WEBINAR #6-FINDING WAYS TO COMPETE ON PRICE FOR LOCAL WOOD PRODUCTS

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and
US Forest Service’s Wood Education and Resource Center

web www.cnr.ncsu.edu/usalocalwood
North Carolina State University
Wood Products Extension

Since 1950 has supported the wood products industry in North Carolina in the areas of wood education, training, troubleshooting problems, research and overall assistance in making a large variety of wood products.

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Website = www.ces.ncsu.edu/nreos/wood
Wood Education and Resource Center

- Is the focus of the US Forest Service effort of support of the hardwood forest industry in the states east of the Great Plains
- Our WERC projects websites = www.cnr.ncsu.edu/woodworkshops and www.cnr.ncsu.edu/usalocalwood

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WERC Local Wood Products Grant

- WERC funds grants to promote the improved utilization and marketing of hardwoods
- Goal is to promote the growth of locally made wood products made with US woods in the USA
- Want to recreate markets lost to imports to support growth of jobs and economic activity
- Want to provide better markets for minor hardwood species
Other Supporters of WERC Grants to NC State Wood Products Extension

- Independent Sawmill and Woodlot Magazine
- WoodShop News Magazine
- IWF 2012 in Atlanta - booth and lecture session
- Shows - NC Home Builders Association, Kentucky Wood Expo, Paul Bunyan Show, Richmond Logging Show
Local Wood Products-Marketing Geography Lesson

- Local
- Regional
- National
- International

Every area of the US can support local wood products businesses
Price is Part of the Marketing 4 P’s

- Product
- Place
- Promotion
- Price

Note That Price is a Faster Marketing Factor to Adjust Than Any of the Other 4 P’s
Price is Important But a Moving Target

• Most Buyers and Sellers Focus Too Much on Price

• Prices Can Be Confusing
  o Taxes Are Not Claimed in the Price
  o Delivery May or May Not be Included
  o Often Extra Costs Are Incurred to Use the Item
  o Upgrades Increase Final Price

• Local Producers and Retailers Have to Develop a Business Strategy on Setting Prices Based on What is in the Long Term Interests of the Business
# Prices Adjustments

<table>
<thead>
<tr>
<th>Discounts Off List Price</th>
<th>Including Delivery</th>
<th>No Payment for Many Months</th>
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<tbody>
<tr>
<td>Volume Pricing-More of the Same Product = Lower Price</td>
<td>Package Pricing</td>
<td>Increasing Price to Get Wanted Features</td>
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Prices Adjust to Demand

- Price Reporting Services Influence Price Changes
- Scarcity Drives Interest and Buying
- Rising Prices Influence Producers to Produce More, Lower Prices Influence Buyers to Buy More
## What Influences Prices?

<table>
<thead>
<tr>
<th>Production Costs = Materials, Labor, Factory Overhead</th>
<th>Marketing Costs = Promotions, Sales Force, Discounts</th>
<th>Availability and Prices of Other Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time in Product Life Cycle</td>
<td>Buying Power of Customers</td>
<td>Scarcity</td>
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<tr>
<td>Price Expectations in the Future</td>
<td>Demographics of Customers - Young to Seniors</td>
<td>What Will the Market Bear?</td>
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Smart Marketers Modify Products to Change Prices

Can Use the “Good/Better/Best” Format to Adjust Features to Move Prices Up and Down

Remember That Customers Value Features Differently, That Is Why Offering Different Models and Product Lines is Better Than Offering Just One Style of Products

Create a Price Structure That Customers Can Understand—Confusion = “No Sale”
Local Retail Pricing

• Seller Need to Know Product Costs When Customers Ask for Discounts

• Helps to Know Competitor’s Prices

• Pre Plan Selling Techniques to Avoid Awkward Moments
Distribution Channel Pricing

• Wholesale = Lowest Prices = High Volume Pricing
  o Can Often Mix & Match Volume Purchases to Get Variety

• Retail = Highest Prices = Low Volume Pricing

• Common to Offer Discounts to Builders for Local Products
Commodity Pricing

- Lowest Cost Producer Sets Prices
- Volume Purchases Lowers Price

*Commodities Are Made to Industry Wide Specifications in High Volume*
Many Prices Are Quoted

- Special or Custom Products
- Construction Projects-Residential and Commercial
- Daily Pricing-Like Fish Markets
- Easier to Change Prices if Not At a Fixed Location, Like From One Craft Show to the Next
Realize Cutting Prices Cuts Profits

If a $100 Item Has a Retail Profit Margin of $40, Then Cutting the Price by $10 or 10% Cuts the Profit Margin by 25%!

