

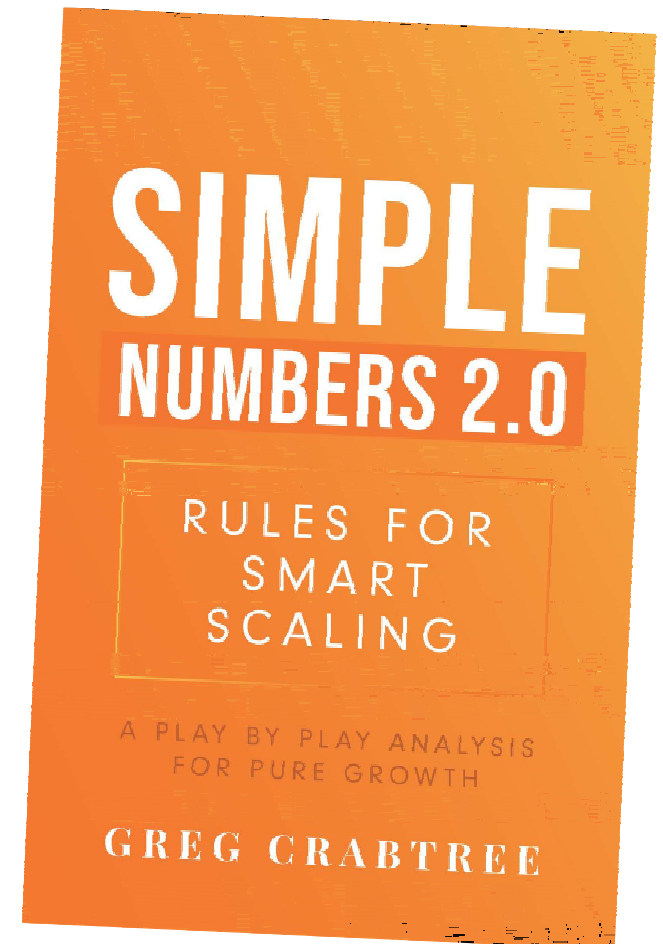
Simple **Numbers** Pricing Strategy

Managing for Market Value and Inflation Management

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256-704-0620



Setting the Table of Current State of Business

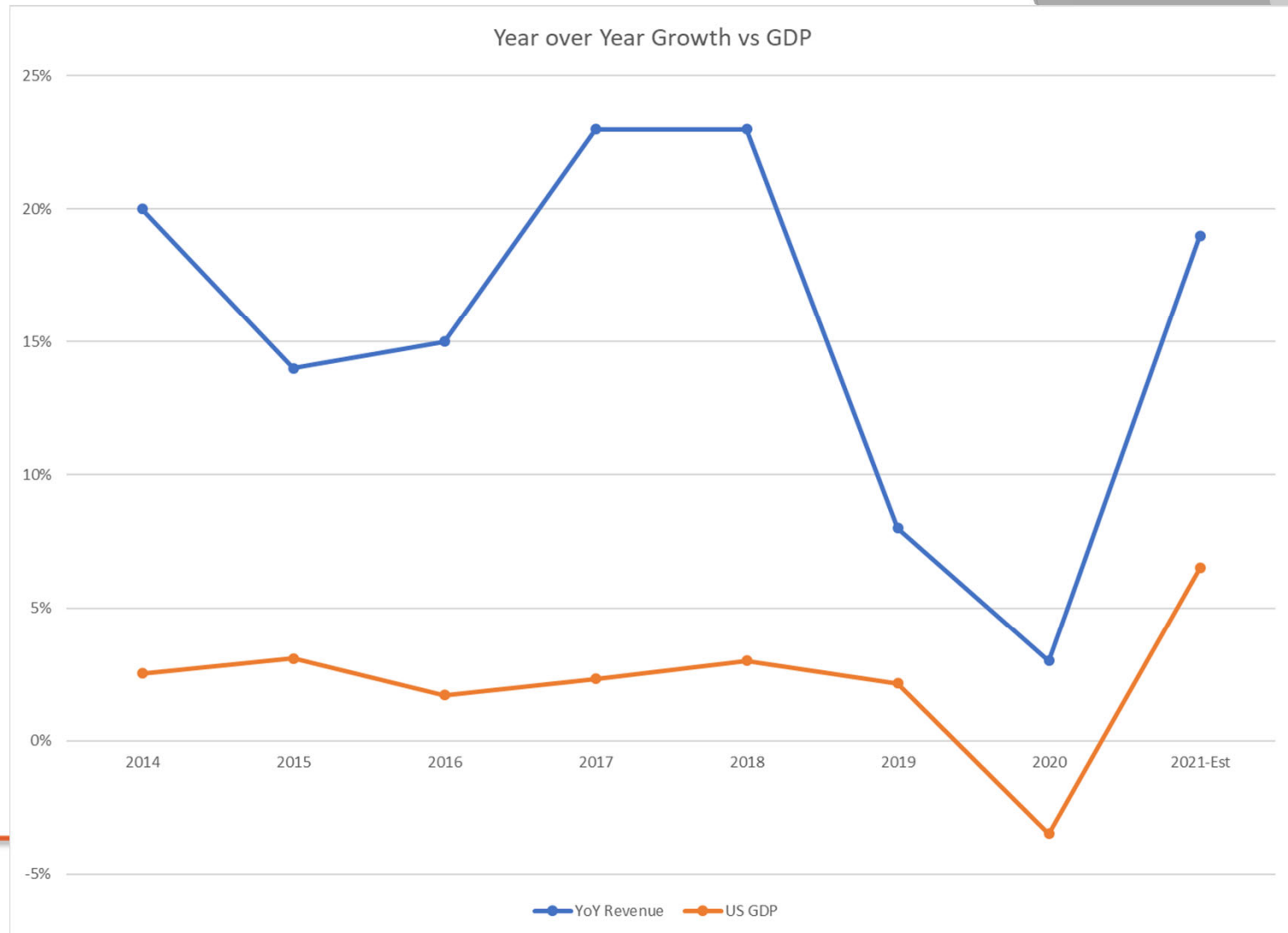
- Economy did far better than reported during COVID
- Inflation is real and continuing to challenge pricing strategy
- Labor shortage is permanent
- Supply Chain issues will continue and could worsen
- M&A market is hotter than ever
- How can the Stock Market justify a 30 P/E ratio
- An unmet need is the beginning of a great business



