

# The Business ADVISOR



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## TOPIC SUMMARY FROM STORM MANAGEMENT

### 50 Ways to Increase Your Gross Profit Margins

One of the biggest impacts the Internet is having is on pricing. With the advent of online exchanges and readily available information, pricing information is more widely known than ever before. Furthermore, buyers have access to more suppliers than ever before and thus they are using the Internet to reduce their costs. The bottom line is that gross profit margins are under more pressure than ever before. Thus, everyone is seeking ways to increase their margins, to increase or hold the line on their margins. The following is a thought-provoking list of 50 ways to increase your margins. While all of these may not be appropriate to all business situations, if even one of them is successful at raising margins, it's a worthwhile exercise.

We have found that pricing is an opportunity often missed by too many companies. The lack of focus and senior management involvement often results in missed opportunities to increase margin dollars. Remember too that pricing is a psychological exercise and it is equally important to sell your team, as well as your customers, on your pricing strategies.

#### 50 Ways to Increase Your Gross Profit Margins

- 1) Implement programs to reward sales professionals based upon gross profit margin dollars and not sales volume. *Getting that extra couple of points means trying to increase the margin every day on every product on every sale. Your field personnel have the opportunity to do this; thus giving them the incentive is critical. However, avoid a pitfall by rewarding margin dollars not margin percent!*
- 2) *Focus attention on one or two points of margin.* Every day you and your management team must reinforce the need to squeeze that extra point or two of margin out of every product sale. Educating your team will help draw their attention to the fact that they can make a difference.
- 3) *Contests or promotional programs.* To help focus attention on gross profit margins, think about running sales promotional contests based on margin dollars. For example, rewarding everyone for increasing margins by a point over the prior quarter.
- 4) *Drop the losers.* Your marketing staff and financial organization can identify the losers in your product line in terms of margins. Those products that have slow turns and low dollar contribution margins are the products you want to drop.
- 5) *Push the winners.* *Have you published a list of the highest margin products to your sales team? Remember both percentage of margin and dollars of margin are important to identify.*
- 6) *Run contests on your high margin products.* *If you are going to have a SPIFF or other incentive, make sure it is on your high margin products.*
- 7) *Reduce your product costs.* *Go to your suppliers to see if there are further cost decreases you can obtain. One way to do this is to take the volume you are giving to two or three suppliers and*

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*give 80% to one vendor who gives you better service, low prices, better terms, on-time delivery and agrees to promotion, displays and product returns.*

8) Ask for the “French fries” with the sale. *Train all sales personnel to push a specific high margin add on product/accessory service on each sale, thus increasing your total revenue and gross margin dollar contribution per sale.*

9) Selling Up. *Train your people to sell up to the higher grade (and higher margin dollar) product or add features to products that typically carry higher margins. Train and incentivize your people to sell up.*

10) Cross Selling. *Here again, you want to drive up the average dollars and margin dollar contribution per sale. Your marketing people should develop lists of cross-sale items so that when an individual requests a specific item they should be sold the accompanying parts, services and accessories to increase the sale.*

11) Increase Your Prices Across the Board Subtly. *Increasing prices several times by a fraction of a percent often goes unnoticed. For example, three increases of .005 over a 4-6 month period will*

*often go unnoticed by your people and customers. This will result in more than 1.5 points of margin. Small movements in prices equal big dollars to the bottom line.*

12) Minimize Discounting. *Train your sales people not to automatically jump to 10%, 15%, or 20% discounts. Rather, they should use “retail” pricing. For example, a specific dollar amount (\$10.87) might only amount to an 8 ½% discount, but have the same psychological impact as a 10% discount. Every point of discount saved is the same as a price increase and contributes to your margin.*

13) Individually Price Items Using “Retail” Pricing. *Very often when you computer-generate pricing, you will arrive at a price which may be lower or higher than a psychological sales level – for example, \$13.01 instead of \$12.87 or \$12.31, rather than \$12.87. Spend the time to go through your prices item by item to gain those extra margin dollars. Remember this strategy works on you and your customers every day in your personal retail purchases!*

14) Change Prices Often. *Pricing is a continual task. You should constantly be reviewing your pricing to see what areas you can increase, change discounts, modify or otherwise increase your overall gross*

*profit margin contribution. Getting that extra point or two of margin means that you must work full time on your prices. Hard work, dedication and focus on this area by your team is the only way to get that point or two of margin which is so important to your bottom line.*

