensive, and higher quality wines lower ratings when told they are inexpensive,

One remarkable experiment went even further and monitored brain activity as participants drank the wines. Regardless of actual quality the wines they were told were more expensive generated much more activity in the pleasure centers of the brain. They didn't just think the more expensive wine was better, their brains truly experienced it as being better – all because the price.

Most of us would be concerned about a lower priced competitor opening up nearby. Upscale vendors, the ones perceived as being the best in their respective categories, are more anxious about a competitor that charges more. Being the most expensive can be the most credible evidence for being the best.

Some luxury brands promote $22,000 purses to promote the sale of similar products at $2500. The $20K purses don't just act as anchors, they make a compelling argument about brand quality. Most people assume that if a company offers $20K handbags they must sell $20K handbags, and that means those handbags must be something special.

In Your Flower Shop

Adding expensive products serves a few purposes:

- they provide an anchoring effect, making other lower prices seem like better value
- they give the customer that wants to spend more an opportunity to do just that
- they provide credible evidence you are really good at what you do

It's the last one we're focussed on here.

The trick is finding the balance. If you are a family shop that depends on orders from less affluent clients you can't afford to scare them off by concentrating too heavily on expensive designs. A few expensive designs however can add cachet to your brand and make customers more excited about dealing with you, a shop that is so good they can sell that kind of work.

1.09 Cheap Doesn't Have To Mean Low Margin

Price-sensitive customers are often focussed on price, not value. Don't assume inexpensive products have to mean lower margins.

One of our goals is to have a product for almost every customer no matter how they value your product. In some cases that means having lower priced products for people who are not prepared to spend much on flowers. That can be discouraging…

> *Great! A small sale with even lower margins. Why even bother?*

But who said the margins had to be smaller? This key is understanding what the price-sensitive customer is looking for.

If they were focussed on outstanding value then yes, it might mean you needed a inexpensive product that offered the customer great value at razor-thin margins.

But these customers are typically not focussed on value. Instead they are fixated on price. That is a very different thing. These customers want something cheap.

Everywhere else we recognize that the cheapest is rarely the best value. The smallest pack size typically comes with the highest per-unit price. Why should flowers be any different?

In Your Flower Shop

Build good margins into your least expensive products. A great example is single roses, especially at Valentine's Day.

If you are a value shop and your cheapest dozen is priced at $39.99 that doesn't mean a singe should cost 1/12 of that. Instead your single might be priced at $19.99. This means much higher margin for you (and less value for the customer) and that is fine. They're focussed on that low price, not the value.

2.00 Presenting Multiple Products & Prices

In many situations you will be presenting multiple products and prices at the same time. This brings new challenges and opportunities.

When you start to present multiple products and prices a story starts to emerge. Each additional price can add complication and confusion (bad) or context that lets you steer customers to the most profitable possible price (good).

2.01 Avoiding The Paradox of Choice

Ask and you'll hear that people want choice, but the way they spend gives a very different answer. How to avoid the paradox of choice.

People think that they love choice, and research shows that it does capture their attention. Whether more choice translates to more (or less) sales is a much tougher question. Some studies clearly show that too much choice – despite generating more interest – generates fewer sales. Other studies have not been able to replicate those results.

What does seem true is that people might like the idea of choice, but they absolutely love easy choices. Starbucks might boast about having 87,000 varieties of drinks but they don't present them all in a list – they present them as a series of smaller, simpler choices. Car manufacturers too now start with fewer bundles of options, and then allow you choose more as you go on.

Choice at the cost of complexity is bad. And with something like flowers, that most consumers don't really understand, complexity is a real threat that must be avoided at all costs. Confronted with complexity the customer is likely to become anxious and go to a vendor that makes the choice easier.

Simple choices, ones that frame one particular option as being clearly the best for each customer, are ideal. The consumer is happy, having had the freedom to choose, and you're happy having guided them to the most profitable option.

Another important consideration is that "similarity costs sales" and you should avoid presenting multiple products at the same price at the same time. Price plays a crucial part in decision making – some people are price sensitive and always want the cheapest. Some people assume the most expensive is the best and always go to the high end.

If prices are the same these customers are effectively blinded. They're lacking information as if you gave them only prices and no descriptions.

In Your Flower Shop

Remember that most customers don't know nearly as much as you about flowers, varieties, design styles, etc. Too many choices can confuse them and send them in search of an easier choice. They're looking for guidance.

- When presenting multiple products at once – on the phone, a mailer, an email, etc. – avoid presenting products at the same price. Even arbitrary differences are better than no difference.
- Use attributes to help make the decision easier – things like "best value", "best-seller", "most popular", "signature" etc. These are important clues that make decision making faster and easier.

2.02 Pricing/Presenting Multiple Options

Understanding how (and taking advantage of) the way people gravitate towards prices on a spectrum.

We know that different products at the same price is bad, so that means offering prices on a spectrum. Consumers tend to approach pricing spectrums in predictable ways, and an understanding of that can help maximize profits and avoid costly mistakes.

General Rules

People Like The Middle

When presented with three choices (especially with a product they don't truly understand) most people choose the safety of the middle – not the cheapest, not the most expensive. Take advantage of this – understand in advance that the middle option will likely be the most popular and make sure it is something you want to sell.

People Generally Avoid The Cheapest Option

Most people avoid the cheapest option and go to the second cheapest. This is seen, and exploited, by restauranteurs. The second cheapest bottle of wine on the menu tends to be the most popular and restaurants take advantage of this by making that bottle more profitable – it has a higher margin. With three options people tend to favor the middle, with more than three options people tend favor the second-cheapest.

