

BUSINESS FINANCE

THE FINANCIAL IMPACT OF A SMALL PRICE INCREASE: WHY YOU SHOULDN'T WAIT

INTRODUCTION

I see this scenario repeatedly: business owners hesitant to raise prices, worried about losing customers, market reactions, or appearing greedy. But here's what many fail to grasp clearly: A modest price increase can significantly boost profitability, strengthen cash flow, and position your business for greater financial stability.

If you haven't adjusted your pricing recently, let's talk about why you're likely leaving money on the table and putting your business at unnecessary risk. Even a small, strategic price adjustment—typically just 3% to 5%—can deliver outsized results.

WHY SMALL PRICE INCREASES HAVE A BIG IMPACT

Imagine a business generating \$1 million in annual revenue with a 10% net profit margin, which means you have a profit of \$100,000. Now let's suppose you implement a simple 5% price increase across the board:

- Revenue climbs to \$1,050,000.
- Fixed costs remain the same, so this additional \$50,000 in revenue mostly flows directly into profit.
- Instead of earning \$100,000, your profit jumps to \$150,000—that's a 50% increase in profitability.



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COMMON MISCONCEPTIONS AND MISTAKES

1. **Waiting Too Long:** Businesses often delay raising prices. When you finally have no choice but to raise prices, it can result in sudden increases, causing customer shock.
2. **Underestimating Customer Loyalty:** Businesses frequently assume minor price increases will cause significant customer loss. However, loyal customers value your offering and understand quality has a cost.
3. **Pricing Based Solely on Costs:** Pricing shouldn't reflect only your costs—it should reflect your value. Shift the conversation to value.

HOW TO IMPLEMENT A PRICE INCREASE

1. **Start with Modest Increases (3%-5%).**
2. **Communicate Effectively:** Highlight improvements and added value.
3. **Test Strategically:** Raise prices selectively on high-value products.
4. **Regularly Review:** Incorporate regular pricing reviews into your annual practices.

CASE STUDY: REAL COSTS OF WAITING

To illustrate clearly how damaging hesitation around pricing can be, let's examine a real-world scenario from one of my own clients—a company in the manufacturing space.

For several years, this client consciously avoided raising prices, despite noticeable increases in their core operating expenses—materials, labor, insurance, utilities, and freight. Each year, they rationalized their hesitation by saying, 'Let's wait a bit longer; we don't want to upset our loyal customers.' On the surface, their intention seemed prudent and customer-focused. But beneath the surface, serious financial erosion was already underway.

Initially, the impact was subtle. Margins tightened gradually, almost invisibly. The company absorbed higher costs, quietly reducing profitability. But over time, that slow erosion became increasingly painful. Profit margins, once robust at around 12%, began shrinking down to 7%, then to 5%, and eventually dropped dangerously close to break-even territory.

By the time management realized the seriousness of the situation, they had no choice but to implement a sizable price increase—nearly 15%—to regain financial stability. This adjustment, though necessary, arrived as a sudden shock to their customers, who had grown accustomed

to stable prices over the previous years. Predictably, customers reacted negatively. Several high-volume clients took their business elsewhere, attracted by competitors offering better upfront pricing.

But it didn't stop there. The rapid price hike had other consequences:

- **Customer Frustration:** Clients openly voiced dissatisfaction about the abrupt price increase, leading to increased demands on customer support resources, damaged brand perception, and a decline in referrals.
- **Market Position Damage:** Competitors quickly leveraged this situation, marketing themselves as the more stable and reliable option, further weakening my client's market standing.
- **Lost Revenue and Morale Impact:** The drop in volume due to customer departures affected employee morale, increasing turnover, and driving additional recruiting and training expenses.

When we analyzed the root cause, it became clear that the business's initial well-intentioned caution was actually a costly mistake. By avoiding smaller, incremental annual price increases of around 3-5%, they ended up paying a much heavier price, both financially and reputationally. Had they gradually adjusted their prices each year, aligning them more closely with their increasing costs and communicating these adjustments proactively, they would have avoided customer backlash and preserved their competitive advantage.

Ultimately, this experience reshaped their entire approach to pricing. Today, this client conducts annual pricing reviews, implements incremental increases when needed, and clearly communicates value-focused reasons behind adjustments. As a result, profitability has stabilized, customer relationships are healthier, and the business now operates from a position of strength rather than vulnerability.

The lesson here is straightforward: delaying small price increases may seem customer-friendly, but it's often financially dangerous. The short-term comfort of avoiding price discussions leads to long-term pain for both your bottom line and your customer relationships. Regular, modest price adjustments are a strategic necessity—one that keeps your business healthy, agile, and positioned for sustainable growth.

WHY THIS MATTERS TO YOU RIGHT NOW

The business environment isn't static. Costs—labor, materials, interest rates, and rent—consistently pressure your margins. Inflation alone quietly erodes your profit margins if you don't proactively adjust pricing. Not raising prices when necessary isn't cautious; it's financially risky.

Small, proactive price increases improve your financial flexibility, reduce risk, and enhance profitability. Greater profits mean more choices—investing in growth, hiring key staff, marketing your business, or simply building a safety net for challenging times.

BOTTOM LINE: DON'T DELAY—ACT TODAY

Stop viewing small price increases as risky or intimidating. Instead, recognize them as strategic financial tools essential for growth. A modest increase today can significantly strengthen your financial position, improve your profitability, and help you avoid costly scenarios like the one we've discussed.

If pricing decisions feel uncertain, stressful, or unclear, don't try to navigate this alone. I invite you to reach out for a confidential, no-pressure conversation about your specific situation. Together, we can clarify your financial position, identify practical opportunities, and develop a strategic path forward.

Taking proactive financial leadership today can transform your business tomorrow. Let's talk—it could be one of the most valuable conversations you have this year.

Ready to discuss your pricing strategy and how small changes can lead to big results?

Contact me directly at (737) 314-0060 or via email at Jeff@CFOontheGo.biz.

Your business deserves clarity, confidence, and a strategic partner. Let's make it happen.