Data through 2021 SN 100 Company Model



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Data through Dec 2021



100 Company SN Model Profit and Loss Summary All Companies

	6%		26%
	For the 12 Months Ended		
	2019-12	2020-12	2021-12
Revenue	862,536,936	917,105,144	1,157,355,421
Cost of Goods Sold	464,416,446	481,685,139	627,044,279
Gross Margin	398,120,491	435,420,004	530,311,142
<i>as a % of sales</i>	46%	47%	46%
Direct labor	149,895,473	160,690,823	195,854,125
<i>as a % of sales</i>	17%	18%	17%
Direct LER	2.66	2.71	2.71
Contribution Margin	248,225,017	274,729,181	334,457,018
<i>as a % to sales</i>	29%	30%	29%
Operating expenses:			0.15
Facilities	32,605,385	33,163,775	38,543,489
Marketing	16,653,373	13,707,737	18,048,933
Management Labor	74,663,489	80,053,649	92,282,993
Payroll Taxes and Benefits	26,457,893	28,336,827	32,466,718
Other OpEx	38,227,615	41,195,151	51,336,559
Total Operating Expenses	188,607,754	196,457,139	232,678,693
<i>as % to Sales</i>	22%	21%	20%
Management LER (compared to CM)	3.32	3.43	3.62
Net Operating Income	59,617,263	78,272,042	101,778,324
<i>as % to Sales</i>	6.91%	8.53%	8.79%
Total LER	1.77	1.81	1.84