15) Product Mix. *Product mix shifts (even subtle ones) can have a major impact on your gross profit margins. Understand the dynamics of your marketplace and what is happening to your business. Understanding your business is critical if you are to focus on those customers, market segments and product lines that give you the highest gross profit margins. You must then develop marketing strategies and implement sales action plans to pursue the more profitable segments of your business.*

16) Fire Unprofitable Customers. *Some customers are simply not worth having. These are the customers who demand the lowest price, want extended credit, demand superior service, abuse return policies and delay or simply not pay for products or services. The best thing to do is send them to your competitors. Establish a program to fire unprofitable customers. Review your customer base at least semi-annually!*

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- 17) Pay Attention to Small Items. *Small items, such as consumables, accessories and service parts are often less price sensitive as major items. Increase prices here while holding the line on bigger, more noticeable products.*
- 18) Selective Purchasing Strategy. *Some of your customers use the selective purchasing strategy. They buy only specials or cherry pick your line and then expect the same levels of service as your more profitable customers. Guard against this with pricing strategies to protect your margins.*
- 19) Pricing Levels. *In most pricing systems, there are different pricing levels. It is often expedient for sales personnel who are anxious to increase sales to move directly to the lowest column pricing for all products. Sales management should assure that their sales professionals select the column pricing which applies to the customer.*
- 20) Pricing Approval. *You should establish a hierarchy of price approvals so that higher quality decisions on pricing will result. This is especially critical where custom pricing is involved. The financial staff must be involved to assure accurate cost information is available!*
- 21) Large Quote Approval. *Here again, management must be actively involved in the business of pricing. On all quotes over a specific dollar amount, a higher-level manager should become involved.*
- 22) Service Fees. *Every business provides services to its customers. Whenever possible, you should consider charging for your services, even if these fees are waived for profitable customers. It helps them to quantify the services you offer!*
- 23) Don't Assume! Go Out To the Field and See For Yourself! *You cannot assume pricing directions and strategies are being properly implemented in the field. Very often the word doesn't filter down or it falls on deaf ears. Go find out for yourself what is happening by riding with sales professionals and calling on customers.*
- 24) Exception Reporting. *Review gross profit margin exceptions (i.e. below selected GPM % amounts) by customers or market segments and sales professionals or sales location. Catch the problems early and focus on problem areas.*
- 25) Margin and Pricing Focus. *Focus, controls, procedures, follow-up, assigning responsibilities, pricing meetings and formulating pricing strategies are all part of a successful program to increase margins.*
- 26) Discipline. *Above all else, the development of pricing strategies, implementation, maintenance and administration is a disciplined process. Obtaining that extra point or two of GPM does not come easy. Dedication and hard work make it happen.*
- 27) Beware of the "Black Holes". *In most operations there are ways that the field personnel can transfer merchandise, give rebates and provide incentives that negatively impact your margins. You should be on the alert to close the door on these abuses and put in place policies, programs and procedures to eliminate these "black holes" of margin.*
- 28) Shrinkage. *Shrinkage will kill your margins faster than any other activity. You lose 100% of the value of the product for \$0 revenue. Thus it is a one for one hit not only to your margins, but to your profits as well.*
- 29) Damaged Goods. *Here again, this is an area of abuse due to sloppy work habits. You should discipline your team to check all merchandise when it is received. Very often, it is easier to ignore the paperwork of freight claims and thus lose margin dollars.*