Take advantage of this by making sure that your second-cheapest option is profitable. And be careful about introducing new prices at the lower end of the spectrum because they can shift everything down – what was formerly your cheapest option becomes your second-cheapest (and likely most popular) option. The former middle-of-the-road option, which was likely very popular, now appears as more expensive and becomes less profitable.

People That Want The Cheapest Are Focussed On Price Not Value

There is a tendency to assume that inexpensive products have to offer great value and razor thin margins but that is not always the case. People that favor the cheapest option are usually more focussed on price than value. Inexpensive products should be designed and priced to be profitable. Don't assume they have to be loss leaders.

Some People Will Always Go High

We all wish there were more customers like these but they are out there – customers that place a lot of stock in the idea that more is better and spend accordingly. A high priced option provides them with an assurance of quality and brings you a larger sale.

In Your Flower Shop

- Cheap doesn't have to mean low margin
- People will naturally be drawn to the middle or second-cheapest option so make sure it is profitable
- Make sure you have high priced products for the people that want to spend more

2.50 Exercise: Valentine's Day Postcard

Putting what has been covered so far into context with the design of a Valentine's Day postcard.

It’s coming up on Valentine's Day and you want to send a postcard to all of your customers. Let’s take a look at how what has been covered so far applies.

Three, Maybe Four Items – All With Different Prices

We want to avoid the paradox of choice so we limit ourselves to three or four options, which still lets us target different customers and introduce things like the anchoring effect. This also makes it essential to use different prices. And we’re going to use the shortest possible expression of price (fewest syllables).

At The Low End

The least expensive product should be introduced first and accomplishes two things. First it is the “starting from” price that catches the attention of anyone that is not a high roller, providing a low-cost option to the customer that is focussed on price.

That is a very important distinction. Too often we think that low priced products have to offer razor thin margins but the buyer that is attracted to the cheapest price is focussed on just that – price, not value. How often is the cheapest the best value? Is a small tube of toothpaste better value than the large? Don’t sacrifice margin at the low end.

Because this product offers less value it also serves to highlight the better value of the middle product, where we want to coax buyers that were initially attracted to the low price.

Unless you really are the Tiffany of your local market you should probably use charm pricing – prices that end in the number 9. Don’t let ego get in the way – if you worry at all about comparison shoppers or competition from order gatherers and drop shippers you need to be using charm pricing at this end. If you are the rare shop that worries more about a competitor that charges more than you it’s OK to use round pricing (prices like $150).

In The Middle

The middle of the road just feels safe and this is where most consumers will go. Take advantage of that. Restaurants know that most diners will choose the second-cheapest bottle of wine and price accordingly – it’s usually among the most profitable items on the list.

We’re also trying to drive the bargain hunters here – you got them “in the door” with the lower priced option, now you want to move them up to the middle. Since we still want good margins here, on what will likely be the most popular option, we can’t really demonstrate outstanding value – better than at the low end, but nothing to write home about. Social proof, in the form of a “Most Popular” tag, can be a big help.

The decision on charm vs round pricing will really depend on your shop and where you fit in to your local market. If you are firmly established at the high end you might go with rounded pricing, if however you are sometimes concerned about online competition and comparison shopping you should stick with nines.

At The High End

Expensive high price products give the “high roller”, the customer that wants to spend more money, the chance to do just that. Those customers are out there, but often we’re so focussed on everyone else we miss them. This end of the spectrum also allows us to introduce the anchor effect, making everything else seem less expensive by comparison.

There are two ways to approach the most expensive product. One is to follow the lead of the movie theater that aggressively discounts the medium and large bags of popcorn to increase sales and incremental revenue. They make a smaller profit on the additional popcorn, but it’s profit they would not have made otherwise.

If you decide to go this route you need to show the value – the offer has to be compelling enough to make the buyer leave the safety of the middle. It’s a good idea to add a visual indicator like “Best Value”, and you should definitely use charm pricing – it is the most convincing way to convey value and savings. Even the most exclusive retailers use charm pricing on sales and specials.

Another option is to swing for the fences. Price is the biggest indicator of quality, especially when customers don’t really understand a product. High priced versions add cachet and credibility to your brand by authoritatively telling the world you sell high end work. If you show expensive products people will assume you can sell them. They might not buy those products themselves, but they’ll be impressed that other people must.

If you choose this option you should consider round pricing, unless you are absolutely committed to being seen as the “value” florist in your market. In either case naming the product or using a tag like “signature” “spectacular” or “premium” will help reinforce the message.

If you go with four products you can use both approaches. The third product offers better value (almost a kind of volume discount) to entice the average buyer (who would otherwise be attracted to the second-cheapest option) to spend more, and the fourth option enhances your brand and gives high rollers something to jump at.

3.00 One Product, Many Prices

Offering a product at a fixed price is a bad compromise that costs sales and profits. The solution? Offering the same product at different prices.

In the flower business cost-plus pricing is the norm – you take your costs and multiple them by a variable to determine your selling price. It's a good approach to make sure you don't get into trouble.

Some vendors however realized something – that their costs had little if any correlation to what customers were willing to pay.

This is why restaurants offer lunch and early bird specials even though the food costs the same regardless of the time of day. Why theatres offer discounts on matinees. It's why airlines charge less for red-eye flights. And it's why the organic section of your grocery store charges so much more for a slightly different version of a familiar product like organic ketchup or "all natural" eggs.

It trickles into the flower business a little. The higher prices you pay at Valentine's Day don't reflect higher production costs as much as the fact that florists are willing to pay more. And florists are willing to pay more because their retail customers are willing to pay more. Cost has little to do with it.

Of course different people are willing to pay different prices. That makes choosing a single price problematic.