2021-12 <--- Select Month

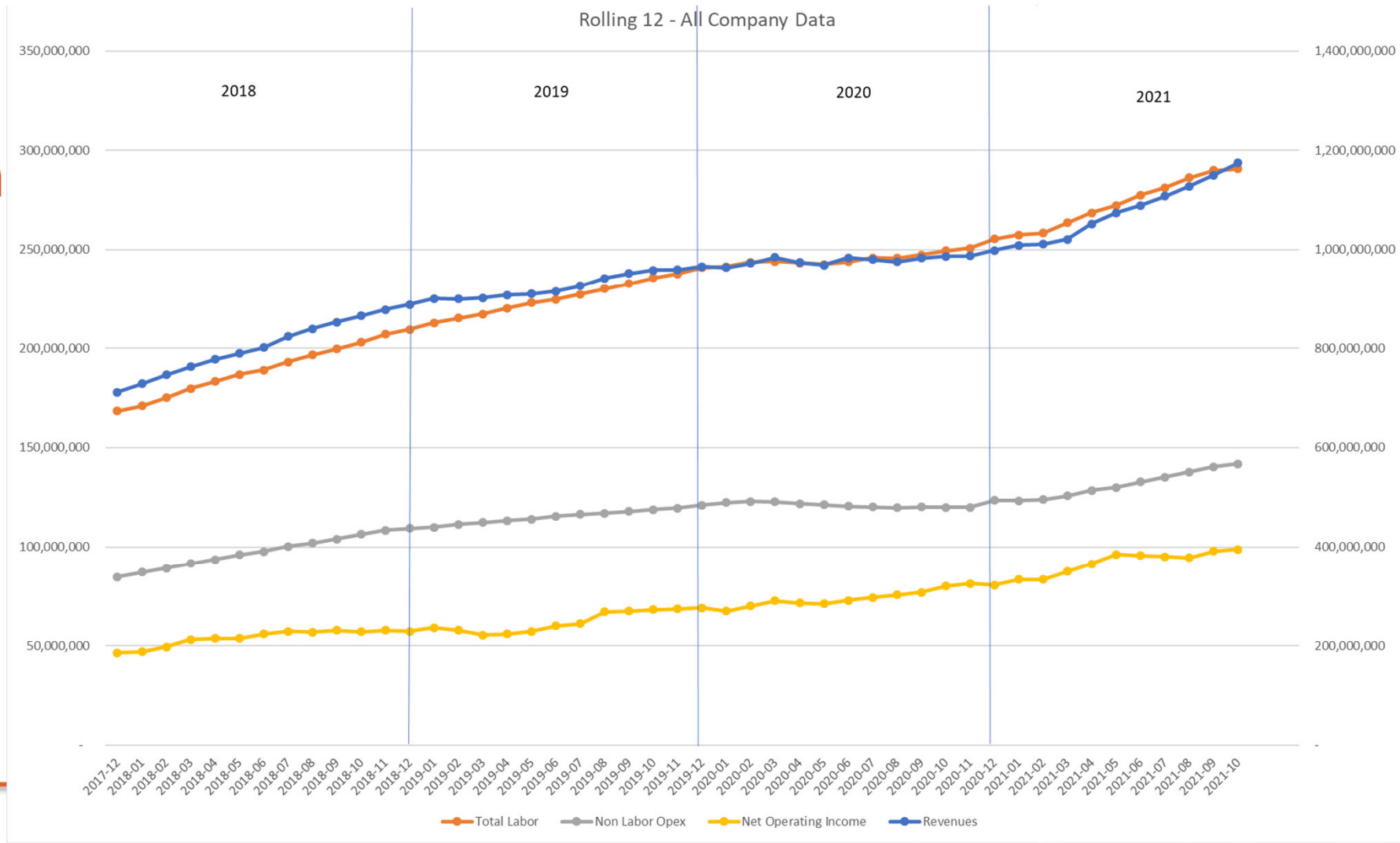
	12%		32%
	For the 3 Months Ended		
	2019-12	2020-12	2021-12
Revenue	217,510,501	243,939,795	322,812,882
Cost of Goods Sold	120,375,401	125,915,499	182,669,701
Gross Margin	97,135,100	118,024,295	140,143,181
<i>as a % of sales</i>	45%	48%	43%
Direct labor	39,558,525	46,003,373	53,816,130
<i>as a % of sales</i>	18%	19%	17%
Direct LER	2.46	2.57	2.60
Contribution Margin	57,576,575	72,020,922	86,327,050
<i>as a % to sales</i>	26%	30%	27%
Operating expenses:			0.15
Facilities	8,673,963	9,118,602	10,324,082
Marketing	4,208,297	3,790,623	5,210,935
Management Labor	20,313,579	22,252,585	25,936,110
Payroll Taxes and Benefits	6,240,147	7,276,852	8,467,468
Other OpEx	10,360,653	12,197,844	14,672,618
Total Operating Expenses	49,796,639	54,636,506	64,611,213
<i>as % to Sales</i>	23%	22%	20%
Management LER (compared to CM)	2.83	3.24	3.33
Net Operating Income	7,779,936	17,384,416	21,715,837
<i>as % to Sales</i>	3.6%	7.1%	6.7%
Total LER	1.62	1.73	1.76