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- 30) Reducing the Volume or Quality but Maintaining the Price. *This is another pricing strategy that has been effectively utilized. For example, over the years you have noticed the price of a chocolate bar has remained relatively flat. What most of us haven't paid a lot of attention to is the fact that the bar has shrunk in size by more than half. Thus, the cost per pound has risen dramatically.*
- 31) Special Deals. *Most sales personnel have a few key customers that use "under the radar" or "off the charts" pricing. Very often these are the highest volume users. Unfortunately when we implement a price change the sales professional often does not pass these prices along to these customers. Thus a major portion of your revenues may not be impacted by price increases. Here again, looking at the details of your business every day is the only way you can identify these situations.*
- 32) Product Returns. *How often have product returns sat in warehouses for months before someone does the paperwork to get credit from vendors? This is tying up capital and, in the worst cases, losing an opportunity to return a product for credit due to expiration of warranty dates.*
- 33) Give-aways. *Some sales professionals use give-aways of consumables, accessories and/or services to sell their product. You should put in policies to control such activities.*
- 34) Monthly Specials. *Field personnel are notorious for establishing local "specials". Unfortunately they are not sophisticated at pricing and often give away too much!*
- 35) Feedback. *One of the key elements to measuring progress is to provide feedback. Measuring progress and informing your team of how they are doing on a timely basis is a critical part to heightened awareness of a margin program.*
- 36) Push Success Stories. *Achievement awards and publishing individual success stories on how margins were increased helps reinforce increasing margins. Be sure you place the proper importance on increasing margins by reinforcing this day in and day out.*
- 37) Extended Warranty Terms. *Here is one abuse that can jump up and bite you down the road. Can your field sales professionals offer extended warranties, which will show up years from now that you don't know about?*
- 38) Terms of Sale/Payment Discounts. *Deviation from terms of sale, such as prompt payment discounts, without the approval of the credit department is another way to lose GPM dollars. Allowing sales professionals to deviate from terms of sale is a dangerous precedent and can easily get out of control.*
- 39) Starter Kits. *One way to increase sales and margins on sales is to create "starter kits". The concept here is that when a product is sold, you include all the parts, accessories and services to install it, plus a supply of consumable items. These kits increase the sales and margin dollars on the initial sale. Typically, these are sold at an attractive price when sold together so as to give the buyer incentive to buy the "kit"!*
- 40) Special Orders. *Sophisticated sellers realize a price premium for special orders. This is a service that is performed where price becomes secondary to obtaining the product for the customer. Likewise, if the customer does not accept a special order, they should be charged a special order cancellation and restocking fee. In those cases where you are in doubt as to the customer accepting the merchandise, you should obtain a deposit or payment up front.*

- 41) **Price Leadership.** *Most industry leaders are also price leaders. They receive a premium for their products and services.*
- 42) **Anticipating Cost Increases.** *In an environment where raw material or market conditions are driving prices upward, you should stay ahead of the price increase curve. Be sure to pre notify your sales professionals of the reasons why prices are increasing so they can explain it to their customers. This helps the customers understand your rationale for raising prices and deflects their displeasure to the source of the problem.*
- 43) **Pricing Information is Confidential.** *Your strategies, tactics and pricing activities are trade secret information. You do not want your competitors, or even your suppliers for that matter, to have access to this highly confidential information. Be careful of how you offer pricing information over the Internet.*
- 44) **Audits.** *Simply issuing a margin related policy or developing a strategy is not enough. You must continually follow up and conduct spot audits to make sure that policies, practices and programs are being properly executed in the field.*
- 45) **Government/Large Contract Bids.** *There are many strategies for obtaining government/large contract bids at the highest possible margins. First, you must be aware that there is a bid in process. Then you should position yourself to offer a qualified response to the bid. An effective sales effort means getting in on the bid process to influence the bid requirements to knock out competition and position yourself to win – before the bid is issued. This is the proactive approach to selling where you can minimize margin dollars.*
- 46) **Accelerate Commissions on Higher Margin Dollars.** *In most large sales forces, 70% of the margin dollars are generated by 30% of the sales force. Consider paying an accelerated incentive for margin dollars generated over certain thresholds.*
- 47) **Product/Project Costs File.** *In many organizations, product or project costs are not well defined. Much of costs are “allocated” and may not represent true costs. Spend time to assure your cost infrastructure is accurate and current.*
- 48) **Identify Price Sensitivity Levels.** *Few customers are aware of more than a limited number of prices (although this is changing with the advent of the Internet and exchanges). Know what these items are and price them according to your strategy – raise prices on other items that fall below the radar screen.*
- 49) **Multiple Distribution Channels/Markets.** *Use every opportunity to maximize margin by pricing separately each channel and market differently. Likewise, recognize the different costs of selling and supporting different channels and markets (especially internationally) via your pricing and terms.*
- 50) **Raise Prices.** *You almost never lose margin dollars by raising prices intelligently. The old sales adage “Let’s drop the price 10% and raise volume 20%” is a loser for most businesses. At a contribution margin of 60% you would just breakeven and likely lose money on the bottom line. With a contribution margin of 50% or less, you could afford to lose 20% of your volume if you simply raised prices 13%!*