The Problem With Fixed Prices

Imagine you developed a new arrangement. Your cost plus formula suggests you charge $40, but you want to see what your customers are willing to pay so you survey one hundred people, asking them the maximum amount they would be willing to spend.

At the low end you have a few people that are really on a tight budget or just don't value flowers. They say the most they will pay is $25.

At the high end you have people that really love and value flowers, and/or are less concerned about money. They say they would spend as much as $65 on the same arrangement.

In between are the majority of your customers. 50% say they would max out at less than $40, the other 50% would go over $40. Your cost plus formula suggests a price of $40, so surely $40 is the way to got – it's the median price, a compromise that "splits the difference".

But what really happens? The first thing is that you immediately lose 50% of your potential customers. Remember – they said they would not spend as much as $40, so they're not buying. And while these were not going to be your most profitable sales there was still profit to be had. That's all gone.

Things get even worse at the high end. All those people who said they would pay more than $40? It is their lucky day – you're charging them less than they were prepared to pay!

This is called leaving money on the table – they were willing to give you more but you didn't charge them properly. Worst of all? Because your prices are below their expectations they may assume quality is lacking.

The Solution: One Product, Many Prices

The solution is deceptively simple – charge each customer the maximum they are willing to pay. At the low end that means discounting to to the people that won't pay full price, but ONLY to the people that would not pay full price. If we discount to people that don't really need a discount to make a purchase we're back to leaving money on the table.

At the high end we want to charge more from the people that are willing to pay it. This will typically be done by identifying the specific attributes they value and charging more for them. The organic aisle is a great example – charging a much higher price for an attribute that costs relatively little to add.

3.10 Discounting To Generate More Sales

3.11 Selective Discounting: Hurdles

3.12 Selective Discounting: Demographics

3.21 Discounting To Generate Bigger Sales

3.31 Increasing Prices For Greater Profits

3.10 Discounting To Generate More Sales

By selectively lowering prices we can increase the number of customers and the size of sales and profits… without leaving money on the table.

We discount, or sell for a lower price and smaller profit, for one reason – we're hoping for more sales and additional profits we would not see otherwise. More sales can take a couple of different forms.

More Sales

There will always be people that are interested in a product… but they're not quite willing to pay full price. They'll buy, but only once the item hits the discount rack.

Discounting in order to sell to these customers has a couple of advantages. First it lets us add to the number of active customers we're communicating with, and that have us on speed dial when something big happens and they are willing to spend more. A discount can be a good "gateway drug" to get people to try and fall in love with a product – the first step in becoming a full price customer.

More importantly these customers also represent profitable sales we're currently missing. Not as profitable as we'd like – remember, these customers won't pay full price – but still profitable.

Bigger Sales

There are also customers that will buy more if "more" is presented properly. This is not about buying more often, this is about buying bigger – like the moviegoer that walks up to the concession stand determined to buy just a small popcorn or soda but walks away with the large because they just could not resist the deal. Or the person who steps into a fast food burger place just to grab a burger but comes out with fries and a drink.

Discounting tends to be frowned on in the flower business, and it has to be handled carefully. If not we risk discounting to people that would pay full price anyway, and we're giving away profit for no reason. The goal is to find tactics that ensure we're only discounting when absolutely necessary.

3.11 Selective Discounting: Hurdles

Designed to deter all but the most serious bargain hunters, hurdles help ensure that you discount only when absolutely needed to make a sale.

When discounting, hurdles are used to prevent cannibalization of sales at full price. A well constructed hurdle will deter all but the most price sensitive customers from taking advantage of discount. A figurative hurdle is placed as an obstacle in their path; if they jump over the hurdle they have proven that they would not have paid full price and earned their discount.

An example is the "in-store only" specials at Pizza Hut. For most people an important feature of pizza is convenience – it can be delivered or, at the very least, be awaiting pick-up.

The in-store specials offer a significant hurdle in that you have to place the order in person and wait while it is cooked. This is designed to discourage anyone that would be willing to pay full price from taking advantage of the discount. Sales at full price are not cannibalized.

Early bird specials at restaurants are another example – if you are willing to eat dinner at 4:30 you are rewarded with a discount. This appeals to a different type of customer that would probably not pay full price later in the evening.

Coupons are another kind of hurdle, rebates an even more effective take on the same idea. Only the most determined shoppers will take advantage of the discount.

In The Flower Business

There are several hurdles that have been used and refined in the flower business.

Pick-Up Only (basic)

One of the great things about flowers is delivery. Taking that away and offering discounts on in-store purchases is a very effective hurdle. This is most effective if you target customers that usually order for delivery in an attempt to get them to spend more often.

Pick-Up Only (advanced)

A store in the city that has very limited parking, most of it on the street, offers a discount on in-store purchases between 4pm and 6pm each day. Why? Because there is no street parking during these times, meaning parking is almost impossible. The special only appeals to those who really need the discount.

Food Drive

The local BIA runs an annual food drive; the member florist offers a discount on in-store purchases to anyone that brings in a non-perishable food item. This is an upscale store, and this promotion brings in customers that do not shop there otherwise. It also generates great publicity for the store.

Container Refill

It is generally accepted in this business that recipients will spend less on flowers for themselves than their senders. An effective hurdle involves having them bring in a container to be re-filled while they wait (the hurdle), and some stores target recipients several weeks after they deliver their flowers.

Friday Office Delivery

Some shops that have concentrated business areas will offer discounts on Friday deliveries to that area. Because it is Friday the recipient will generally choose to haul the flowers home for the weekend and, hopefully, politely suggest to the sender that they would rather receive flowers earlier in the week – allowing them to enjoy the flowers on their desk all week long.

