The ULTIMATE PROFIT-BOOSTER

over 100
profit boosting techniques
for your business

JOHN MORINE

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Over 100 profit
boosting techniques
for your business

by F. John Morine

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OBJECTIVE

The objective of this book is to present and explain practical, down-to-earth techniques you can use NOW to increase the profits of your business.

Particular attention is given to immediate ways of:

1. **Raising the volume of sales, your competitive advantage and profit margins.**
2. **Ensuring that you keep your finger on the pulse of the key areas of your business.**

Businessmen, entrepreneurs, owners and managers are dedicated to growth. Growth means expansion, more sales, bigger profits and higher returns on investment.

However, as we proceed through the 1980s, the business environment has changed. Those businesses which have emerged from the recession, having faced shrinking markets, high inflation and rising costs, are leaner and more wary. Growth must now be profitable growth.

Opportunities for profitable growth

Business has been through a testing time. The opportunities for profitable growth are there for those businesses willing to *compete aggressively with imagination and commitment to their profit objectives.*

These key qualities imply a need to search rigorously for creative ways of exploiting marketing opportunities and fresh approaches for resolving problems. In short, profitable strategies for out-performing competitors. This book examines a wide range of such strategies.

For managers under pressure

I have structured this book to meet the needs of busy managers working under pressure.

1 Extensive use is made of checklists to enable you to grasp points quickly.

2 Space is provided at the end of each chapter for you to make your notes on particular items for action in your business.

Select relevant ideas

Not all ideas are applicable to every business. Some will be particularly relevant in one situation, others in another. Select for implementation those ideas you judge to be most relevant to your firm's specific needs. Do implement them!

To survive and be successful in business you must make a profit — a real profit not a paper one — and make it NOW!

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Note: Until a suitable unisex pronoun is introduced the reader should read 'he' or 'she' as preferred.

Part A

ACTION NOW

Chapter 1

THREE ROUTES TO PROFIT GROWTH

In any business there are three possible ways to improve profit. These are:

1. Increase sales volume

2. Raise selling prices

3. Reduce costs.

If the outputs of your business are services rather than physical products, the foregoing can be modified and restated as:

1. Increase the quantity of services provided[1].

2. Raise unit charges. For example, hourly fee rates or commission rates.

3. Reduce costs.

Alternative terms

Sometimes managers use more sophisticated terms than these. For example, they may refer to:

— Changing the product mix.

— Altering the gross profit mix of the product range.

— Changing the customer mix.

But each of these are variations of the three basic strategies stated above.

Why not lower prices?

Today's stagnant or shrinking markets are characterised by intense competition. Many firms operating in these markets are endeavouring to maintain or increase their sales volumes by lowering their selling prices 'to meet the competition'. And in turn this reduces the gross margin on each product sold.

The rationale behind lowering selling prices is that hopefully this move will enable the firm to secure an increase in sales volume such that the lower gross profit obtained on each unit sold will be more than offset by the higher aggregate amount of gross profit achieved.

[1]The term 'products' as used in this book refers to the end outputs of your business. It includes both physical products and service offerings.

For example, in Figure 1 the first column shows a profit plan (or operating budget) for the ABC Company for one year assuming a selling price of £10.00 per unit sold.[1] The second column is an alternative plan showing what management hopes to achieve for the same year, but with the selling price per unit reduced by 10% to £9.00 'to meet the competition'.

FIGURE 1

ABC Company Ltd

Alternative profit plans for one year

	Profit plan based on a selling price of £10 per unit	Alternative plan with selling price reduced to £9 per unit
	£	£
SALES		
50,000 units @ £10.00 each	500,000	
65,000 units @ £9.00 each		585,000
Less direct costs		
£5.00 per unit	250,000	325,000
GROSS TRADING PROFIT	250,000	260,000
Less indirect costs		
Administration, financial, selling and distribution costs	200,000	200,000
NET PROFIT BEFORE TAXATION	£50,000	£60,000

[1] If your firm's output consists of service products rather than physical products, Figure 1 and subsequent illustrations can be reworked to demonstrate the points being made with items and poundamounts relevant in your circumstances.

