

Profit Based Frame Buying Strategies

DezaRae Hedrick

Regional Sales Manager: North West
Silhouette Optical Ltd.

Learning Outcomes

1. Define, describe and calculate frame margins
2. Know the factors that can affect your retail pricing strategy
3. Understand how your pricing strategy can impact your practice

Profit Based Frame Buying Strategies Set Formula or Strategic?

- In retailing, the price of an article is the amount of money the retailer asks for the item.
 - So, how do you set prices?
- For the most savvy, strategy comes into play.

Wholesale Price x 2 =



The Bottom Line

- Overall Profitability: Medical vs. Optical
 - 60% of top line revenue comes from eyewear*
- Pricing is not the same as inventory management
- Finding balance between emotional and profitability needs

* PowerPractice.com; "Are we giving away eyeglass sales because of too much emphasis on medical eyecare? 10/13/12"

Understanding Pricing Objectives



Sales Volume



Profits



Image



Ordering

Understanding Terminology

Cost: List price or invoice price?

Retail: Price of frame to the consumer

Mark Up: Formula for arriving at Retail

Margin: Profit between the paid price and retail price

From Price to Profit

- Key Factors to consider when determining price:
 - Availability
 - Perceived Image
 - Growth stage of market
 - Price Sensitivity
 - Financial Climate
 - Prestige of product
 - Quality
 - Competition
 - Your financial Goals

Pricing Objectives



- Alienate Patients/Consumers
- Worse case, poor word of mouth and possible negative perception for increasing sales



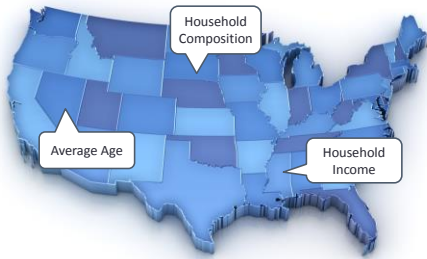
- Hurt your profits and cash flow
- Worse case, lose money and go out of business

Pricing Objectives



- Create Referrals
- Attract new patients/consumers.
- Build add on sales
- Build multiple pair sales
- Immediate effect on profitability
- Affect demand of what you have to offer

Pricing as part of your Business Plan and Demographic



Great Resource: www.claritas.com

Households by Income

Quick Facts for ZIP Code 94611

- Population 36,292
- Median Age: 44.3
- Median Income \$85,900
- Consumer Spend \$1.135 MM
- Consumer Spend (\$/HH) \$68,003



Households by Income

Quick Facts for ZIP Code 94611

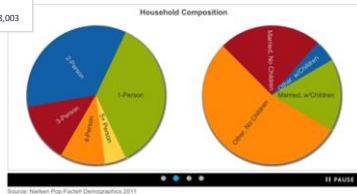
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Household Composition

Quick Facts for ZIP Code 94611

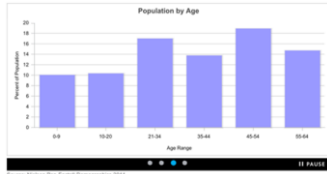
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Population by age

Quick Facts for ZIP Code 94611

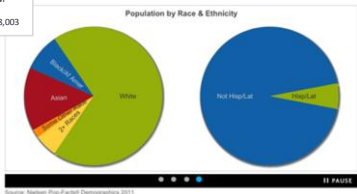
- Population 36,292
- Median Age: 44.3
- Median Income \$85,900
- Consumer Spend \$1.135 MM
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Population by Race & Ethnicity

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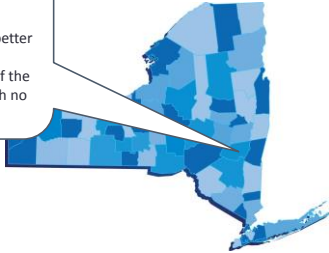


How does demographic detail apply?