Cash Generated during initial Covid Year

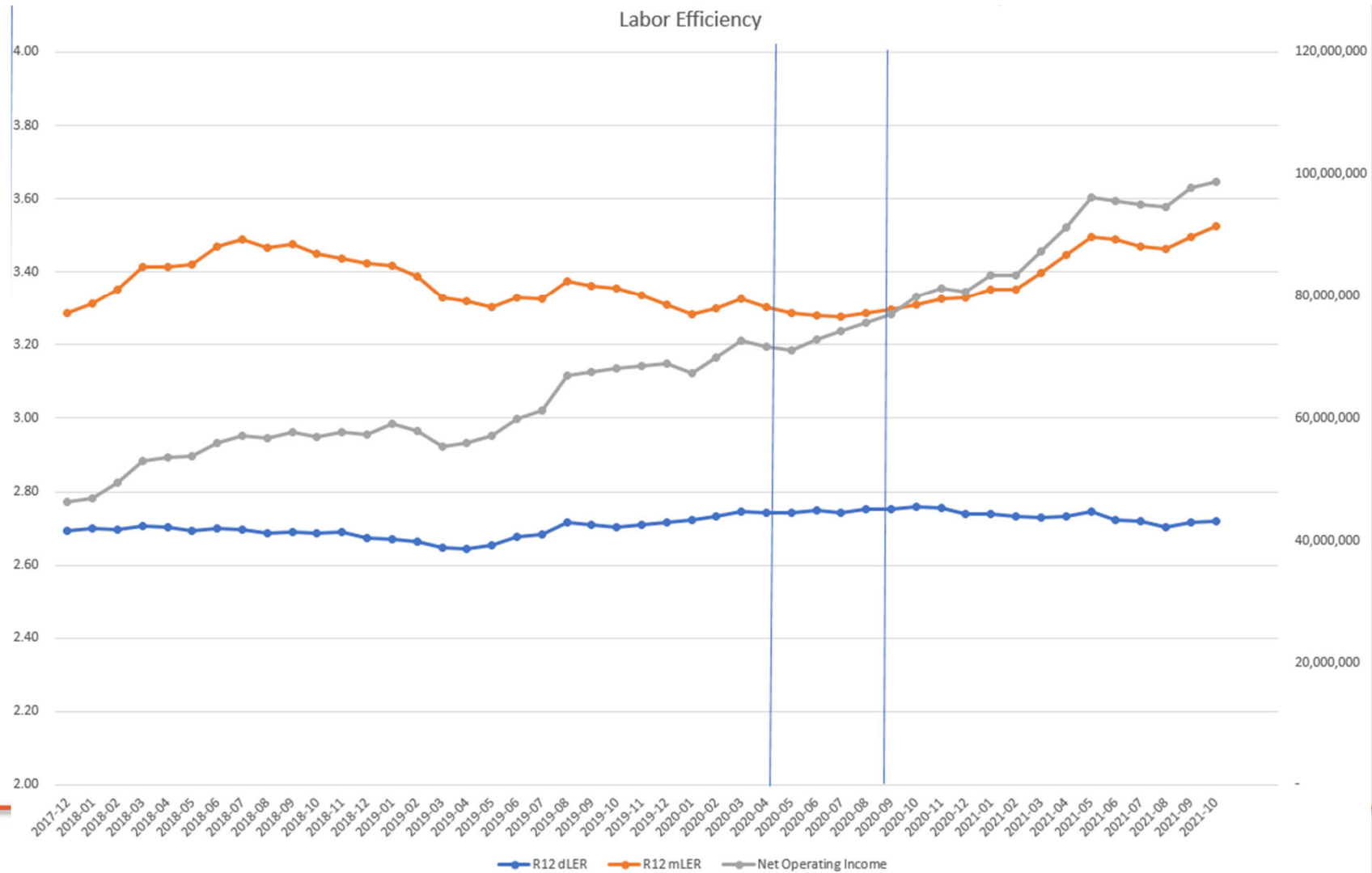
- \$86M - Net Operating Income R12 2021-03
 - \$17M Cash Invested in Trade Capital for Growth
 - \$60M in 2 rounds of PPP
- \$129M Net Cash produced (PPP was not taxable)
 - \$28M Estimated Tax impact
- \$101M estimated net after tax available for consumption or investment
- \$39M Previous Year net after tax available



Data
through
Oct
2021



Data through Oct 2021



Inflation

- Don't forget the laws of the Supply vs Demand Curve
 - Unless there is government intervention
 - Lockdowns
 - Price controls
 - Prices will continue to rise as long as:
 - Demand exceeds supply, and....
 - Customers have the need and can pay
 - No cap on consumption goods and assets, just can you afford it
 - No cap on any product of the customer can pass through price increase



Labor

- 10.6M open job postings
- 6.3M people on unemployment
- Falling US replacement birthrate
 - 2.4 in 2001 to
 - 1.8 in 2021
- Airport services in US have fallen to third world country status



Labor Winners

- Companies that can rapidly develop talent for specific jobs
- Companies with strong culture and fair pay policies
- Companies that can pass through labor increases rapidly