In practice however, the strategy of lowering selling prices is fraught with the following dangers:

1. **Little volume increase**

   In an intensely competitive market situation it is most likely that competitors are also reducing their selling prices. That is, a price war is in progress. Accordingly, instead of increasing sales by 15,000 units as in the second column of Figure 1, it is probable the ABC Company will achieve little if any increase in volume as a result of reducing its prices by 10%.

2. **Indirect costs increase**

   In Figure 1 it is assumed that indirect costs will remain constant at $200,000 when sales volume increases by 15,000 units. In practice however, an increase in volume can rarely be achieved without a greater input of indirect costs. This is particularly so in a highly competitive market. For example, extra expenditure will be required on items such as advertising and other promotion costs, salesmen's remuneration and distribution costs.

These projected factors have been built into Figure 2 where it is assumed that the following events would occur if the firm reduced its selling prices by 10%:

1. Sales volume would rise by 4% from 50,000 to 52,000 units.

2. Indirect costs would rise by 5% from £200,000 to £210,000 as a result of the greater input required to achieve the 4% increase in sales volume in the highly competitive market in which the ABC Company operates.

The figures in the second column of Figure 2 are indicative of the disastrous results of a firm which reduces selling prices in a bid to increase sales volume, while operating in a highly competitive market.

FIGURE 2

ABC Company Ltd

Comparison of actual results for one year allowing for projected factors

	Actual results based on a selling price of £10 per unit	Actual results if selling prices had been reduced by 10%
	£	£
SALES		
50,000 units @ £10.00 each	500,000	
52,000 units @ £9.00 each		468,000
Less direct costs £5.00 per unit	250,000	260,000
GROSS TRADING PROFIT	250,000	208,000
Less indirect costs Administration, financial, selling and distribution costs	200,000	210,000
NET PROFIT/(LOSS) BEFORE TAXATION	£50,000	£(2,000)

Further problems caused by inflation

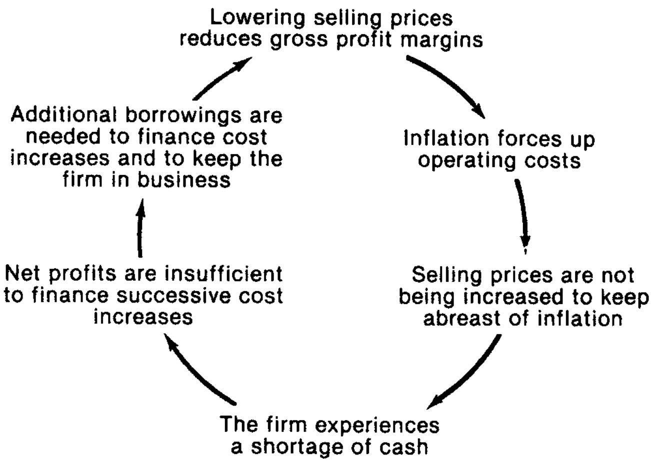
At this point we need to also consider the further complications caused by inflation. In a high inflation situation both the direct and indirect costs of the ABC Company (as shown in Figures 1 and 2) will typically be increasing. These increased costs can be financed from two possible sources, namely:

1. Net profits earned by the firm, or

2. Outside borrowings.

But as demonstrated in the second column of Figure 2, lowering selling prices in a competitive market situation reduces net profit. (In fact Figure 2 shows that the ABC Company would have made a net loss of £2,000 if prices had been reduced by 10%). In these circumstances the ABC Company would need to borrow more funds from outside sources to finance increases in operating costs incurred in the year following the period dealt with in Figure 2.

If the firm again reduces selling prices in that following year 'to meet the competition' this precipitates a vicious circle thus:



A business which attempts to maintain or increase volume by reducing selling prices in an intensely competitive/high inflation situation may suddenly find it has little if any net profit remaining.

Further dangerous aspects of a strategy aimed at higher volumes at the expense of profit margins are dealt with in Chapter 8.

Alternatives to lowering prices

Subsequent chapters explain numerous alternative methods you can use to raise the net profit of your business. These techniques all fall within the parameters of the three major routes to profit growth discussed at the outset, namely:

1. Increase sales volume
2. Raise selling prices
3. Reduce costs.

ITEMS FOR ACTION NOW