Example: Zip Code

Average Household
Income of \$100K or better

Highest percentage of the
population is 45+ with no
children at home



Pricing Objectives

• Broad Based Questions:

- What prices are local shoppers willing to pay?
- Where do you want to be in comparison with your competitors? Equal, above or below?
- What is the MSRP proposed by supplier?
- What are the qualities, value and style that influence your consumers perception?

Optical Industry Specific Pricing Objectives

3 Important strategic questions to answer before
defining your current strategy

1. Is it the same for all price points? Why or why not?
2. Is there an MSRP?
3. How often should I review my strategy?

Fixed vs. Mixed Mark Up?

- Accommodates a range of products at varying price points
- Creates diversity within a product that appears similar
- Creates Value in more ways than one
- Avoids over pricing high priced product
- Avoids low margins on low priced product

Example of Fixed Mark Up

Fixed Mark Up			
Cost	Mark Up	Retail	Profit
\$40	3.0	\$120	\$80
\$60	3.0	\$180	\$120
\$100	3.0	\$300	\$200
\$120	3.0	\$360	\$240
\$150	3.0	\$450	\$300

Example of Mixed Mark Up

Mixed Mark Up			
Cost	Mark Up	Retail	Profit
\$40	3.20	\$120	\$80
\$60	3.00	\$180	\$120
\$100	3.00	\$300	\$200
\$120	2.75	\$330	\$210
\$150	2.50	\$375	\$225

Benefits of Mixed Mark Ups

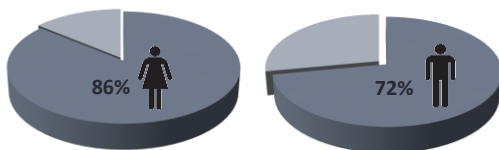
- The more variety in price points, the easier it is to combat lower price activity from competition
- Increase sell thru on the higher end product
- Increases average selling price
- Can increase 2nd pair sales

What else?

- Factoring other costs
- Lens and lab costs
 - I.e. Rimless, add charge to frame or lens?
- Shipping costs
- Special order or handling fees

Consumer attitudes regarding pricing*

- Who is looking at the price tags
 - What does this tell us?



*According to Envirosearch, Behavioral market research company based in NYC.

How do you stack up?

- Realize that if you stock licensed brands your pricing may well already be determined
 - ie. a pair of Levi's is the same where ever you buy, the only difference is service and price
- Ask your vendors for guidance and their opinion of others in your area
- Shop the competition! Don't only depend on what consumers tell you

10 Summary Questions

1. What Role do you want price to play in your overall retail strategy?
2. Will you price, below, at, or above the market?
3. Will you set specific markups for each product?
4. Will you set mark ups for product categories? i.e. Sunglasses?
5. Will you use a one-price policy rather than bargain with customer?
6. Will you offer discounts for multiple pairs?
7. Will the prices you have established earn the gross margins you planned?
8. Do you know at which price point a slight increase will lead to a noticeable drop-off in sales?
9. Do you know at which price the lowest price results in a hesitation to buy because the perception changes to less value or quality?
10. Have you developed a markdown policy?

Re thinking your pricing strategy

- Pricing Strategy should support your mission statement or business plan
- No easy, one size fits all, however it should not be random or impulsive
- Must be consistent with your image
- Stay abreast of economic changes in your area, including changes in consumer buying habits

Profit Based Frame Buying Strategies

- Your best strategy is to provide both tangible and intangible benefits, rational and emotional ones, to your patients and customers.



Resources

Consumer Research:

Envirosell: Paco Underhill
 envirosell.com
 BrainReserve: Faith Popcorn
 Brainreserve.com
 eMarketer: eMarketer.com
 Nielsen Claritas: claritas.com

Resources: Book & Publications

Start Up Start your own Retail Business and More;
 Entrepreneur Magazine

Apparel News: apparelnews.net

Retailing Today: retailingtoday.com

Resources: Websites

- dealttime.com a site for comparing product, services, prices and stores.
- Mysimon.com a pricing and comparison service

Other Demographic Resources

Useful Resources:
Local Chamber of Commerce
Local Merchants Associations
Leasing agents and landlords