Labor Losers

- Companies that cannot wait to train lower cost labor
- Companies that have long term pricing agreements that do not allow for labor increases higher than CPI
- Companies that over rely on foreign workers
 - You might get them, you might not and then what
- Companies that rely on wages less than \$15 per hour
 - If you cannot pass through price increases, customers will have to do without



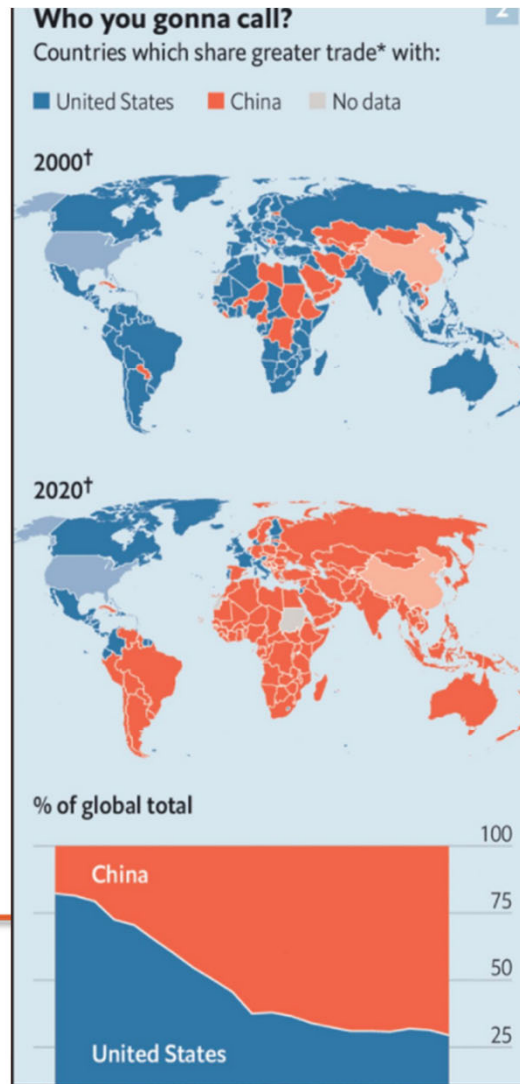
Supply Chain

For Supply Chain information, follow The Huntsman @man_integrated on Twitter.

It might scare you to death but you need to know.



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Most Common Pricing Errors

- Pricing Bias
- Cost + mindset (add up your costs and add profit)
- One price for everyone
- “Pass through” Cost increases
- Contract Negotiation errors (Long term pricing with no out clause)
- Billing by the Hour
- Failing to Price in Inefficiency due to COVID/Supply Chain issues
- Incorrectly equating volume increases as the same as a price increase
- Failing to separately value Goods and Services when you sell a product with service



Service Business Pricing Strategy

- What is the value of the result, not the hours spent!
- Avoid billing by the hour, billed on a fixed price
 - Productize service offerings
 - Use hourly billing as last resort for out of scope additions
 - Will need to have operating systems to manage to outcomes
 - Fixed price allows you to quote quicker and bill and collect up front
- Have highest value producers work on highest value tasks
 - Hours worked is not the goal
 - Break tasks into high and low value components and deploy labor accordingly
 - Use Labor Efficiency Ratio to validate labor productivity as your labor cost increases
- Services delivered with other Goods or Materials
 - If there is price volatility in the goods you add to services, you will need to consider un-bundling pricing. Don't just pass through cost increases, you have to pass through enough to cover handling of the goods.



Product Sales Pricing Strategy

- What will the market bear in price, not pass through of cost
- Customers do not have a current anchor of price relativity.
- Don't be afraid to get extra value now, because you will likely have a loss event on the back side of this disruption
- Have clear rules on what goes into margin
 - Include any cost that everyone in the market is having to pay
 - Exclude costs that you paid for bad decisions that others did not pay
- Price can be different by channel and by customer support
- It is not about Revenue, it is about Gross Margin Dollars
- Avoid trying to sell old/slow inventory through your regular channel, you are using customer's full margin dollars to get inventory cash back.



Manufacturer Pricing Strategy

- Price to market, not to cost!
- Raw materials will likely continue to be volatile, try to be the cost leader by pricing in material increases even though you are working from lower cost inventory on hand
- Understand customer profiles and segment them into profit quartiles
 - Customers who are price sensitive might need to be sent elsewhere
 - Save limited supplies for core/best customers at top margin
 - Scarcity of key goods will likely be around for several more years
- Avoid long term pricing agreements. Only commit to as far as you can see.
 - Use trigger points in agreements that either terminate agreement or they agree to pay more

