

# Hazy, Late-Night Ruminations On Pricing

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Pricing is always a sensitive subject for retailers. Think about it. A retailer stocks products that you want to buy. He wants you to buy them. You want to buy them. The only dog bone of contention is the price.

You want to pay the lowest price possible. He wants to sell at the highest price possible. Ahhh, but you've got the edge.

In Economics 101, while we weren't sleeping, we learned of the brilliant Adam Smith, and his contention that open markets brought about efficiency for both buyers and sellers. Competition means that X-Mart has to worry not only about whether you will pay its price, but also about whether or not you can get a better price at Z-Mart.

What follows is mostly a late-night epistle on issues surrounding pricing. Sure, it may seem a little cranky at times, but we're writing this at 4 AM. We've just got to get a few things off our chest, which is a really weird expression.

## Here's What You Don't Know

Maryland law grants monopolies to wholesalers on every beer, wine and spirits item (all 25,000 of them) sold in Maryland. The result is that retailers have just one possible supplier for any given item. Worse for consumers, Maryland law permits wholesalers to wildly manipulate their pricing from month to month. While it happens in every department, this is especially true with spirits.

Roughly 1/3 of the spirits sold in Maryland (mostly the cheap stuff) stays at the same wholesale price year round. Another third typically increases in price by 2 cents every month, as the wholesaler attempts to sneak his price increases in without retailers raising the prices that consumers pay. The last, and most exasperating third (which includes most of the major brands), bounces from big discounts to huge premiums on alternating months. A bottle that we buy for \$10 in January might cost us \$14 in February, \$11 in March, \$14 in April, and \$10 in May.

"Cool", you say, "I should be able to get these items dirt cheap every other month!" *[insert loud buzzer sound here]* Wrong, Batman! What actually happens is that retailers are forced to buy all of their inventory in the months that the item is discounted. So the price that you're normally paying is based upon the discounted wholesale price.

"So what's the problem?", you might say. Well, the problem arises when one of two things happens.

First, let's say you're having a big party and want to order a case of your favorite beverage. You don't know it, but when you walk in the door, there's a 50/50 chance that your favorite item is available at the usual price this month. If you come out on the short end of the coin flip, and the wholesaler has your item priced at the premium this month, you've got a problem. You can either pay a lot more for it now, or you can wait until next month and get it at the normal price. If you can't wait, you'd better get out your wallet, because it's going to hurt.

The other problem occurs when the store sells more of an item in a given month than it projected. If we run out of an item during the month that the price is high, we're faced with three options, all of which are bad:

1. Buy the item at a premium cost, and then raise our price (sometimes by \$5 or more on a single bottle) to cover that higher cost.
2. Buy the item, usually for more than we sell it for, and sell it at a loss.
3. Let the item remain out of stock until we can get it at a reasonable price again, forcing customers to buy something else.

As the first and last options are customer-unfriendly, we almost always go with the second option. Please allow us to assure you that nothing is as deeply unsatisfying as the act of selling an item for less than you paid for it.

"So, what are you going to do about it?" Well, after years of inquiries, we haven't heard a single reasonable explanation for post-off pricing (which is what the alternating month discounts are called). We've been fighting to get someone in the legislature to take on this customer-unfriendly practice. Alas, the wholesalers have a lot more PAC money than we do. We're not encouraged.

### **Profit: Not a Four-Letter Word**

We counted, and it's got either six or seven. Smart consumers realize that retailer profits are good not only for the retailer, but for the consumer. Why? Because profitable retailers stay in business, and continue to bring needed products into the local marketplace.

If you want to see the alternative, we suggest an Amtrak ride through the Carolinas, where it seems that every town - with entire blocks of boarded-up stores - seems to have never emerged from the Depression.

### **We're Making a Lot Less Money Than You Think**

Most consumers believe that retailers have a 50% profit margin on the items that they sell. That is, an item that the consumer buys for \$10 costs the retailer \$5. The retailer makes a gross profit of \$5, from which he pays his expenses - rent, labor, utilities, etc., -

hopefully earning a net profit, which represents the owner's compensation.

The 50% gross profit margin is a reality for some retailers (notably apparel), but in the highly competitive business of beer, wine and spirits retailing, it's not. The average retailer in our business makes a gross profit of just 25%, meaning that after your \$10 purchase, he's got just \$2.50 to pay his expenses and to try to earn a net profit – from which he still needs to pay taxes and debt payments before finally taking some money home at the end of the day.

