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Profit Pointers

How to Implement a Price Increase

Many manufacturers and distributors are hesitant to increase prices. They are afraid of having a potentially uncomfortable conversation, irritating their customers and even losing business.

Be Prepared

At some point, a price increase will likely make sense. Here are some tips for making a price increase more palatable, both to your sales team and your customers.

- **Review pricing regularly.** If a regular pricing review is not on your calendar, now's the time make it a priority. No less than once a year — and much more frequently if the prices of your materials or components are volatile — you must review your pricing strategy and structure to ensure that your inputs are in line.

Look for key performance indicators that will alert you to the need for a price adjustment. Set an acceptable tolerance for the price of the components you use — if the pricing of these materials goes outside those parameters, take notice and prepare to implement your price change policy.

- **Create a policy.** You don't have a price change policy? Then devise one now. Talk to your customers about your pricing and how you will let them know when it's time for an increase. Some customers may request a certain amount of notice — 90 days or six months, for example — before a price change goes into effect.
- **Plan your narrative.** You are entitled to reasonable compensation for the products you produce. (If you're selling a product that's not worth the price, you're not set up for long-term success.) Be prepared to justify your price increase by considering the following:
 - Is the price fair based on the value of its features and benefits?
 - Is it reasonable for the competitive marketplace?
 - Is your product valued in the marketplace?

If the answers to these questions are yes, get ready to roll out the increase by preparing to explain to your clients why it's justified. If the answers are no, you need to rethink your pricing strategy.

- **Arm the sales team.** Be prepared to support your decision. For example, share with customers independent sources showing that your material costs have risen, or show them trend reports about pricing in your industry. Customers will ask “why?” questions, and you need to be ready with answers.
- **Act quickly.** Once you’ve decided that a price increase is in order and you can defend it, roll it out fast and tell your customers quickly — within two weeks or 30 days tops, if possible. Buyers often talk to each other, and you want to be able to present your increase on your terms, not fight rumors or have customers calling you.

Depending on your business, you may want to tell some customers in person. Others may be fine with a letter or email.

- **Have a contingency plan.** For certain customers, you may need to be prepared to negotiate a deal. Make a realistic assessment of what’s feasible.

For example, if a customer increases order volume, can you move to a different pricing structure? If a customer changes specs — switching to a smaller container or a different delivery system, for example — can you meet their budget? If a customer locks in a longer contract, can you adjust the price in their favor

- **Be Confident.** If your price increase is justified, go for it. As the old TV commercial said, “You’re worth it.” Keep a negotiating position in your back pocket, and be creative in what you can offer your customers to make the increase more palatable.



Need assistance strategizing a price increase? We can run the numbers and help you determine your position.



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