

EPICOR

Managing Your Margins

How to grow more quickly, build loyalty,
and maximize profits



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Profits and Growth Are Everything—so Why Do Margins Matter so Much?

With big box stores and online retailers causing price wars, it can seem like the only strategy for growth is to simply match prices. However, price matching may not be possible for independent retailers, with their significantly lower volumes and incrementally higher costs.

Smaller retailers offer value the other channels can't—personalized service, location convenience, localized focus, and a better customer experience. Still, today's consumers demand at least a sense of price competitiveness. How can you manage this balancing act?

That's where margin management comes in—providing a scientific, measurable way to set optimal prices and enable independent retailers to grow revenues, maintain profits, and keep customers coming back.

Price Perception

Choose your promotional image

How can independent retailers attract (and keep) customers, who may feel that small shops deliver great service with the downside of higher prices? The simple answer is to change their perception—not through any deceptive means, but by knowing where and when to price competitively.

For any given product category, department, or other slice of inventory, retailers can choose from two perceived pricing scenarios:

- Everyday low pricing. Consumers who see you this way think you're the place to shop every day, because they can rely on competitive, discounted pricing.
- Full price plus heavy promotions. This is the common perception of big box stores—providing quality brands and private labels, marking up “retail” prices, then perpetually discounting to give buyers a sense of urgency.

Combining pricing strategies

Independent retailers can enjoy the best of both worlds by setting everyday low prices on some items, and by using promotions and discounts on other items. The trick is to choose the right items for each approach. Here's how:

- Set everyday low prices on fast-moving items. Fast-moving items—those bought frequently and repeatedly by consumers—are also the most price-sensitive items.

- Keep those low prices visible. Set low-priced items on end caps and at the point of sale (POS), where they'll get plenty of attention. This lets buyers know your store has the low prices they prefer—and, if you've chosen well, you'll enjoy higher sales volumes on these lower-margin items.
- Set prices and margins higher on slower-moving items. Here's where you can create the bulk of your profit. Consumers will choose to purchase from you because of your convenient location, your knowledge, and the fact that you're stocking an item that might be hard to find elsewhere.

Tip:

Take the time to identify the items that only your business sells. These are prime candidates for a more aggressive mark-up.

Review your POS system's reports

There's no need for guesswork about which pricing approach you should use for which items. If it's a good approach, your POS/retail business management system will tell you which items are most popular. Your system should:

- Categorize items by department, class, and fine line
- Give you a way to designate items as commonly available and hard to find

- Give you a way to rank an item's popularity
- Use algorithms to rank an item's popularity

Get in the habit of checking your system's reports to stay ahead of sales trends. Watch for:

- Fast-moving, high-margin items—these undercut your pricing image.
- Slow-moving, low-margin items—these shrink your profits.
- Dead items—these are tying up your capital and will wind up selling for a loss.
- Everything else—the faster an item moves, the more competitively you'll have to price it, and the more you'll want to merchandise it prominently.

Tip:

A co-op suggested price does not take your local market into account. Adjust accordingly—and don't forget to take advantage if you're the only place in town offering an item for sale.

Continuously fine-tune for optimal pricing

Once you have begun setting more informed prices, fine-tune them continuously. Best practices include:

- Discount only where you must—where it will help customers see you as a price leader. Consider discounting certain categories to certain customers.
- Use your retail business management system to develop a pricing matrix model that can create more granular pricing categories among customers, customer types, and various item groupings.
- Raise margins on impulse purchases, even if they are fast-moving items—and boost margins further by displaying and promoting complementary items.
- Test item elasticity. Use technology that measures how demand reacts to price adjustments, then experiment with higher markups.
- Take advantage of price modeling. The best retail business management systems let you propose price changes and analyze the expected impact on sales and margin dollars before committing to a change.



