

Increase Your Profits: How to Create and Keep More Margin Lotusphere 2004 BDD202

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What Do You Want from this Session?

How much more profit?
When do you want to hit that number?
How will you know that this session has been worth it?
What to expect...

What Do You Mean?

Profit is the money available after all expenses before taxes
Margin is the difference between what you sell it for and what you pay for it
How can we protect margin and increase profits?

What Drives Your Profitability?

Efficiency
Demand
Expertise
Distribution
Buying savvy
Operations savvy
Sales and negotiating savvy.

What Does Margin Really Mean?

Repaid for your risk, effort, and skills
Makes the business viable in the long run
Grow the business
Make the business salable
Creates leverage for future profits.

Your Greatest Profit Leverage

Impact of Price Cuts on Profitability

Impact of Raising Prices on Profitability

Impact of Raising Prices on Sales

Attitudes for Profitability

Everyone in the company is responsible for profit
Share the numbers
Share profit improvement contribution with individuals
Equal profit sharing
Profit perks.
Profit is not a dirty word
Culture shift to "unprofitable" is a dirty word
Sustainable profits come from every part of the business
The rule of one percent in profitability
Creates competitive advantage

Price is more important in the mind of the sales person than in the mind of the customer.
It is in the customer's best interest that the sales person believes that price is most important.

"This CD player sells for less..."

Sustained profit requires constant attention to details

Profit search committee members from all functional areas

Profit benchmarks as part of departmental goals

The more you measure, the more efficient and profitable you'll become

The Hawthorne Effect, Western Electric Company, Chicago

Make profits public

Where the profit comes from will radically change over time

Market demands change

Vendors change

Operations change.

How to Set Prices

Competitive Comparison

If you don't know what your competitors charge, you probably aren't charging too much.

Cost Plus

"Do it yourself"

Value Pricing

"Value Based Fees" Alan Weiss

What do you want to make?

Name Your Price.

When to Raise Your Prices

When you're sold out

Add value to existing clients

Price to run at about 90 percent capacity

Partner for additional temporary capacity

Firing customers

Who to fire

How to fire them

Advance notice

Tell them why, in details

Offer them other options.

When to Get Paid

Manual laborers get paid after they're done

Knowledge workers get paid before the work is done

You pay for the software before you use it

You pay for the book before you read it.

Where Most Companies Forego Margin

Uncontrolled discounting

Inappropriate sales incentives

"Breakage"

Shipping costs

Electronic distribution

Why use express shipping?

Provisioning services.

Where Most Companies Forego Profits

Inappropriate warrantee

Too generous

Not generous enough

Extended warrantee

Old overhead models

Facilities

Telecom

Shipping

Personnel.

Resource utilization

Intellectual property

Reallocate unused billable tech time to selling

Empty space rented out

Unused inventory sold on eBay, surplus.net, or bartered

Lack of staff confidence.

How to Combat Competitive Pricing Pressures

Creating Differentiation

"The competitor is the same or better..."

What are your "onlys?"

Communicating Differentiation

"Would you like to understand our points of difference?"

"Our customers tell us that they choose us because..."

Discuss unique characteristics

Keeping Differentiation

Rule of One Percent in marketing

On the outlook

Rewarding differentiation.

How to be Different from Your Competition

Competition Low-balls Their Price

"You're too high.

"Too high? When you say too high, what do you mean? Too high compared with what?"

"We have no argument with those selling for less. They know best what their product is worth."

"Why are your prices so high?"

"Because we charge more."

"The competition is the same or better."

"In what way are they better for your application?"

"What do you like best about them?"

"What do you like least about them?"

"If prices were all the same, who'd you choose?"

"Excuse me for a moment..."

"Give me your lowest price."

"OK, but I get to pick the quality."

"OK, but I get to pick the delivery time."

How to Get Your Customers Off the Discount Schedule

Change the Sales Incentive

Count gross margin versus revenue

Take the first discount from the salesperson's commission check

New Sales Contests

Don't incentivize their job

Incentivize competitive knowledge, gross

margin, customer satisfaction, account

penetration, customer longevity, customer

loyalty.

