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**BusinessWeek**

## Today's Tip

### Examine Pricing

Posted by: on November 18

The recession has created new competitive conditions. Led by the consumer who will no longer pay full retail, the discounting mentality has moved down the supply chain. Every business is under pressure to lower prices in order to maintain relationships. Long-term partnerships based on excellent service and high quality have fallen by the wayside under the pall of price deflation.

In this climate, business owners are forced to scrutinize pricing. Ask yourself these questions: Am I charging the fullest price possible for my products or services? Are some customers being undercharged? What will the market bear? Should I put pricing strategies in place to adjust for seasonal demand or excess capacity at certain times of the year?

Budgets and forecasts established for customers and business units will help you answer these questions. Ideally, you should know your fixed and variable costs and have an understanding or an estimate of each customer's profitability and contribution to your bottom line. Pricing strategy based on these numbers will assist you to meet the market's pressures more effectively. You may find that you are undercharging or that some clients may be willing to pay more, even in this climate, for value-adds such as exceptional service.

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[http://www.businessweek.com/smallbiz/tips/archives/2009/11/examine\\_pricing.html](http://www.businessweek.com/smallbiz/tips/archives/2009/11/examine_pricing.html)

# Create Forecasting for Business Units

Posted by: on November 17

Forecasting seems like a simple idea, yet many entrepreneurs don't put it into practice. Forecasting is a valuable tool that will give you better control of your business and help establish a measure of predictability in today's tough times. It will enable you to evaluate your company's performance in both the short and long term.

You should develop a budget and profitability forecast for each business unit, office, or region of your company. Forecasts should incorporate fixed and variable costs and the projected profitability—not just sales or revenues—for each customer or account. The total of all projected customer activities in each business unit will give you a basis to build real budget estimates.

Once you begin forecasting on an ongoing basis, you'll see that it is also a useful exercise that reveals weaknesses or inefficiencies in your business and helps you identify specific areas that need improvement. If you could predict what would happen tomorrow, what would you change today? No one can predict the future, but a forecasting regimen can show you what you need to fix now to compete more effectively next month, next quarter, and next year.

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[http://www.businessweek.com/smallbiz/tips/archives/2009/11/create\\_forecast.html](http://www.businessweek.com/smallbiz/tips/archives/2009/11/create_forecast.html)

# Assess Customer Profitability

Posted by: on November 16

Keeping your current customers and securing new ones may seem difficult enough in the recession. But not every customer is a "good" customer. Some customers could be costing you money.

You need to evaluate the profitability of each customer and account. Are they all profitable? Is your company losing money on some accounts? This type of assessment is even more critical in today's environment, when money is tight and most companies face extreme pressure to cut prices in order to maintain customer relationships.

You can create a budget for each customer project, based on needed labor and materials. Then you can forecast profitability for the duration of the contract or relationship. Analyze the hours it takes to service each customer a month and the average labor cost per hour without overtime. This calculation yields your monthly labor costs by customer. Add the average cost per unit of materials and you can determine your estimated gross profit for each client. Assign a portion of your fixed costs to each client and you arrive at an estimated net contribution by client.

Once you understand each customer's contribution to your bottom line, you'll know who your good customers really are.

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[http://www.businessweek.com/smallbiz/tips/archives/2009/11/assess\\_customer.html](http://www.businessweek.com/smallbiz/tips/archives/2009/11/assess_customer.html)

# Establish Daily Forecasting

Posted by: on November 13

With just about every business now under pressure to lower prices, it is more important than ever for business owners to know their real costs. What are the daily forecasts for your customers and what will you need to satisfy each order? By developing a system of receiving forecasts and then applying needed labor and materials, you will determine your exact costs each day.

To get started, you should ascertain your next-day activity from your customers. Then determine the number of man-hours required for the next day to meet client demand. In allocating labor, you should have just enough employees to get the job done for each customer without overtime. Add the daily cost of materials needed to complete the work.

At the end of each day, look at the number of tasks actually accomplished and compare it to the actual labor employed. If you see discrepancies in productivity, you can adjust as needed.

This daily forecast will give you a more concrete and accurate picture of your business. It will help you identify ways to save money, boost productivity, improve operations, and ultimately compete more effectively.

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[http://www.businessweek.com/smallbiz/tips/archives/2009/11/establish\\_daily.html](http://www.businessweek.com/smallbiz/tips/archives/2009/11/establish_daily.html)

# Measure Current Performance

Posted by: on November 12

In today's tough economy, every dollar counts. Yet do you know how your business is really performing? How your company might compare to the norms for your industry?

Many entrepreneurs tend to operate by instinct, with no measurements in place. Establishing productivity standards, with performance metrics by product group and by customer, is a first step to track actual performance. To get started, you should evaluate every client account and define the minimal number of distinct tasks it takes to service the business. The key to being effective is not to get caught in creating too many tasks. Even with highly complex operations, the task count should be as small as possible.

Through observation and logs, you can determine over a two-week period the actual time and labor it takes to complete the total tasks. Your current average productivity measurements could be represented as units per man-hour.

The key is to keep it simple. But the creation of performance metrics will help establish predictability and give you better control. You'll have a way to gauge how well your business is doing today and how you can improve it for the future.

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