Advance Orders

Discounts for orders placed very early can be an effective hurdle. Customers that are prepared to pay 30+ days in advance are likely to be very serious about saving money.

Coupons

Coupons are a hall-of-fame hurdle, and allow for a number of complimentary hurdles – must be redeemed in person, only applicable to certain types of sales, minimum purchase, etc.

One shop set out to increase their average order value to $75. The good news is that they were successful. The bad news is that they also realized that their order volume had gone down. There were selling larger but fewer orders, likely because some of their more price sensitive customers got scared off when higher prices were suggested.

Coupons are absolutely perfect in this situation. In this case the first step was to find customers that…

- had not purchased in the last year
- spent less than $75 on average

… and then send them a discount coupon. If price was indeed the issue the coupon would hopefully “activate” them.

Bad Weather

If you don’t want to go out in extreme weather your customers won’t either, making it a very effective hurdle. In the Northern winter that might mean a “blizzard special”.

If weather is working against you it’s more important than ever to try and generate sales. Many of the sales lost to a day of bad weather will never be recovered, so you can’t afford to approach it as a quiet “get some paperwork done” day. You need to stimulate sales.

Discounts, using weather as a hurdle, are a perfect way to do that.

Important Note

A well-designed hurdle should deter anyone that would be willing to pay full price. Don’t make them easy or you are simply cannibalizing full price sales and giving away your profit.

3.12 Selective Discounting: Demographics

Some businesses offer discounts to specific groups like students, seniors, or active duty service personnel. Very generous of them isn't it?

Generosity has nothing to do with it. Instead these discounts reflect the fact that members of these groups generally have less disposable income and are likely unable to purchase at regular prices. Discounts are the only way to turn these people into customers. It does however look generous, which is good for reputation.

You may also see discounts for other groups – sometimes school teachers, first responders, nurses, etc. Should you offer these groups discounts as well?

It will really depend on how well they are compensated in your area and your standard prices. If these people rarely shop at your store and you believe it is because their compensation makes your prices unaffordable then you may want to consider special discounts. But remember – this is not about being nice, it's about creating additional sales to customers that would not buy from you otherwise.

It's worth noting that restaurants may offer discounts to first responders for reasons that do not apply to retail floral. First responders often work, and eat at, odd hours. If you own a diner there is value in having customers that come in at off peak hours, and first responders are great at that.

Another common identifier is membership in Automobile clubs like AAA. You've likely seen that almost all hotels offer special AAA rates. It is generally accepted that these members are more likely to be comparison shoppers that are focussed on value.

In Your Flower Business

The goal is to identify groups that typically have less disposable income, making them less likely to be your customers. If it is easy to reach groups of these people so much the better.

Students and seniors are the most common examples. Students can be reached through schools, seniors can be reached through local groups and assisted living facilities. Always remember the goal is to avoid cannibalizing full price sales, so don't promote these discounts to upscale private schools or more expensive seniors homes.

Other groups should only be approached if you believe that your standard prices are out of their reach, or you believe they can do an outstanding job of spreading the word and bringing in new customers.

3.21 Discounting To Generate Bigger Sales

Get customers to spend more by discounting only additional units they were not intending to purchase.

There are a few different ways to increase sales. You can sell to more customers. You can get those customers to purchase more frequently. You can also increase the size of each of those purchases.

But how? How do you get the customer that called looking for one dozen roses to purchase eighteen or twenty-four roses?

Some vendors (like the snack bar at the movie theater) use discounting – larger sizes are discounted significantly. Others. like the gas station, do not discount at all. What is right for flowers?

Again it starts with an understanding of your product and the value it offers the customer. The three key considerations are as follows:

Flowers Offer Diminishing Marginal Utility

"Utility" means the benefit a product provides, which in the case of flowers is "pleasure". The reality (remember, the goal is to understand the value our product provides) is that twice the flowers do not provide twice the pleasure; 24 roses will not make the recipient twice as happy as 12.

Flowers Are Perishable

Like movie theater popcorn or ice cream cones (and unlike gasoline) flowers are perishable. This is an important consideration because it means they cannot be stockpiled or "saved for later" – a customer can't take advantage of a volume discount at Valentines and save half the flowers for Mother's Day. Also known as the "inventory effect".

Flowers Are A Discretionary Indulgence, Not An Essential Staple

Unlike fuel or water flowers are, in most cases a discretionary purchase – the customer does not have to buy them, and they certainly don't have to buy more. We have to motivate them to change their behavior

When a product is discretionary and offers diminishing marginal utility additional units are usually discounted to compensate, bringing the price in line with the value the customer places on the product.

The only concern is cannibalization – you don't want to sell discounted additional product now if the customer can save and use it in the future instead of making another purchase at full price. Because flowers are perishable this is not a concern.

Together this means that flowers are a perfect candidate for volume discounts that motivate the customer to purchase additional product.

In Your Flower Business

Offering this kind of discounted upgrade is an excellent way to increase sales and profits. For example a customer that chooses one dozen roses at $60 should be offered an extra six roses for $15 more and an extra dozen for $30 more. The customer that asks for a $50 arrangement should also be offered one twice as big at $75.

The profit margin on these incremental sales will be lower, but only by discounting you will sell more of these upgrades.

It is important to present these upgrades in such a way that you do not cannibalize larger, higher margin sales. Imagine a customer calls and says they wish to order roses. You might reply with something like:

> *We have our signature 25 Rose Spectacular at $125 and our premium dozen at $60.*

The 25 Rose Spectacular gives the customer a chance to spend more money and also introduces the anchor effect, making any subsequent smaller offer seem like a better deal. And it deliberately does not involve any kind of volume discount, in fact just the opposite. It is not designed to appeal to the buyer looking for the lowest per-rose price (we'll get them later with the upgrade). Instead it is, like the three liter bottle of alcohol, designed to appeal to the customer looking for a spectacular presentation.