Margin Adjustments

Optimize up your prices, then round up your revenues

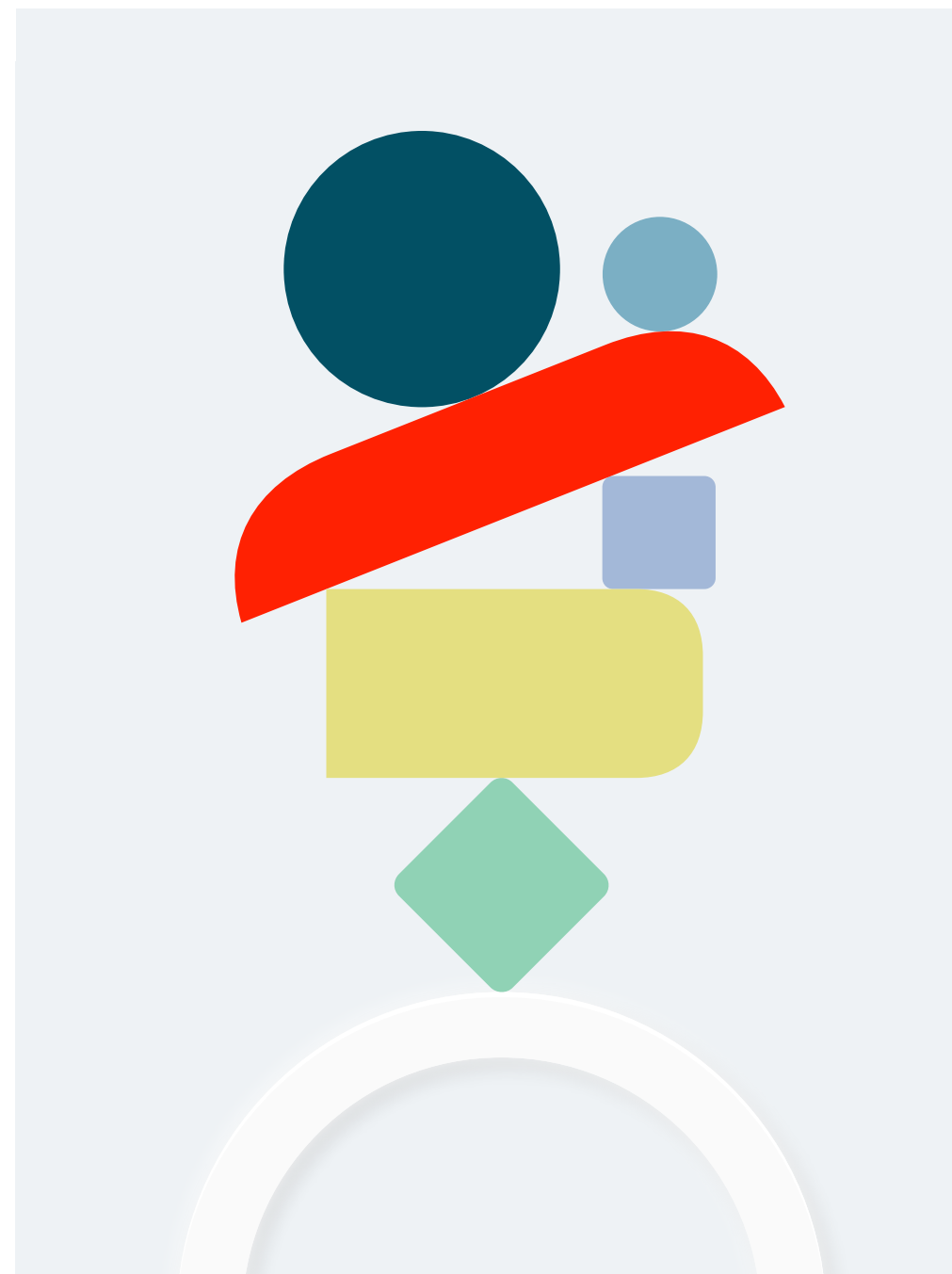
Once you have used a pricing perception strategy to get margins approximately where they should be, shape the resulting prices to meet consumer expectations. Round up the pennies to end with a nine. Customers are comfortable with this familiar pricing standard, and it yields extra pennies for you on each transaction. Those pennies add up—even if you have just a three-percent average upward round, every \$1 million in revenue rises by another \$6,000.

Take rounding to the next level and try these profitable strategies:

- Go beyond the nine-cent rounding. For higher-priced items, round more aggressively. For example, on prices between \$4.00 and \$4.99, use a rounding scheme that includes only target amounts of \$4.29, \$4.40, \$4.79, and \$4.99. Tailor these ranges even more finely, and you will boost margins even farther.
- Round dollars, too. For products that only you stock, or for items rarely purchased more than once, round up on the left side of the decimal. Customers aren't likely to differentiate much between \$6.99 or \$11.99. You're still giving your customer value and convenience, while collecting the higher margin that convenience commands.

Tip:

Use your retail business management system to help with rounding. Good systems let you set up rounding schemes—on both sides of the decimal—so you don't have to do the work manually.



