

## Economic Struggles Can Create Opportunity

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What should I do about my prices? As I look around me, it seems like everything is going up – except what my company charges for its services. Help!

As owner and CEO, it is critical that you do what you have to do, to protect the overall health of the company. You have to figure out how much any inflation is likely to hit your business. You may have to tune your mix of customers as you adjust prices. Knee-jerk price increases are not necessarily the solution.

Whatever you decide to do, don't sit there and hope things will blow over. Inflation cycles will hurt your bottom line. Hesitating to act simply means you'll build up bills that have to be paid, without increasing revenue to cover them. If your margins are thin enough, inflation without any reaction may turn into the difference between profit and loss going forward.

First step is to figure out how much price inflation is impacting your business. Look over month-by-month, quarter-by-quarter, and year-to-date comparisons of this year vs. last year. Find out how much and which prices are really up, so far, for the goods and services your company buys.

Then estimate what might happen to prices over the next 6 months. Ask yourself: Did prices jump once, or are they continuing to march upwards? What are

vendors planning for price changes in the next six months? Which things are going to jump the most in the coming year? How much for overhead expense increases vs. Cost of Goods Sold items such as payroll, products and services?

If you can't figure out the answers to these pricing questions on your own, get help. Pretending to be an ostrich and hoping the problem will go away won't get you where you want to go. Use answers to the above questions to build a more realistic profit picture of the upcoming 6 months. Knowing what you have to do to make a profit makes it easier for you to focus and move your company forward.

Now it's time to look at customers. Not all customers are equal. Some are highly profitable, some are not, and some can fool you by looking very profitable when they aren't. Here's a question to ask. What customers cause the most problems – whether it's with returns or refunds, asking for more for the same price or not wanting to pay for extras, last minute requests, or demands for goods and services outside the core of what your business does?

Figure out which customers give your business its highest profit. Take into account factors like refunds, give-backs, lead time on orders, rush demands, and contribution to research and

development of future business ideas. Identify low margin customers, again figuring in costs for extra demands.

Decide if you have to raise prices all over, or just improve margins by focusing on high profit accounts. You may find that if you let go of the low-profit group, you give up revenue, but not a lot of margin. Start profit improvement by weeding out the lower quality clients.

Distinguish between customers that are going to make you money, and those that are going to hold your business back. Identify characteristics that cause customers to fall into the low- or high-profit group. Identify customers that have the potential to become high-profit, they just need to be steered in the right direction.

Highlight customers that need to go away. Use the criteria of: they don't get the value of what you're delivering, they can't afford you, or they just aren't a good fit for where your business is going. Make a plan to get rid of them, unless you can turn them around – and don't spend a lot of time trying to turn them around.

Determine price increases, using your earlier financial estimates and your good- and poor-quality customer list. You may want to raise prices highest on poor quality customers. This can help you to maximize profit until they



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go away and force them to go elsewhere on their own.

Now it's a matter of increasing sales. Focus on new, higher quality customers, who have the characteristics that match your current high-profit customer group. Buy a list, advertise, cold call, network, ask for referrals from other great customers. Do what you have to do to get sales moving with the right customers.

In an inflation cycle, lots of companies are assessing customers. Businesses are struggling to make a profit. Struggles create opportunity for a savvy business owner. Be ready to pick up business from companies that are letting go of some of their customers. Look for businesses that are struggling and be ready to pick up their slack.

Looking for a good book? Try Word of Mouth Marketing: How Smart Companies Get People Talking by Andy Sernovitz and Guy Kawasaki

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