If the customer goes with the more expensive 25 Rose Spectacular… fantastic. If instead they go with the dozen we follow up with our discounted upgrade like this:

> *Great. We have a special right now – would you like to add 6 roses for an extra $15 or an extra dozen for $30? It's an extra dozen roses for just $30 more.*

This kind of value (100% more flowers for 50% more money) is very attractive to buyers. If $60 for one dozen seemed like a good deal then two dozen at $90 seems even better and some customers will upgrade just to "save" money and/or "average down" the cost of their flowers.

It only works if the discount is big enough to be meaningful. If you try and have it both ways, by trying to sell upgrades at a very small discount, you won't get many takers. Imagine you are the customer and ask yourself what kind of discount it would take you to radically change your intended purchase amount.

Sales Note Upgrades should always be presented as a "special", in part because just the use of the word makes the offer more appealing but also so that customers don't call expecting the special. If they call wanting two dozen roses you want to sell them the higher margin 25 Rose Spectacular.

Accounting Note To avoid confusing your COGS and margin reporting such sales should be entered as two different items – the first dozen (which should belong to a GL account that you expect to show standard margins) and then the six rose upgrade (which would belong to a special "upgrade" GL account that you would expect to show lower margins).

3.31 Increasing Prices For Greater Profits

Some customers are willing to pay more. Our job is to create a more expensive version that appeals to them.

One of the problems with fixed prices is charging too little. When we put a single price on a product we're undercharging everyone willing to pay more. The goal is to charge more from those that are willing to pay higher prices.

The purest implementation of this would be offering exactly the same product to different people at different prices based on their willingness to pay. Such an approach is possible but difficult and ill-advised. Although people might be willing to pay more they tend to get upset if they find out.

A better approach is to offer slightly different versions of a product at very different prices. Relatively small changes in your costs but with larger changes in your pricing and profits.

Flights are a perfect example. It costs the airline approximately 30% to 40% more to provide a business class seat because the seating density is lower and they include a checked bag(s), food and drinks…. but the difference in price is usually about 500%. A relatively small difference in cost becomes a very big difference in price and profit.

The differences in versions are typically defined by changes in attributes – a quality, characteristic, or property. This is very common with food, where changes in attributes go alongside large changes in price.

For example the organic section of your supermarket – it exists because there are people that are willing to pay much more for a slightly different version of the same product. The net profit margins at Whole Foods are almost five times that of the industry average for grocery stores.

Within the grocery stores eggs are a perfect example of how attributes can be used to increase price and profits. Some attributes, like "Farm Fresh" or "All Natural" no substantive meaning – they can be applied to all eggs. "Hormone Free" is meaningless because it's illegal to give any chickens hormones. "Antibiotic Free" is almost meaningless because antibiotics are rarely used in egg farming.

The attributes add little or nothing to the cost of producing the eggs, but they can double the price and the profit – by charging for attributes people are willing to pay for.

In Your Flower Shop

The goal is to come up with attributes that can be attached to versions of products – attributes for which you can charge more.

An attribute can be as simple as a name: Premium, Platinum, Signature, etc. If you have a line of "Signature" products people will expect them to be more expensive, and customers willing to pay more will be attracted to them.

You can use other attributes for your fresh product – you could draw attention to the fact that it's local, or that it comes from an exotic, faraway land. If there is some other attribute related to growing, sustainability, chemicals, etc… you can use that.

The same thing applies to hard goods. Maybe they are locally sourced or made in USA – attributes you can use to raise the price. Maybe they are made of recycled or biodegradable materials – people will pay more for those attributes.

There are design attributes as well. Do you have an AIFD designer or Sylvia Cup competitor on staff? Their credentials become another salable attribute.

Even your services can have attributes. For example – timed delivery. Delivery confirmations. Look for differences in attributes that have a small impact on cost but allow for a large change in price.

4.00 Other Pricing Models

A look at other advanced pricing models that can be successfully applied to the retail flower business.

So far we have looked at different ways of preparing and presenting prices. There are also other more advanced models that can be applied to increase sales and profits in the flower business. They use the same basic principles discussed earlier, but combine different products and options to appeal to different customers and shape spending patterns.

4.10 Bundling

Florists have been unbundling as other businesses have fallen for the benefits of bundling. Why there is a place for each.

Bundling, or package selling, is the process of grouping complimentary products together and selling them as a single item. The burger, fries and drink combo at a fast food restaurant is a perfect example.

And fast food has become more aggressive about selling bundles over the past few decades. If you look at their menu, or the concession stand at your local movie theater, you will likely see that most of the space is dedicated to selling bundles.

There is good reason for this. Research shows that people spend more when offered bundles, buying more than they would if you had to order each item separately. And while they might assume there is some kind of volume discount for buying all the items together bundles continue to sell even when they are priced higher than the sum of their component items.

One the things that appeals to the customer also benefits the vendor – lower "ordering costs". Instead of having to select (the customer) and ring in (the vendor) there is only one item to worry about.

When a customer calls or comes into your store to place an order it is much like the person ordering lunch, and there are real advantages to offering bundles.

However florists have spent recent decades unbundling by breaking out and charging for things that used to be included free – things like delivery.

In this florists have echoed the airline industry, who continue to unbundle and charge for things like checked bags, food, etc. that were once included in their fares.

Both industries do it for similar reasons. Unbundling allows the vendor to present a lower initial price to a prospective customer. This is essential when trying to win over a comparison shopper.

