



FOUR REASONS YOU'RE NOT CHARGING ENOUGH

HOW TO KNOW WHEN TO RAISE YOUR PRICES

vish

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The age-old question of 'am I charging enough?' is something everyone struggles with, and it never ends! Check out these top four tips for figuring out if you are undercharging and learn to identify signals that it is time to adjust your prices.

1 YOU'RE BOOKED OVER CAPACITY

Capacity measures the percentage of hours booked versus time scheduled (often called percentage booked in your POS). Capacity helps you understand how full your book is. For example, 50% capacity means 50% of your schedule is booked with appointments. **Your mission is to get your book full... Or is it?**

CALCULATE YOUR CAPACITY:

$$\frac{\text{Time Booked}}{\text{Total Time}} \times 100 = \text{Capacity}$$

If you are booked over 80% capacity, your team has less than 2 hours of their 8 hour shift available. What reaching 80% capacity really means:

- You're losing out on new clients. New clients aren't yet loyal to your salon. Without a free space for them, they will easily move on to another salon.
- Staff burnout is around the corner. Existing clients will begin to pressure you to come in even when stylists are off, on vacation, or after long days.

When you've reached 80% capacity, your business is telling you you're ready for a price increase. Whether it's for the salon or a service provider, it's time to raise your prices by at least 10%.



2 YOU ARE BOOKED MORE THAN FOUR WEEKS OUT

Another way to look at your capacity is by how many weeks in advance you are booked. Being booked four weeks in advance creates the same issue as over capacity - you are going to start losing business.



Salons must maintain reasonable flexibility in their books but it shouldn't be at the sacrifice of overall profitability. Pricing your services at a rate that maintains the profit your business needs, without maxing out your schedule, has a ton of benefits.

It's much better to have fewer, more profitable clients than having back-to-back clients paying less.

Raising prices shows growth and pride in the artistry when a team member moves to a new pricing level in the business, or when an entire pricing level moves up. Clients who understand your worth will keep coming back or accept other up-and-coming stylists on your team if it simply doesn't meet their budget.

3 YOUR EXPENSES ON TECHNICAL SERVICES ARE OVER 10% OF THE REVENUE

This one takes a bit of analysis, it's often overlooked but incredibly damaging to the overall profitability of the salon. If your service goes over 10%, you are spending more on product to perform the service than you are charging for.

When you set your prices, you accounted for a certain amount of professional product to be used during the service. Essentially, you charge for that product by combining it with the time put into completing the service. The industry standard is roughly 10% of the revenue should account for the maximum amount of product used. When the amount of product goes over, it sends your profit margins in the wrong direction.

CALCULATE YOUR EXPENSE RATIO:

$$\frac{\text{Cost of Product}}{\text{Total Revenue}} = \text{Expense Ratio}$$

You'd be surprised how often this happens, especially when additional services are included, like toners or additives. In fact, salons that automate a charge when product dispensed goes over the 10% ratio are generating additional thousands of dollars every month that they were previously giving away in discounts. Pricing your services to account for these extra costs helps you maintain healthy margins so you can invest in your business.



4 YOUR PRICING HASN'T CHANGED IN MORE THAN A YEAR



When your revenue is the same as it was last year, the value of your revenue has actually decreased. Inflation is sneaky and is yet another reason you need to continuously bump your prices up to account for the loss in value of every single dollar you generate. The generally accepted average rate of inflation is 3%, meaning that the dollar you made last year is only worth \$0.97 this year. It's essentially a discount when you aren't moving your prices to account for the value of every dollar.

Most salons aren't doing this every year, but if you haven't done an overarching price increase in more than two years it's time to restructure your service menu.

P.S. - Your vendors are also increasing prices to account for inflation, so if you aren't doing the same, you are paying higher prices for the professional product you purchase and generating lower value for services.

Increasing your prices is essential for your growth and also for simply keeping up with the market changes. By doing so, you are showing that your team is growing and increasing their own value to each client. You will be surprised at how many clients will gladly pay higher prices and value your work.



WANT TO HEAR MORE?

Vish CIO, Timothy Howard, recently sat down with other salon owners to discuss how they price their services and maintain profits across all categories.