

Chapter 20

Plug Up Your Profit Holes

■■■ Success in the promotional products industry is driven by PROFITS and not price. Are you using the key Profit Builders to build your business success?

The profitability of your business will be determined by the proper pricing of your products and services. It's tempting to deeply discount your prices just to get the 'big sale' but doing that can easily take your business under.

The promotional products industry is a profit driven business. Large volume orders do not necessarily equal more money for you. **So, what can you do to make more money and consistently have a profitable business?** Focus on the key Profit Builders listed below and get your business on track for Success!

Key Profit Builders

- Controlling overhead
- Invoicing and collecting in a timely fashion
- Selling at a good profit margin (an average of 35 % or higher)
- Working with reputable suppliers
- Clearly communicating with sales people, employees and customers

Make More Profit!

- **Price for profit**

Increased sales do not necessarily determine profitability. **Good gross profit margins are the key.** Analyze each sale. Raise margins slowly. Seek to make a minimum 35 to 40% gross profit margin on each sale.

- **Control overhead**

Your overhead is everything that is involved in running your business. It includes things such as the cost of supplies, phone charges, Internet and website fees, memberships, administrative support and more. **What can you do today to control your costs?**

- **Know your cash position at all times**

On a weekly basis, review your payables, receivables and the amount of money available in your bank account. This can be a real eye-opener. It's far better to nip problems in the bud, before it's too late to fix them. Also, stay on top of the amount of outstanding balances on business loans.

- **Institute financial success systems**

Have access to a credit line before you need it. **Ask for deposits and pre-payments on orders, especially from new customers.** Take advantage of purchase discounts from your suppliers.

- **Establish a merchant account**

Accepting credit cards will make it faster and easier for your customers to do business with you. The few percentage points you will pay is offset by the convenience it offers your customers and the ease of collecting payments for you.

- **Establish written policies for sales reps and employees**

Communication is a slippery slope. What one person thinks he or she heard may not be what you intended to say. Protect yourself and your business. Have written policies, which clearly explain salary, commission, sample procedures and who is responsible for mistakes on orders.

- **Use Preferred Suppliers**

Take a tip from the big corporations that realize the benefit of **narrowing their supplier chain** and use a limited number of suppliers. This will help you obtain better pricing and better customer service support (especially when problems arise.) In addition, it will help you earn free and low-cost samples. With a limited

number of suppliers, you'll be able to learn more about their products lines and stay on top of changes and new product introductions.

- **Mark up all direct costs**

There are many costs involved in producing an order, from shipping and handling to art charges, to design packaging and creative services. **Many savvy promotional products professionals routinely add a small profit percentage (handling charge) to shipping charges.** Depending on what type of agreement you have with your customers, it is also perfectly acceptable to add art and creative service charges. **Make sure you have customers sign off on all charges ahead of time.**

- **Encourage prompt payment**

Let your customers know your terms ahead of time. Reward customers who pay promptly with thank you letters, phone calls and small promotional gifts. Call overdue accounts promptly.

- **Understand your seasonal selling cycle**

Look for ways to **increase sales during slow times** - special offers and value added services (faster shipping or 'two for one' offers) get customers thinking about savings and are easy ways to boost business.

- **Use a monthly management report**

A monthly management report can give you a quick snapshot of your business. Here are some key figures to focus on:

- Total orders written this month and year-to-date with expected gross profits
- Total orders billed this month and year-to-date with actual gross profits
- Total open orders (unbilled orders)
- Total accounts receivable
- Total accounts payable

Keeping track of these amounts will also help in planning.

- **Upgrade your customer base**

Take a good look at your customer base. **Are you working too hard for too little money?** You may wish to establish a minimum order level. The amount of work involved in processing small orders is almost the same as higher level, more profitable orders.

INSIDER Information

Discounts for the asking

Recently I took a close look at my business costs and was able to eliminate costly bank and telephone charges, just by asking my bank and telephone company for more cost-effective solutions to my business needs.

The interesting thing I found is that there are many cost-saving options available to you from telephone service to banking to merchant account fees – **if you just ask!**

You can also get **discounts on business services through organizational memberships**. For example, both ASI[®] (Advertising Specialty Institute) and PPAI (Promotional Products Association International) offer **shipping discounts to their members**.

► *What Can You Do Now?* ◀

- **Make a wish list of larger accounts you would like to call on.** Look for a connection to these accounts through your network of friends, neighbors, and referral and alliance partners.
- **Take a closer look at your current customers.** Does the income you are deriving from each account equal the amount of time you are spending on that account?
- **Review your current finances.** Where do you need help? Consider hiring an accountant or bookkeeper. It makes sense to hire someone who has experience with your type of business. Ask for recommendations from colleagues or business networking groups.