It's easy to compare the cost of both flowers and flights on the internet. In order to win that showdown the vendor needs to present the most aggressive possible price, and unbundling helps them do that.

Unbundling in the airline business gets most of the attention (we're all annoyed every time something like checked bag fees are broken out) but they still do plenty of bundling. One of the big advantages of premium fares is that they usually include drinks, food, and free checked bags.

There is no single correct approach. Ideally you can offer both.

In Your Flower Shop

Some people will always be drawn to bundles. They're faster and easier to order, and they take some of the frustration out of ordering flowers because the "bottom line" is disclosed immediately and there are no surprises in the form of extra fees and charges.

This Valentine's Day, when someone calls to order roses, consider asking them if they'd be interested in a bundle that includes a card and delivery. Not every customer will be interested, but the ones that are will be more satisfied – you're giving them the option they want.

The typical effective discount on a bundle is less than customers assume, usually between 2% and 10% but generally closer to the low end of that spectrum. Research shows there doesn't have to be *any* discount for the bundle to be effective, but if someone does the math they will likely be annoyed if there isn't some savings. One way around this is to include something that is not available for purchase otherwise, perhaps a special card that can't be purchased separately. This makes it harder to calculate the discount.

4.20 High-Low Pricing

In high-low pricing the customer pays an up-front fee to secure future discounts.

The best known examples are Costco (upfront annual membership fee to get discounts and sometimes cash rebates) and Amazon Prime (upfront annual fee to get free shipping and other benefits)

The idea is that the upfront fee, in addition to generating revenue and profit directly, assures loyalty and increases purchase size and frequency. Committed to making the most of their investment the customer will spend more. This is sometimes referred to as the Sunk Cost Effect.

In Your Flower Shop

A florist may choose to offer year-long discounts or free local delivery in exchange for an up-front fee, with the intention of securing loyalty and generating more sales.

In either case the offer should be targeted very specifically, and only to customers with spending patterns, or predicted spending patterns, that will benefit your store.

Florists are typically very kind and generous people, and that can be a problem. If for example a store implements a policy that provides free local delivery in exchange for a $99 annual membership fee the temptation is to then think of which customers this most benefits.

> *Mrs. Smith orders flowers every other week – I can't wait to tell her about this. She'll save a fortune!*

Saving money for your customers is not your goal. Any money your customers save is money you lose.

You also need to be careful that you don't open up any loopholes that could cost you a fortune. For example you don't want a customer that purchases a package for free delivery then sending his girlfriend a single rose every day for a month.

Order minimums work well for this. Let's say you have a customer that typically spends $75 on an order four times a year, and that includes $15 for delivery. This means total annual revenue of $300.

A good high-low package might offer free delivery on any order over $75 for an annual fee of $99. Customers that like this kind of deal typically over-estimate how much they will take advantage of it (health clubs make most of their money from people that would be much better off purchasing day passes) and there is a good chance that the customer won't actually purchase any more frequently.

In that case you have now increased revenues by at least 33% – four orders of $75 (flowers only) plus the $99 membership fee. Even if your $15 delivery really costs you that much you were able to clear $39 on the membership fee ($99 - four $15 delivery fees). As a result margin and profit are both higher, and you were able to fill four larger orders.

If the customer orders 50% more frequently with this plan you increase revenue by more than 80% and generate at least $549 in revenue (six orders of $75 + $99 membership fee). You are still $10 ahead on your delivery fees, meaning both margin and profit are still up.

If the customer orders more aggressively than that you will start to lose delivery revenue/profit, but it is likely a good tradeoff. If the customer were to order twice as frequently, eight times a year, you would increase revenue by more than 130% and generate at least $699 in revenue (eight orders of $75 each + $99 membership fee)… and you have lost only $20 in delivery revenue. You have more than doubled sales by providing an effective discount of just under 3%.

Important Note Avoid the temptation to offer longer-term or "lifetime" deals. Abuse of lifetime memberships in the health club industry led to the introduction of legislation that can apply to such deals and cause more trouble than it's worth.

5.00 Special Issues In Retail Floral

The retail flower business is unique, and so are the pricing challenges. A look at how industry-specific issues can be addressed.

This section looks at pricing challenges that are largely unique to the retail floral industry, and how modern pricing tactics can be employed to overcome them

5.10 The Problem With Delivery Fees

Many customers don't like delivery fees. Why that is and how this reaction can be addressed through different pricing models.

It is a difficult subject to talk about but many (not all, but many) customers resent delivery fees. This leads to a mistrust of flowers as a gift, and makes them more susceptible to order-gatherer sites where prices and delivery fees are artificially low.

Twenty years ago many florists offered free, or at least heavily subsidized delivery. Now florists increasingly look at delivery as a profit center, often charging $15 or more.

This can surprise some customers. Take a consumer who deals with a florist and a pizza place in the same strip mall. The pizza place probably charges less than $5 to deliver a $15 pizza in under forty minutes while the florist might charge $20 or more for delivery some time the same day, and even then only until maybe 2 PM, at which point they switch to next day delivery.

A florist will typically counter this by saying that the pizza driver is more likely to get tips. That may be true but a. the customer doesn't care about than and b. the tips aren't big enough to make up the difference between the two fees.

The florist will often point out that retail floral is the only business that offers same day gift delivery, and that they can and should take full advantage of that.

It's true. Florists have something close to a monopoly on this and that does give them the ability to charge what they like, but nobody likes a monopoly.

A customer on a budget who picks out a $30 arrangement is likely to be unpleasantly surprised when a $15-$20 delivery charge is introduced towards the end of the sale – wouldn't you be surprised if a $15 delivery charge was suddenly applied to your $20 pizza?

