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Growing Your Business Through Profitable Change

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RETAIN PROFITS WITHOUT RAISING PRICES

by Ron Hequet

During the last half of the twentieth century business owners and management have a business upbringing that assures even a modest amount of inflation when doing planning.

Sales Management reflected inflation by minor, but steady price increases. Operations and Accounting Management treated inflation with a "Cost of Living Index" mindset. Results, sales increased gradually, and costs/expenses increased instinctively in response to sales.

In more recent years the predictability of inflation has gone away, at least with regard to sales. Instead there is an atmosphere of disinflation, where price increases cannot be counted on and are many times intensely resisted by customers.

While prices have discontinued their previously instinctive rise, operating costs and expenses have not, in spite of a nearly inflation-less economy. Results: a mounting imbalance between sales and expenses, creating a challenge to profit retention.

This article examines this challenge through two issues:

- What is the influence on profits when expenses grow and revenues are flat.
- Alternative processes for managing disinflation.

Analysis by Hequet & Associates, a management-consulting firm indicates that currently among its clients, "Cost-Creep" can be at a rate as high or higher than 4% per annum. If a company adds to its employee count or other operational expansion, it only intensifies "Cost-Creep".

With a lack of inflation, a business manager might think that the historical increases in utilities, insurance and many other operating expenses would be eradicated. However, "Cost-Creep" continues and is part of the management mindset.

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GOSSIP or Passive Aggressive Behavior

by Leroy Hamn

The eighteenth century English author, Robert Burns, is quoted as saying "The best laid schemes of mice and men oft astray." Many a man's or woman's best laid schemes, fondest dreams and greatest hopes have been dashed by the insidious poison of gossip. Organization have been torn asunder by gossip.

Gossip has been defined as "sharing detrimental information with others who are neither part of the problem nor part of the solution." Gossip creates rumors that, if left unchecked, take on a life of their own. During World War II the U.S. Armed Forces printed posters warning that "A loose tongue can sink a ship." Many an organization's ship has been sunk by idle (or not so idle) gossip.

There are two kinds of gossip: innocent and malicious. One can be just as destructive as the other. The following are five reasons people gossip:

- An individual has been hurt and retaliates in anger.
- An individual is afraid to confront directly.
- He of she has a need for attention and approval from certain others to feel accepted.
- An individual has the desire to build his or her own position artificially by tearing down others.
- Habit. We get used to relating through gossip.

The only reason we should talk about someone are:

- ▲ It must be the truth.
- ▲ It could be said with that person present.
- ▲ If for whatever reason it would not be appropriate to have that person present, then the person you're sharing your comments or concerns with must be part of the solution.

While shopping in a local discount store, I overheard a young man say to a fellow cashier, "Do you think Sara Ann (not her real name) is two

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CHART A

Financial Model (* 4% Cost-Creep)

	Last Fiscal Year	Inflationary Sales Year*	Non-inflationary Sales Year*
Net Revenues:	8,900,000	9,256,000	8,900,000
Cost of Goods:	7,057,700	7,340,008	7,057,700
Contribution Margin:	1,842,300	1,915,992	1,842,300
Total Expenses:	1,424,000	1,480,960	1,480,960
Pre-Tax Net Profit:	418,300	435,032	361,340
	Percent of Revenues		
Net Revenues:	100.0	100.0	100.0
Cost of Goods:	79.3	79.3	79.3
Contribution Margin:	20.7	20.7	20.7
Total Expenses:	16.0	16.0	16.64
Pre-Tax Net Profit:	4.7	4.7	4.06

As indicated in **Chart A**: if sales has a comparable rising force as a part of the generation of profit, then "Cost-Creep' is generally manageable. But, profits during non-inflationary sales periods plunge. The Non-inflationary Sales Year column indicates the results of a company with a 4% increase in expenses, plus sales of the same unit volume or even worse, higher unit volume at lower selling prices. Continuing this trend would be disaster for this company's profit retention.

CHART B

Alternative Disinflation Management

	Last Fiscal Year	Expense Control Plan	Sales Increase Plan	Margin Increase Plan	Collective Profit Plan
Net Revenues:	8,900,000	8,900,000	9,078,000	8,900,000	9,078,000
Cost of Goods:	7,057,700	7,057,700	7,198,854	7,013,200	7,153,464
Contribution Margin:	1,842,300	1,842,300	1,879,146	1,886,800	1,924,536
Total Expenses:	1,424,000	1,424,000	1,424,000	1,424,000	1,424,000
Pre-Tax Net Profit:	418,300	418,300	455,146	462,800	500,536
		Percent of Revenues			
Net Revenues:	100.0	100.0	100.0	100.0	100.0
Cost of Goods:	79.3	79.3	79.3	78.8	78.8
Contribution Margin:	20.7	20.7	20.7	21.2	21.2
Total Expenses:	16.0	16.0	15.7	16.0	15.7
Pre-Tax Net Profit:	4.7	4.7	5.0	5.2	5.5

Components to Managing Disinflation for Profit Retention

Controlling Expenses—This is the initial focal point to any Profit Plan. Prior to profit enhancements, the problems linked to the last column in **Chart A** must be conquered. Caution: even if expense increases can be eliminated, the effect is not awe-inspiring. The reality is demonstrated in **Chart B**.

If sales remain the same dollar volume while controlling expenses, the company simply maintains its profit position. This may seem instinctively apparent to anyone who completed business 101, but most management is still accustomed to controlling expenses and expecting to produce large increases in profits. As previously stated, expense control is imperative but by itself, it will not change the company's economic model. It does however, prepare the company for the next phase in the process.

Revenue Improvement— In a business climate that resists price increases, companies must increase unit sales, even minimally. Easier said than done, right? Nonetheless, this objective must be part of any credible Profit Plan. Almost every survey performed on this matter has concluded that the most cost-effective way to increase revenues is to sell more volume to current customers, either through the expansion of the product line/offering for greater market share or other proven sales and marketing efforts. The Sales Increase column in **Chart B** demonstrates the results of a 2% increase in sales at the same margin percentage. With no increase in operating expenses, the profit enhancement is considerable.

Contribution Margin Preservation— One of the most important challenges to disinflation management will be preserving gross margins. Being unable to hide behind inflation pricing, preserving gross margin becomes more demanding. The importance of Contribution Margin is embellished because of product cost constancy and the ruthlessness of "Cost-Creep".

Companies will have to have excellent planning to enhance margins through procedures that are under the company's control, i.e. reducing the amount of markdowns, shrinkage, executing product assortment strategies and creating improved and justified discount policies, as well as other effective measures not mentioned here.

The last column in **Chart B** demonstrates the influence on Profits by implementing all three changes at the same time. Increase revenues by 2%, attain 1/2 percent more margin and maintain or reduce expenses. A united effort may prove difficult without an applicable "Profit Plan', but when implemented successfully it will produce a dramatic increase in profit retention.

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TRAINING
A Key to Business Success

by Bill Mueller

How many times have you caught yourself saying, "It would be faster for me to just do it myself", or "If you want something done right, do it yourself"? How many times have you done it yourself, only to find that you didn't have the time to do what you should have been doing?

Training is an important factor in any successful business and for continued employee loyalty and commitment. When an employee has the tools and the