Advertising Specialty Institute

Tip of the Day - 4 Tips to Increase Your Profits in 2011

November 15, 2010

Here are four strategies for boosting profits.

Step 1: Negotiate Better Terms

"I still believe in, 'Don't ask, don't get,'" says Brad Akers, president of Tip-Top Branding (asi/344851), a distributor based in Chicago. Distributors should ask suppliers if they'll extend special pricing on certain occasions such as high-volume orders, he says. Even 5% can make a substantial margin difference.

Of course, suppliers will be more apt to cut distributors a break if they can guarantee a certain level of business, early payment terms or other carrots, says Shaun Smith, managing director of Leadas Business Advisors, a business consultancy in New York. When Akers asked a supplier recently to "tighten up a bit" on an order of 10,000 T-shirts, the supplier offered Tip-Top a pricing discount. "If 20 other factories carry the same items, typically you're more apt to get them to price match or come down a bit," Akers says.

In fact, distributors like Akers, while espousing the virtues of service, don't think relationships – in this price-conscious market – drive business decisions about price cuts as much as the need for orders in a tight market. When it comes to bargaining for free spec samples, rebates, reaction time or other requests, he says, "If a supplier wants the business, people will get very aggressive whether they know you or don't." That fact, he says, can give distributors a leg up on boosting order margins.

Step 2: Get More Strategic With Sales

Identify which customers are more profitable than others, says Jonathan Byrnes, president of Lexington, MA-based business consultancy Jonathan Byrnes & Co., and the author of Islands of Profit in a Sea of Red Ink: Why 40 Percent of Your Business is Unprofitable and How to Fix It. Then he suggests distributors color code clients or otherwise break them down into categories from best to worst. "You could do something like red, yellow and green charts for each customer on how profitable they are," he says.

For example, greens might be fine, the yellows might need more sales attention and the reds might represent cases of customers – potentially lucrative – whose accounts need serious attention. Then distributors should direct sellers to focus their attention accordingly, so that they can target accounts that have the most potential to not only turnaround, but also provide the best margins, Byrnes says. The key, he says, is not to give salespeople too many demands at once. Just one thing to fix on a few key accounts is plenty.

"The first thing people think of is, 'How can I fire 40% of my customers,'" Byrnes says. "But that's the wrong thing to think about, because the most important thing is to take those good customers and make sure you never lose them, because your competitors will be going right after them."

Step 3: Outwit Bad Buyers

Sure, the 80/20 rule – where 80% of your revenue comes from 20% of your clients – applies to almost any distributor, but firing bad customers indiscriminately is a dangerous move, says Bruce Bachenheimer, clinical professor of management at Pace University in New York. For years, experts have suggested small-business owners dump the deadweight. Instead, Bachenheimer says, keep the marginal clients – you never know when a small order or difficult customer might pay off handsomely down the road – but make them turn their drain on your company into a potential profit center.

For example, Bachenheimer says, when electronics retailer Best Buy noticed certain types of shoppers would buy a TV to watch the Super Bowl and return it the next day, the money it cost to service the returns and restock those items was a drain on its profits. So it started charging a restocking fee to discourage customers who had no intention of keeping the products they bought. Distributors might consider imposing fees, for example, for clients that repeatedly demand multiple samples, art proofs, shipping returns and other profit-reducing services.

Step 4: Stop Competing on Price

Cutting prices sets "a lousy precedent," says Scivetti, and forces distributors to "race to zero margins." He adds that running a distributorship on 2% margins as some do isn't sustainable. Instead, he says, Synergen competes by providing more service than its competitors.

When a recent client's business-card order was printed with the wrong finish, for example, Synergen not only paid for replacement cards, but doubled the client's order at no cost. By not reducing the price along the way, the profits allowed Scivetti to cover that kind of mistake. "When you run a business on 2% margins, you can't do that," he says.

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