

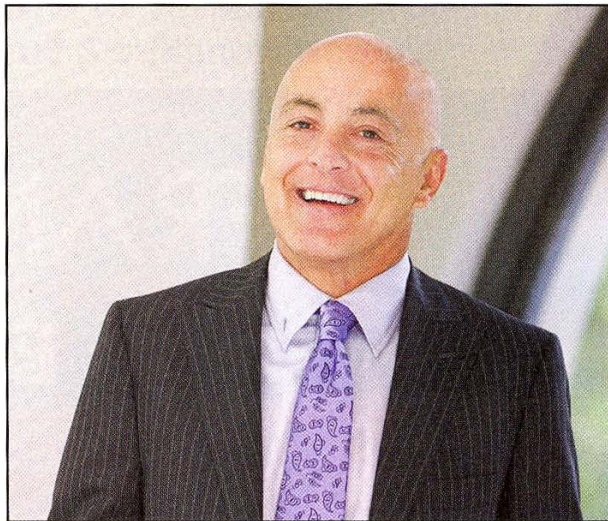


Business by the Numbers

Competing in the New Normal:

5 STEPS TO BOOST PROFITS

BY CHRIS CAREY



This recession is creating new competitive conditions, which we call the “new normal.” Led by the consumer who will no longer pay full retail, discounting mentality is moving down the supply chain. Every business is now under pressure to lower price to maintain relationships. Long term partnerships based on excellent service and quality are going to the wayside under the pall of price deflation. In this new normal, every dollar counts!

It is more important than ever for business owners to know their real costs and customer contribution. Yet many entrepreneurs tend to operate by instinct and rarely have an accurate picture of how to maximize profits, especially in this tough economy. Instituting five analytical steps can help you increase profits and improve performance. They also establish predictability, so you can gauge both short- and long-term results.

Every business is a machine designed to produce an outcome. Future performance will be consistent with past patterns unless you redesign the system. If a company has a history of marginal profits, it will continue to struggle in the future. But change the design and you change the outcome.

The five steps below will provide a better understanding of the performance of your business, and give you a good indication of its design. They can help you identify weaknesses and inefficiencies that you can fix, and show you where you can make more money.

Measure current performance

Do you know how your business is really performing? Establishing productivity standards, with performance metrics by product group and by customer, is a first step to track actual performance.

Establish daily forecasting

What are the daily forecasts for your customers and what will you need in labor and materials 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.

Assess customer profitability

Next, evaluate the profitability of each customer and account. Is every customer profitable? Are some customers costing the company

money? Create a budget for each project based on needed labor and materials, and forecast profitability for the duration of the contract or relationship.

Create forecasting for business units

Your next step is to develop a budget and profitability forecast for each business unit, office or region of the company. The total of all projected customer activities in each business unit gives you a basis to build real budget estimates.

Examine pricing

The final step is to scrutinize pricing. Is the company charging the fullest price possible for its products or services? Are some customers being undercharged? What will the market bear?

The completion of this five step process yields comprehensive information about where your company is today and where it's headed in the future. At this point, you can identify specific areas that need improvement and take concrete action. You'll know where you need to institute:

Strategies to increase productivity, such as reducing labor costs or redeploying labor for greater efficiency; lowering costs of materials and supplies and eliminating waste; and implementing improvements in procedures and operations.

Better pricing based on what the customer will bear and the cost of changes. Improved utilization of fixed assets. Information technology solutions. In the case of one company that we assisted to execute the five-step formula, a family-owned distribution and warehousing firm, revenues increased 55% and profitability rose 660% over a three-year period.

We have found that this process establishes predictable metrics so you can analyze your business accurately. Improve your measurements and you'll improve your results dramatically. When you really know the workings of your business machine, you can rev it up for superior performance.

Chris Carey is the founder and president of Chris Carey Advisors, which specializes in assisting entrepreneurs and small and mid-sized companies to increase profitability and improve performance.