

# Synchronous Solutions

*The continuous pursuit of excellence*

## *Pricing your products*



The fact is, pricing your products is far from an exact science. Ultimately, it is all about what the market will bear. If there is one absolutely true statement regarding pricing, it is this:

***The price of your products is determined by your customer's perception of value and availability.***

Let's examine that statement.

**Price** is the quantity of payment given by one party to another in return for a unit of goods or services. Typically, in the countertop industry, the unit price is set as an amount per square foot of surface materials. Add to that the price for sinks, faucets and all the special features like premium edges, chip minimizer, digital layout, tile backsplash, expedited completions, etc. All of those enhancements should increase your income on every job. Don't give any of it away.

**Customer's Perception.** Your reputation in the market has a lot to do with the prices you can charge. If you are known as a quality provider with fast processing who always meets the promised dates, you can reasonably charge a premium price. You should not seek to be the cheapest. There will always be someone who can beat your price. You should charge for excellent quality and superior customer service.

**Value.** This is the combination of fair pricing, acceptable quality, timely completions, reliability and *trust* that your customers expect from you. The higher your perceived value, the higher your prices can be. You should not allow your company to be known as a commodity provider and your prices should reflect the value you deliver to your customers. Going beyond the basic requirement is a good tactic too. One of my clients jokes that they can mow the customer's grass if it needs it. Another noted that their Installer cleaned the light fixture in the kitchen when the job was complete. That went a long way in establishing *value* with the customer.

**Availability.** This has to do with meeting customer need dates. A common standard today is a one-week *process time* from Template through Install. Template on Monday and Install the next Monday. In any case, when you make a promise to complete an installation by a given date, you should do

everything you can to meet that date. Missing a promised installation date can cause more damage to your reputation than any other failure. If an expedited completion is requested (and your system can do it), this should garner a premium price.

**Your cost of production has little to do with the price of your product.**

Another fact of life concerning pricing is that your cost of production has little to do with the price of your product. In other words, you should pay much more attention to “what the market will bear” than a detailed calculation of your manufacturing costs.

Here is a personal story to illustrate that point. In another lifetime, I was a manufacturing manager in the apparel industry. The plant I managed made Ralph Lauren Polo shirts. These were high quality knit shirts for men. And they were expensive at the retail stores. Likewise, we got paid well to produce them. Our plant also made the same shirt for JC Penny. It was the same fabric; the same patterns and we used the same quality standards. The only difference was the label and embroidery on the left chest. The labor content of the two shirts was the same. We got paid a lot less for the same work on the JC Penny shirt.

The point is that the market was willing to pay much more for the Ralph Lauren Polo label. Our customer paid us more as well. So, this presented a challenge in level-loading our plant. If we had too much of the JC Penny product, it took a lot more units of production to make the same money. If we had a heavy load of the Polo shirts, we made more money even if production was low. Unfortunately, my boss at the time expected the high profits all the time no matter what we were manufacturing.

This phenomenon is not unlike the situation in a countertop fabricator that does work for retail customers (who are willing to pay premium prices) and at the same time does work for box stores that emphasize low prices. The same job for a retail customer could be 30% more compared to that job for a box store, while the cost of production is the same. Ultimately, the cost of production has little to do with the price of your product.

A solution to the dilemma of level loading is to control the mix as best you can. Try to blend the high value and low value products in your daily mix so that the shop does not experience the “waves” of high and low demand that will diminish productivity and cause lots of chaos among your workers.

In the Synchronous Flow system, we use Throughput Dollars (\$T) as the metric for planning, scheduling and tracking the orders through the system. \$T is “the measure of value added” for your business. (See “Square Feet vs. Dollars” in the July 2018 edition of the Slippery Rock Gazette at [www.slipperyrockgazette.net](http://www.slipperyrockgazette.net)). Using that metric, you can also calculate the \$T Ratio, which is the percentage of a sales dollar that will become \$T.

**$\$T \text{ Ratio} = \$T \div \text{Sale Price}$**

We have learned over the years to target that ratio for given products. In other words, you can adjust the price until you have achieved the desired \$T Ratio. The \$T Ratio varies by product and a bit by region of the country, but this is a good way to gain confidence that you are setting your price at a

profitable point. Of course, this assumes that the customer will accept this price level, which is always paramount.

Another measure that we use in the Synchronous Flow system to set pricing is Octane, which is \$T per hour of time at your system's Constraint or Control Point. Typically, in the countertop industry, we use Install as the Control Point. We have learned that a good target for Octane is about \$700 per hour. The process is to calculate the \$T for the order as the projected sales price minus the investment in materials and freight. Divide that number by the projected drive time and job time for the installation. That equals Octane. If the result is below the target of \$700, you can adjust the price higher to achieve a higher Octane. Again, this is a method to help assure that your pricing will be profitable. You still must learn what the customer will accept.

Another popular approach to pricing is called "Hot Sauce" which is the upcharge for the enhancements beyond the basic countertop such as premium edges, chip minimizer, digital layout, tile backsplash, expedited completions and any other feature that you can sell to your customers. A clever App has been created by Geoffrey Gran and Bill Hauer at The Countertop Factory-Midwest. The fact is that there is money to be made in selling Hot Sauce, i.e. the enhancements beyond the basic countertop. The App will help you encourage, manage and track those additional sales. Check it out at [www.tcfmidwest.com](http://www.tcfmidwest.com)

The bottom line on pricing is that it has a major impact on your *bottom line*. As such, it should be a part of your daily routine. It is not an exact science, but there are techniques and strategies that you can utilize to make more money. Afterall, that should be The Goal of every company.



For more information on how to use *Throughput* (\$T) to manage and control your pricing contact:

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