But, No Sale = No Profit Either!

If You Can Sell at Higher Prices, Then Makes Profitability Increases

Realize There Are Limits to Sales Volume and Cutting Prices to the Bone Will Put You Out of Business Most of the Time
Understanding Retail Sales Markups

• Retail Sales Markup Formula
  o Retail Price = Cost $/(1-Markup Factor)
  o Example, 20% Markup on Retail Price = $100/(1-0.20)
    = $125

• Relates Back to Profit and Loss Statement
  o Must Cover All Business Costs With Retail Sales Price
  o Revenues – Expenses = Profits
Profit Margin + Costs = Price Method

- Costs - Depends upon Business Practices
  - Materials
  - Direct Labor
  - Overhead
- Profit Margin
  - Estimate Annual Sales and Profit Margin Wanted
  - If Sales Are Lower = Business Losses
  - If Sales Are Higher = Will Charge Higher Prices Than Planned
- Profits = Revenues – Costs
- Revenues = Sum of All Quantities Sold x Price
Now Customers Question Prices

• Many Ignorant of What is a Fair Price
• Sellers Should Make Efforts to Educate Buyers on Prices
• Can Explain to Customers the Common Ranges of Prices Before Quoting a Price – Give the Customer Some Knowledge on Price Ranges Versus Quality
How Local Affects Price

• Being Local Adds Interest = Supports Higher Prices
• Local Makes Delivery and Service Less Costly
• Local Means Low Volume and High Variety
• Local Has Relationships
Inventory Turnover Affects Price

- Fast Turnovers = Lower Prices, Like Appliances
- Slow Turnover = Higher Prices, Like Furniture
- Holding Costs for Retailers Incur Daily When Products Sit On Shelves or In Warehouses Unsold
- Make-to-Order Offers Opportunities to Cut Costs
Payment Terms Affects Price

- Cash is Fastest Collection Method
- Can Collect Interest on Installment Sales = Revenues
- Risk Not Collecting All Due on Installment Sales
- Cash Discounts Lowers Price
Sales Price Reductions

- Get the Attention of Buyers
- Can Make for Limited Time
- Can Tie With Other Products
- Can Limit Quantities
- Can Offer Lower Prices to Specific Local Groups
Summary-Price

- Local Affects Price
- Price is the Fastest of the 4 P’s to Modify
- Price Has Lots of Influencing Factors
- Price Affects Sales Volume and Profitability
- Producers and Retailers Should Work to Manage Costs
- Do Price Your Products So You Make a Profit!
Grant Project Support—Local Wood Products

- Website at [www.cnr.ncsu.edu/usalocalwood](http://www.cnr.ncsu.edu/usalocalwood)
- Newsletters, Articles, Webinars
- Leadership Conference at WERC on Thursday, August 2\(^{nd}\), 2012, cost = $35
- IWF 2012 Atlanta educational lecture session—local wood products marketing
- We can sometimes make visits to companies interested in local wood products marketing
Upcoming Webinar Dates-All on Thursday

Last Webinar = July 26th

Note-these dates are the last Thursday of each month

Let us know what topics you want to cover next time!

Recordings (search “Local Wood” at http://elluminate.wolfware.ncsu.edu/recordings.html)
Past Webinars Available for Listening

Recordings (search “Local Wood” at http://elluminate.wolfware.ncsu.edu/recordings.html

Search By Date and “Local Wood Products”
Upcoming Workshops at WERC-2012

Thursday, September 27th Date-Profitable Firewood Processing-Not Finalized Yet
- Equipment-processing, dry kilns, packaging
- Marketing
- Insect quarantines

IWF Atlanta Show, August 22\textsuperscript{nd} to 25\textsuperscript{th}
- Hosting a Local Wood Products Marketing Education Session-fee required
- Will have an exhibit booth in the section for non-profits