Managing Margins and Pricing

Offering aggressive financing can capture more sales, attract more customers and generate more profits than most any other business tool or strategy at your disposal.

In order to maintain your desired profit margins while either offering financing as a payment option or marketing payment plans, you need to understand the potential cost of the financing to you and insure that you have made provisions for it in your price and/or payment calculations to accommodate that cost.

Offering a Financing Option

Low interest, fixed rate, no fee financing with a twelve month no interest option (12 Months Same as Cash) is a product and service in itself no different from any other additional option you might add to your quotation or price calculation. It is a beneficial and important service that you are offering and it has a specific cost associated with it which you should accommodate and pass on in full or in part to the Customer as part of the final price.

The cost of the financing program to you is the discount (aka buy-down) assessed which is based upon the credit profile of the Borrower. Discounts can range from 10% for an A- or B Credit Consumer to 40% for a D Credit, or Sub-Prime Borrower. If you service a broad range of consumers, you should assume an average discount of 20%. If you experience a higher average discount and feel the 20% is inadequate, simply increase the amount of the assumed discount accordingly.

This means that you need to add 20% to your price calculation, estimate or quotation where a Customer has indicated that they want or need to finance the product or service. If the actual discount is less, you can elect to reflect this as a price reduction. If the customer indicates that they are undecided and may elect to pay cash, you can offer a cash price or deeper discount wherein the 20% contingency factor is not a part of the price quoted.

Calculating your Quote, Estimate or Price

Since the 20% Discount is applied to the total amount of the loan, divide your net or cash price by 0.80

Cash or Net Price = $1,500

Price if Financed = $1,500 / 0.80 or $1,875

Discount for Cash = $375 or 20%

Estimating the Customer's Payment

To Estimate what the customer's highest possible monthly payment will be, select the term you want to offer and/or the customer prefers and multiply the *Price if Financed* by the corresponding payment factor below: These factors assume the highest possible APR of 19.99%. However, if the Customer qualifies for a lower interest rate, the payment will be less than the estimate and the Customer will be even happier.

24 Month Term, Multiply by 0.051 ($1,875 x 0.051 = $95.63 per Month)
36 Month Term, Multiply by 0.037 ($1,875 x 0.037 = $69.38 per Month)
48 Month Term, Multiply by 0.031 ($1,875 x 0.031 = $58.13 per Month)
60 Month Term, Multiply by 0.026 ($1,875 x 0.026 = $48.75 per Month)
72 Month Term, Multiply by 0.024 ($1,875 x 0.024 = $45.00 per Month)

If your customer wants and can afford to make the estimated payment for the loan term suggested or requested, you can proceed with the loan application.

Pre-Qualifying the Customer

For you, time is money. You want to avoid spending time preparing prices or completing loan applications for prospective customers who cannot qualify for financing or afford what you are offering.

The first option is to direct Customers to use your FLEXXBUY Credit Select or Credit Select PlusFinance Online Application which is connected to your FLEXXBUY Account and System in order to be pre-approved. If they apply online, you receive all the details of the application electronically from within the system and can proceed in confidence.

The second option is to ask the customer the following questions in the following manner.

Mr. / Ms. ___________________,
Hopefully, you can benefit from our low interest, no fees, fixed payment financing program wherein you can pay off the loan within 12 months and pay no interest at all. Before, I submit your application, let me review the basic requirements with you to help insure that you will qualify. Once I read you the requirements, just let me know if you believe you meet these qualifications. There is no need to provide me any information or answer any of these questions individually.
Your Credit Score needs to be at least 550, you need to have been employed for at least one year and earn either $18,000 per year or four times the amount of the loan for which you are applying. (This income qualification does not apply to home improvement loans). You also cannot have any accounts currently in collections with the exception of medical debts.

You cannot have had any of the following occur within the last two years:

- *Bankruptcy*
- *Home Foreclosure*
- *Repossession*
- *Tax Liens*
- *Civil Judgments*

Do you believe that you meet these minimum qualifications? If you do not, you may want to apply with a Co-Signer who, to the best of your knowledge, has good credit.

If the Customer believes that they meet these minimum requirements and you have a reasonable degree of confidence in their response, then you should proceed with the loan application.

Selling and Advertising Payments

When you advertise a price for a high ticket ($1,000 or more) product or service, no matter how competitive the price offered, you will appeal only to people who have that much excess cash or available charge card credit at the time of your advertisement. When you advertise a price and/or a monthly payment option, you now appeal to exponentially more potential customers as you include those who can afford the payment offered.

When determining a payment plan offer, you want to consider the profit margin you desire, the type of product or service being sold, the price and what you think the optimal payment should be to attract customers in your target market.

The more costly the product and the longer product life, the longer the loan term can be. It is a balance between offering an affordable, attractive payment and a payment term that is reasonable given the product being financed. This decision is part judgment, part common sense and part economics.

A new $12,000 roof for a home might drive a 60 or 72 Month Term whereas a $2,500 Engagement Ring may dictate a 24 or 36 Month Term. Put yourself in your Customer's position and try to predict a payment amount and term that would be most universally appealing given the product or service being financed.

When determining a payment, you want to consider that people have mental thresholds. For example a payment of $199 has a much greater appeal than $200. There is only a $1 difference between the two figures but once you cross the $200 threshold, the appeal is exponentially diminished.

Remember that here you are selling a payment and not a price. The customer who responds to the offer of a payment plan is more concerned with the amount of the payment and term of the loan than the actual cost of the product or service.

Example:

A Painting Contractor wants to canvass a neighborhood and place door hangers on homes which are in need of re-painting in the spring of the year. He knows that the largest home in the sub division is 2,400 Square Feet and one story. He would like to net between 2400 and 2700 after the discount. This is a middle class area so he estimates an average discount of 20% on the applications he submits as a result of the campaign.

When he plugs $2,550 into the equation below, he calculates a highest payment of $99 with a 48 Month Term. Hence, he can offer a payment of less than $100 as well as the 12 Month no interest option and prospects can pay off the loan with their tax refunds and have paid no interest or fees.

Payment Equation:

$2,550 / 0.80 (20% Discount Assumption) = $3,188
$3,188 x 0.031 (48 Month Term Highest Payment Factor) = $99

His door hanger could then read:

Complete Exterior Painting and Sealing for any home for less than $99 per Month!

Call Now 800-000-0000

48 Low Fixed Monthly Payments. No interest if paid in full within 12 Months

The thought process and economic approach above can work for marketing, advertising and promoting any product or service for which you can estimate a price in advance, determine the sensitivity of your target market to the payment amount and select a term which you think is appropriate given the life and value of the offering.

Payment Plans sell. They attract more customers and can protect profit margins. By backing into the payment you wish to advertise through manipulating the net revenue and the term, you can insure and fix your gross profit.

By advertising the included 12 Months Same as Cash option, you attract customers in need of a payment plan, customers who expect their situation to change in the year to come and customers who cannot pay in full today but could pay the amount if afforded 12 Months to do so.

The “12 Month Same as Cash” or “12 Month No Interest” option provided with all loans is a powerful marketing tool and should be aggressively advertised.