Use Soft Dollar Bonuses versus Discounts

Offering additional value versus volunteering discounts

Create bonus packages that are better than the discount schedule

Financing

Shipping

Accessories

Supplies

Additional seats in paid training

Anything but consulting.

Put a Value on What You're Doing for Free

Never minimize what you do

"You'll do the same for me!"

Professional courtesy discount

Zero balance Invoice

Make the invisible visible.

Way to Work With Vendors to Increase Margins

Actively manage your Ts&Cs

Enforce your Ts&Cs

Take advantage of all early pay discounts

Increase vendor credit lines

Re-negotiate vendor credit percentages

Discuss ways to decrease costs

Packaging

Inventory

Shipping

Quantity price breaks

Sales commissions

Marketing allocation

Warranty costs.

Longer Term Profit-Making Strategies

Increase your value to justify a price increase

Increase the sales to your best customers,

instead of chasing people you don't know

Every client relationship must be either profitable, or strategic

Narrow your market focus to gain a significant market share in that sector

Position as being the experts in your market sector. Become the go-to company.

How to Identify High-Margin Business

What areas of the market are underserved?

What areas of the market aren't glamorous?

What isn't the competition offering?

Where can you sell custom services?

How to Increase Margins in Manufacturing

Focus

Vendors

Manufacturing

Inventory

Cost of Funds

Cost of Sales

Warranty

Outsourcing

Product life cycle.

How to Increase Margins in Distribution

Proper incentive programs

Business skills training programs

Enforce business partner's performance objectives

Driving demand with strong marketing strategies

Hit the rebate numbers.

How to Increase Margins in Services

Controlling employee costs

Required employee attitudes

Employee risk/reward compensation

Training and skills assessments

Get great at selling value.

Increase Your Profits Immediately

Inspired by Alan Weiss

Collaboratively establish your value with your client

What's the objective?

What's that worth?

What would it cost to do nothing?

Fees depend on value, not activity

Never base your fee on behavior, but on outcome

Forget history. It's a new day.

Don't use days as the basis of your value

Your value is your talent. They're paying for outcome, not hours.

Never set fees with anyone but the economic buyer.

Proposals record a meeting of the minds instead of extending an offer

All proposals have an expiration date

Don't quote fees until you know the value

Quote one option that is bigger than the budget

Offer additional options and capabilities

Maintain your go-to status by sub-contracting when you have to.

Exact numbers are less negotiable than round numbers

Practice saying high fees

Practice defending your fees

Apples to Oranges comparison

Never volunteer to cut your fee

Give it away before selling too cheap

Reduce what you deliver if you reduce fee

No printed fee schedule.

Charge more for personally delivering the project

Expenses are always extra

No more than a month for expense reimbursement

Repeat business is profitable business

Sell the next project in the middle of this project

Scope creep requires a new proposal.

Offer full payment discounts

Offer early payment discounts

Offer rebates for full project completion

Start with terms that are best for you

Don't accept their standard Ts&Cs

Walk away from unprofitable or unpleasant business.

Profitability Troubleshooting Questions...

What are you measuring?

What is your profit target?

What behavior are you rewarding?

At each level of your company?

With your customer?

What's the quickest way to increase your profits?

What's the most defensible way to increase your profits?

From the competitor?

To the customer?

What are the costs of incompatibility?

What are your most profitable relationships?

What makes them so profitable?

What can we transfer to other customers?

What is your most profitable market position?

What is your market-share determining segment?

What are your profit control points?

What is your business cycle?

Where can you optimize profit?

Where are you in the profit curve?

What else do customers have to buy after the sale?

What are you afraid to find out with respect to your sales and margins?

Who controls the second-hand market?

What Did You Get from This Session?

New ideas?

Challenge the way that you think now?

Make you uncomfortable?

Do you want more?

If you don't get help from me, where are you going to get it?

Your promise to me...

My promise to you... Mark.Smith@OCEinc.com

Download the worksheets and listen to a playback of the presentation at www.OCEinc.com/lotusphere2004.htm

Action Ideas