

What price is your legacy?

How one man's dream drove a suburb to increase its value.

By Neil Osborne



There are many reasons – some understood others not – why we pay the price we do for ... well, anything. Generally speaking though, tangibles (things) command a higher perceived value and price, than intangibles (services) – which is one reason why the hairdressing industry is plagued by discounting and price comparison.

Years ago I was a young sales rep. in the Western Suburbs of Sydney. Tasked with looking after the big buying accounts, brand new salons were of particular interest to me and one day I called at a prestigious one called Models, in St Marys.

I'll never forget turning off the Great Western Highway onto Queen Street – a very long, straight shopping strip – and counting 27 hairdressers on the street. For a suburb the size of St Marys, that was a formidable number of salons and its business impact wasn't lost on me.

In hindsight, I shouldn't have worried. Any concerns I had disappeared when I met the owner, Tony. He had a magnificent vision – both wide and deep – for the salon and a genuine desire (dare I say 'a dream') to offer every single client, a quality experience.

THE DREAM

I can still recall his description of how that experience would start at the door – with a smile and personal greeting by name. A private, one-on-one stylist consultation would follow, then to the basin for an indulgent, personal experience that included the latest advice and pre-service treatment.

The styling station came next – for a perm, cut and home hair care advice tailored to their hair and lifestyle. I know all this probably sounds so yesterday to you now, but given it was 30+ years ago, his dream was awe inspiring and delivered a memorable (and value loaded) salon experience for the times.

The next few visits were filled with Tony's stories about the positive impact he'd had on the St Marys' hairdressing community. Needless to say, the salon quickly became the suburb bench mark for both service and price.

Sadly, the next visit told a different story.

PRICE DRIVES CHANGE

A price war had erupted. The all-to familiar pattern of a downward spiral had taken hold of the suburb and \$19, \$17, \$15 and \$12 haircuts took centre stage ... everywhere. Of the 27 salons, I anticipated the survivors would be fewer in number.

On talking with Tony, we agreed that the suburb had forgotten what client value really meant. I believe it can be summed like this: people don't remember what we cut off; it's what we leave behind – the feeling – which they value.

Tony needed to stay firm. There wasn't a flaw in his dream; he needed retaliation.

HIS RETORT

A simple sign did the trick. It read "WE FIX \$12 HAIRCUTS." Need I say more?

By delivering on his dream and its promise of an experience, Models remained the bench mark for hair salons in St Marys. Tony's passion and belief in generously giving value overcame the spat of undercutting, because his clients wanted more of what he was giving. And they were willing to pay for it.

Tony's success was built on his dream, but also on his firm grasp on the salon numbers. He knew where his profit came from and where it could just as quickly disappear.

UNDERSTAND YOUR NUMBERS

Back then, there were no business coaches or industry statistics to guide salon owners, but despite that Tony had mastered a couple of fundamentals:

1. Market prices

Set your prices based on your costs and not by seeing what the other salons charge. Every single salon's costs are different; therefore salon prices should also differ.

2. Understand your costs

Your costs generally fall into two groups: fixed and variable costs. Fixed costs are the same every week, regardless of how many clients visit. They're things like rent, full-time wages and utilities. Variable costs cover the amount of product you need to complete your services each week and these rise and fall with the level of activity of your business.

3. Your prices

It's vital to set your prices based on your costs. There are two alternatives:

- A 'cost-plus' pricing model assumes that you clearly understand your costs and any variables. A margin or mark-up (percentage) is then added to the (base) cost. The difference between the two is your gross profit. The cost-plus model is traditionally used for retail products.
- Tony had mastered the 'value-based' pricing model. While more difficult to determine (on an exact basis), he understood that clients would pay for a unique and quality experience. Value-based pricing is used by businesses to compliment and support a particular market niche positioning e.g. a specialist.

4. Discount pricing

This was a subject that Tony understood better than most. To explain his point-of-view, refer to the diagram below:

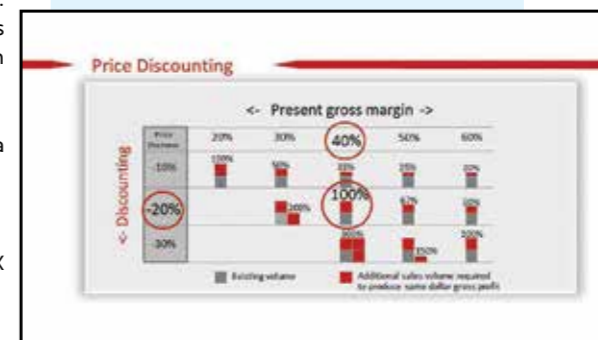


Chart 1: Shows the effects of discounting on dollar gross profit

This diagram shows how much **you need to increase your turnover** to survive, if you follow a discounting strategy.

To explain further, let's take an example salon: If the salon has total costs (rent, staff and product costs) equalling 60%, that means they have a 40% gross profit margin (shown on the top row). The salon plans a Cut & Colour (CC) promotion with an aggressive 20% discount.

The nitty gritty numbers of calculating the profit for this promotion are:

- The salon's normal volume is based on an average of 40 CC services each week or 160 over a 4 week month.
- With a 20% discount and 40% gross margin, the salon's promotion must deliver a minimum of 100% increase on CC services

to breakeven on dollar gross profit. This equates to a total of 80 CC's each and every week, totalling 320 for the month.

c. With a 20% discount and a 40% gross margin, the salon only starts making (extra) money after the 321st CC service.

Reality check: Very few promotions can deliver that sort of volume increase – whether it's today, or back in the 80s.

5. Premium pricing

Tony intimately understood the benefits of having a premium (or value-based) pricing strategy. To see why, refer to the diagram below:



Chart 2: Shows the benefits of a value-plus (premium) pricing model

This diagram shows that if the same example salon (as above) has a premium pricing model, it can increase prices by 10% and **afford to reduce the number** of CC services by 20% – to still achieve the same dollar gross profit.

In other words, the salon only needs to average 30 Cut & Colour services per week to maintain the same dollar gross profit. With premium pricing you make (extra) money from the 31st service each and every week all year long.

Tony's story may feel familiar, in more ways than one. It's really the tale of David and Goliath, where despite the odds, the small overcomes the big. With it comes a lesson about overcoming giant problems (or impossible situations) by looking at them from a different point-of-view: Tony's was a value-laden experience for his clients. To this day, Tony's legacy lives on in St Marys. Maybe we all need to take a leaf from his dream book – and give generously.

Neil Osborne is an elite sales trainer and mentor who has devoted more than 30 years of his working life to the Salon Industry. He's been responsible for dramatically growing businesses and helping them launch, develop and change their sales results. Contact him at The SALES CATALYST, 1300 302 859 or go to www.thesalescatalyst.com.au. Download his FREE eBook, The 11 Launch-Killer Mistakes and BONUS Planning & Costing TEMPLATES at www.howtolaunchanewproduct.com.au