In the end all that matters is the way that customer perceives the fee. It doesn't matter whether it is "fair", all that matters is whether the customer considers it fair. If they don't they will likely be resentful, and inclined to shop elsewhere.

What pricing models can be used to address resentment of delivery fees?

Free Delivery Over $X

This model seems to accomplish two goals – it incentivizes the customer to spend more on product and takes the problematic delivery fee out of play. The problem is that if you don't do it right you will be leaving money on the table.

Yes – if someone spends $200 on an arrangement you are likely happy to provide free delivery. But it's just as likely that someone spending $200 on flowers has no problem with a $15 delivery fee. In fact they might be willing to pay even more – wouldn't you generally assume that it costs more to deliver something bigger? It does with the USPS, Fedex and UPS so why give that money away?

But the promise of free delivery might help increase order values. If for example you had someone who was talking about spending $75 you could offer them free delivery if they went to say $100. Whether it works will depend on your delivery cost and standard margins – it only makes sense if the extra $25 in flower revenue is worth more than what you are giving away on delivery.

As always customer data is key – you would want to target such an offer only to customers who were always spending less than the free delivery minimum. Ideally however it is better to use another approach, one that tackles the underlying problem – how each customer values delivery.

High-Low Model

The section on high-low pricing contains good information on how this model can be used to overcome resistance to delivery charges while actually increasing sales and profits.

Just like Amazon Prime a high-low program lets the customer who doesn't like delivery fees pay to make them go away, and will almost always be more profitable for you.

Bundling

The section on bundling looks at how packages can be used to address concerns over delivery charges. Although the delivery charge is still in the package price attention is no longer being drawn to it, and the customer doesn't have to think about it.

Mentioning the availability of bundles at the beginning of a call can effectively stream customers that don't want to think about delivery charges and would prefer to focus on the "bottom line", avoiding resentment and also reducing the time it takes to complete the order.

Versioning

Delivery can be "versioned", with higher and lower priced options. Timed and/or express delivery can be a premium option, allowing you to charge more from the people that don't mind paying for it.

Meanwhile discounted versions, like next-day (a hurdle) delivery can be created for price-sensitive customers. Salesmanship is key here. If a customer requiring same day delivery expresses concern over the price you can explain that you'll do it for the next day price *this time*, and explain that next time they should call a day in advance. In a situation like this don't stress about the fact that your are losing the higher same day fee, embrace the fact that this is the perfect implementation of a "one product, many prices" strategy that optimizes the price charged to each customer.

Better Selling

If you do get resistance when the delivery fee comes up suggest pickup instead, but don't just forget about the delivery fee. Instead suggest that they add at least some of what they would have spent on delivery to the product value, then save delivery by picking up.

In Your Flower Shop

Offering free delivery on orders in excess of a certain dollar amount is the least advisable. It works on the assumption nobody wants to pay delivery and ignores the true objective of aligning your prices with what the customer is willing to pay.

Bundling is something you should be doing anyway simply because bundles are so appealing. That they also address concerns with delivery charges is a bonus.

Versioning delivery charges, with higher and lower priced options (in addition to the bundles mentioned above) is the best option, because it follows the directive to align prices with customer values. The customer that is willing to pay more for delivery can, and the price-sensitive customer has access to less expensive options.

The high-low model is a great addition for shops willing to go the extra mile. Adoption will be low, but it is very effective at increasing order value, sales volume and profit.

5.20 Quoting Weddings And Events

Pricing tactics that can be used when quoting to close more events at more profitable prices.

Every time you quote an event there are three main things that can go wrong from a pricing perspective.

- The customer goes with a lower quote from a competitor, a price you would have matched if you had the chance. You wouldn't have led with that price, but you would have offered it if you knew it would secure the sale.
- After a few misses like that you sharpen your pencil and quote the next event more aggressively. This time the customer says yes so fast you realize you came in lower than they expected. They were willing to pay more – you have left money on the table.
- The customer chooses to go with a higher quote from a competitor because the higher price better aligned with the way they perceive the relationship between quality and price. This is the worst possible situation – you could have had the event if you had charged more.

Success depends on the same thing – selling each event at the maximum price the customer is willing to pay.

The advantage here is that there is a conversation with the customer. With your Valentine's Day specials you have to just put them out there for all to see. When quoting an event you get to learn something about the customer and the way they value flowers for this event. If for example they mention they have been looking at purchasing from a drop shipper you can assume you should use charm pricing and cut it close. If however they mention they are getting married at the most exclusive country club and are also talking to the most expensive florist in town you can assume they are at the other end of the spectrum.

The downside is that – by the time you are preparing the quote – you generally don't offer multiple products. At Mother's Day you can have a product that appeals to each buyer on the spectrum, something that is a little tough when quoting an event.

But you can offer different versions. At the lower/less profitable end you'll use hurdles to discourage all but the most committed bargain hunters – the ones you risk losing to a lower priced quote. At the other end you'll introduce attributes that encourage the buyers that are willing to pay more to do just that.

Decide On Your Tiers

The first step is to select five names for different package tiers on a spectrum that goes from least prestigious/expensive to most prestigious/expensive. Here are a couple of samples.

Least Prestigious/Expensive		**Middle**	**Most Prestigious/Expensive**	
Super Saver	Saver	Standard	Deluxe	Super-Deluxe
Bronze	Silver	Gold	Platinum	Diamond
Value			Premium	Signature

You'll need to find names that work with the character of your shop. Please note that while the names shown above on the left (least expensive) may be tacky that is, to some extent, the idea. You might not want them to be this tacky, but the idea is that they should add some degree of stigma – you want to discourage all but the shopper that really is looking at getting their wedding flowers in crates from a drop-shipper.