Promoting Higher Margins

Using discounts and promotions to grow revenues and loyalty

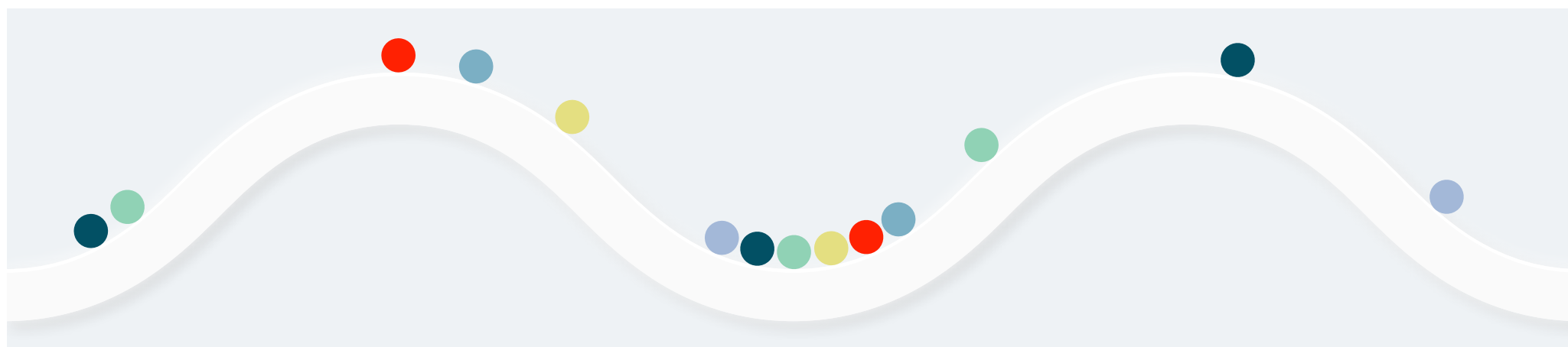
Price promotions are powerful tools for keeping your business and brand in front of customers, while driving store traffic and sales. These time-bound, discount-oriented events must be executed carefully, or customer satisfaction, loyalty, and profits can suffer. Follow these proven practices to keep things streamlined and effective:

- Focus on the entire “market basket” of goods customers buy when you run promotions—remember to merchandise non-discounted, complementary items alongside discounted goods. You’ll get higher sales volumes and keep overall margins higher. Your retail business management system can help you analyze purchases to manage this effectively.
- Use buy-one-get-one promotions to support your blended price-perception strategy, while simultaneously fostering impulse buys and customer satisfaction.
- Use coupons to bring in new customers tempted by the offers, and to “train” current customers to scan for deals at your store. You’ll grow your customer base and increase loyalty.
- Use simple discounts to steer customer behavior, but mix things up as needed. Volume discounts can help you move non-elastic, high-margin items, and you can use days-of-week, age-group, or other discount strategies to increase loyalty, boost store traffic, and grow sales.
- Measure results regularly. Always track promotions to learn how discounted and complementary market basket items performed, so you can fine-tune future offerings. Compare your results with each promotion’s unique goals—whether increased transactions, higher transaction size, related-item sales, or clearing out stock.

- Use your retail business management system to define, prepare for, and track promotions. The best systems let you set up “start-and-end” promotions in advance, print out signage and shelf labels, and enter all data to make sure charges are correct. Reporting and analytics will help you understand the results.

Tip:

It’s okay to run a promotion without dropping prices. Your efforts will build brand awareness, and consumers will assume your advertised price is a good one.



Sustaining Success

Margin maintenance is easier than you thought

With your pricing strategy and practices in place, you'll need a few ongoing processes to drive success—and, in some states, to stay compliant with retail pricing laws. To protect margins, it's essential to adjust prices when costs change. Here are some tips:

- Keep system prices, shelf prices, and prices actually charged in sync. Walk the aisles periodically with your mobile device or scanner, checking label prices randomly to ensure they match system prices.
- Respond properly to changes in cost. When costs increase, mark up all inventory immediately. When costs decrease, cut prices only after you've sold most or all the items acquired at the earlier, higher cost.
- Automate price changes. Use your retail business management system to update costs, calculate new prices, and print new labels when a vendor notifies you of across-the-board cost adjustments. You'll save time and avoid errors.
- Minimize price exceptions. To protect your margins, set up your retail business management system to alert you when sales clerks make price exceptions at the POS.
- Actively manage prices across stores. It's fine to set the same prices across multiple locations for some items, but for others, you'll want to vary the price by location. Use your retail business management system to determine which items fall into which category.

With the right attention to key details and the right retail solution in place, you can use margin maintenance to enhance customer loyalty and drive success throughout the year.





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