

# Multi-vitamins for your business

So you've looked at the economy and your company's shaky bottom line, and decided you need some preventive medicine if not a flu shot. You decide to call a management meeting to see what your team thinks can be done to keep you out of trouble. Your sales manager, plant manager, and controller all come with their best ideas, and you have to evaluate those ideas before you decide what strategy to follow. Their suggestions:

- *your sales manager thinks you should lower prices so she can sell more,*
- *your plant manager thinks you should borrow money and acquire the latest technology in manufacturing equipment in order to boost productivity,*
- *your controller thinks you should cut costs so that you spend less (although he may not be clear on where those cuts should come from).*

You know in your heart that none of these strategies is the magic bullet, but you don't have any strong answers of your own because you're too busy running the business. Let's see if we can help to focus your thinking. Here's how we suggest you evaluate your sales manager's idea:

***The difficulty:*** Many sales people would rather see lower prices because it makes your products easier to sell – at least if they're selling based on *price* and competing based on *price*. But that strategy without careful thought can seriously dilute gross margins and damage the company's profits irretrievably. Competing on price will eventually reduce your products to a commodity where only the lowest price wins.

***A better idea:*** Most surveys of customer buying motivation put price down the list of reasons buyers buy, after things like quality, reliability and service. Selling the attributes you are most proud of in your product – and teaching your sales force to sell those attributes – is much more profitable and with far less risk. As for proper pricing, there is a concept in financial accounting called Contribution Profit, which is roughly equivalent to selling price less variable direct and indirect costs. It represents the actual contribution to the company's bottom line that comes from making a sale. Until you know that number, approach any sales price reduction with great caution, and only as a last resort.

***One down and two to go.*** Oops! We ran out of space for this issue. So, we'll review the remaining ideas from your team in the next issue of this newsletter, but in the interim, you'll be able to get them sooner by visiting our blog, where they'll be posted sometime in the next 30 days. Visit us at our temporary blog: [www.FinanceMentor.blogspot.com](http://www.FinanceMentor.blogspot.com). Or call us at 888-788-6534 and we'll read them to you.