Sure, we realize we're whining, but it's true. It's a tough business, and sometimes it seems that consumers expect both the lowest price and the best service. Of course this isn't feasible, as it costs more to provide good service.

But at Hair O' The Dog, we think that we're pretty darned close to pulling it off. We've invested heavily in great service, with the most highly-qualified staff on the Eastern Shore. And while we do not claim to offer the lowest price around on every one of the 1,200 items that we sell, our pricing surveys consistently show that we are the lowest price provider in our market.

### **What the FAQ?: Why Have Two Pricing Levels: Regular and Top Dog?**

We get asked this a lot. So sit back, enjoy one of our products, and listen as we spin a yarn. (We're feeling metaphorical at the moment)

Once upon a time, adult beverages were sold in full service stores. These stores maintained knowledgeable, trained professional staffs that could assist customers with such questions as "How much do I need to buy for my party?" and "Which wine should I serve with Roasted Pork?", and "How do you say 'Gewurztraminer'?"

Then along came the discount, or cut-rate liquor store. These stores dispensed with the knowledgeable staff, and offered less service and lower prices. Customers simply selected what they wanted, and then took those items to a sales clerk who took their money. Discount stores were a hit with folks who knew what they wanted to buy, and didn't want to pay for services that they weren't using.

At Hair O' The Dog, we were committed to offering professional service from the start. Our professional staff is better-qualified, better-trained, and better-paid than those of other retailers. The Regular Price that we display for each product is the price that a consumer should expect to pay at a full-service wine and spirits shop, based upon typical industry profit margins.

We decided to offer the Top Dog Price (a 10-17% discount) as a means of rewarding our customers for their loyalty. It must be working, as over 90% of our sales are to the thousands of customers who have signed up for the Top Dog card!

## Stupid Pricing Crap That We Don't Do

“Ohhhh, it's on sale !” We hate sales. If a retailer is constantly offering products “on sale”, we start to think that they're ripping us off on everything else in the store; that they were gouging us last week, when this product wasn't “on sale”; and that they'll gouge us again next week.

It seems to us that it makes a lot more sense to offer everything in the store at a fair price every day. At Hair O' The Dog, if you see a mark-down on an item, it's because that item has been discontinued and we need to clear it out to make space for a new item.

Was it discontinued because it sucks? No, fool ! If it sucked, we wouldn't have sold it in the first place. We generally discontinue an item because, though we loved it like a loyal Labrador retriever named Skippy, it just wasn't selling fast enough, whether because it had an uninspiring label or it was just too weird and esoteric for customers to take a flyer on buying it.

We sometimes get laughed out of the Retailers Club because we have exactly one sale per year: Our Fiscally Irresponsible, Entirely Unadvisable 99-cents Over Wholesale Sale. This event, typically held over two days in late winter, serves to reward our loyal customers, as sale prices are available only to Top Dogs. It also clears out holiday and winter inventory, making way for the Spring wine buying that we do each year.

We also hate stores who play games by advertising pricing on selected items. Let me get this straight. A typical store in our business carries an inventory of maybe 800 items. So the dude who runs it – we'll call him Sleazy Steve - pops an ad in the paper offering ridiculous discounts on about a dozen items. Let me guess what happens next. You get to Sleazy Steve's, and (surprise!), he's sold out of most of those items, which he only had in limited quantities. But hey, while you're here, you may as well buy some other stuff, which isn't exactly on sale.

It's morally cheap. It's highly dishonest. And we're just never going to do it.

## Um, No. Everything is Not Negotiable

We've all seen the advertisement for the negotiations seminar. Or maybe it was that TV interview with The World's Cheapest Bastard. In any case, there is this breathless guy who opines, loudly, that “everything is negotiable !” He goes on to tell you that merchants want you to negotiate prices and conditions on everything that you buy, and that you'll save millions by negotiating every purchase !

This, friends, is a colossal lie. I can tell you that the huge majority of retailers are not carpet merchants in the medina at Marrakesh. Not only do we not want you to negotiate normal purchases, those of us who weren't ripping you off in the first place are going to refuse to negotiate our prices, embarrassing both us and you.

Here on the outside of the medina, any merchant who is willing to negotiate normal purchases is desperate for sales and/or is regularly gouging his customers. In either case, is that really where you want to shop? We repeat this mantra to customers from time to time: If you don't trust a merchant, why are you shopping there?

Don't get us wrong. If you're buying 50 cases of wine to outfit your new wine cellar, you've got every right to expect a better deal, and we're happy to offer you one. But please, save us both from a great deal of discomfort, and save the Negotiations 101 for the big purchases.