Select Your Hurdles

The next step is to determine what hurdles you can employ to discourage people from going to the cheaper, less profitable end of the spectrum. As already mentioned the name is one – that alone may be enough to push someone up from the “Super Saver” wedding package unless they really are on a tight budget.

Another possibility is to go from delivery, to pick-up, to pick-up the night before. This discourages all but serious bargain hunters – members of the wedding party would likely rather be at the rehearsal dinner, getting ready, etc. At the same time it gives someone who needs to save money the chance to do just that.

Select Your Attributes

Now you need to determine what attributes you can add to encourage people to move up to more expensive and profitable options. Again the name is a big part of it – aspirational names at the high end are the first step in subtly encouraging people to spend more money.

One possibility involves the setup – with higher end versions a designer, not just a driver, will do the setup. At the very high end they’ll personally hang every pew bow and pin on every corsage.

This is a great chance to capitalize on credentials, awards and celebrity. At the higher end the bride will consult directly with your AIFD, Sylvia Cup winning locally famous designer, who will personally prepare and set-up/pin on every last piece. (and if your best designer doesn’t want to do that remember – the key here is that you’re going to be naming a price that will make it attractive for all involved).

Another option involves publicity – at the higher end you will send press releases to the local paper, post information on social media, etc. This is obviously most effective if your brand is such that people want to be associated with it.

Preparing The Quote

Preparing an individual quote begins with a read of the customer and the selection of three of your five tiers. We stick with three because we don’t want the customer to get so confused they pick up another quote.

The trick is selecting which three… If you know the customer is on a tight budget and sensitive to price you would most likely choose the three cheapest tiers (1, 2, 3). If they are high rollers you would likely choose the three most expensive. If you can’t get a read you would probably choose 2, 3 and 4 or 5.

In each situation the cheapest tier you offer is the one designed to make sure the customer doesn’t walk. It will typically offer the thinnest margin and if you don’t get the business at this price you won’t really mind. You wouldn’t have been willing to do it for much less anyway.

The higher tiers are more profitable, and where you want to drive customers. These are there to avoid leaving money on the table. If there is any chance the customer is willing to pay more they should be drawn to these.

You now have to come up with a price for each tier. Again the low end will typically be the least profitable for you. Earlier on, in the fixed pricing section, we said that a low price doesn’t have to mean low margin. This is a little different because there are likely different shops competing to sell to the same specification. The lowest price is designed to ensure you get the sale, and it should be priced aggressively.

Because the lowest price version is also the least profitable you now want to encourage people to move up to a higher tier. This is done first by removing hurdles – for example pickup the night before at tier one becomes pickup the same day at tier two to delivery at tier three.

Attributes are introduced to further encourage people to go higher. Delivery at tier three becomes delivery and setup by the consulting designer at tier four, switching to your AIFD designer at tier five.

There are two ways to approach margin at the higher levels. You can be conservative, in the hope of moving more people to that tier, or really swing for the fences – go high and be surprised and delighted when you sell an event at that tier.

5.30 Fighting Order Gatherers & Winning Comparison Shoppers

Order gatherers make it tough to win over online comparison shoppers but there are pricing tactics that can help you be more competitive.

Charm Pricing

Look at almost any order gatherer website and you will see that they use charm pricing. They aren't worried about what looks tacky, they care only about what sells. And they know charm pricing sells.

They have the resources, and enough traffic, to do meaningful testing. In such a test half of the visitors to their sites see round prices and half see charm prices. They then look at the data on who buys and go with the whatever works best. Charm pricing works the best. It is so powerful that customers are more likely to buy the same product at $49 than at $45!

But, again, there is no one-size-fits-all. A selection of Premium or Signature designs with round prices will appeal to a different set of buyers.

Unbundling, Reverse Bundling

Airlines have had to keep unbundling so they can be competitive in online comparisons. Trans American Airlines starts charging checked bag fees of $25, which lets them reduce the cost of the flight by maybe $15 (they always keep a little for themselves, it is never revenue neutral). To stay competitive Oceanic has to unbundle bag fees as well. Oceanic might even try and get the upper hand by reducing the price of their flight by $20, but having a checked bag fee of $35… and hoping people don't do the math.

It's unlikely your prices still include delivery, but they might still be subsidizing it. At the very least your delivery fee should cover your true cost of providing delivery – it should be fully unbundled from (no portion of it included in) the flower prices you show on your website. Otherwise you are at a disadvantage.

If your delivery costs are very low you may have a secret weapon. Just like travellers tend to look at the cost of competing flights without thinking about competing checked baggage fees, online flower shoppers are far more likely to be focussed on the price of your flowers rather than your delivery fees.

If your delivery fee is lower than what is typically quoted by your favorite order gatherer you are likely leaving money on the table:

	Order Gatherer	**Real Local Florist**
Product	$49	$54
Delivery Fee	$15	$10
Total	$64	$64

The total price is the same but it doesn't matter because you lose the initial price comparison. The customer never gets far enough to see that the total would have been the same (if they were even inclined to notice).

The opportunity is a kind of reverse bundling, where some of the cost of the flowers is added to the delivery fee – the flowers move down to $49 and the delivery up to $15. Now you are competitive in the comparison.

More Resources For Retail Florists

More helpful resources for resources for retail florists, including the most current version of this document, can be found on the FloristWare website:

floristware.com/florist-resources

We're pleased to offer a powerful, affordable and easy-to-use POS system for retail florists that is free from any wire service entanglements. If you would like to increase sales and order values, save time and money, and take back control of your flower business we hope you will give us a call at 888-531-3012.