

Special points of interest:

- Story time! A parable for business
- Pitfall ahead! When change is dangerous
- Creating a winning team
- Dear Sir: Effective letter writing
- Keeping track—realities and tips for keeping your stockroom under control

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Improving your gross margin

Without doubt, the biggest single barrier preventing small business managers from making an acceptable profit is their refusal to charge a price that enables them to achieve it.

But you're not in business to match the price your competitors set. You're there to service your customers.

In fact, studies of the factors that influence people to deal with a particular business indicate that product and price are relevant only in 15% of cases.

The only situation where trying to hold or win market share on the basis of price discounting may work is where you have a definite cost advantage (either variable or fixed) over your competitors, and

your product or service is one where customers are very price-sensitive.

To illustrate, if your gross margin is 30% and you reduce your prices by 10%, in order to make the same initial profit, you would need to increase sales by 50%! Conversely, if you were to increase prices by 10% with the same gross margin, sales would have to drop by 25% before your profit would drop below its initial level. So you'd have to lose 1 out of every 4 customers!

Before you start thinking this doesn't apply to your business, there is, in fact, *no* business that doesn't have the potential to command a premium price for its products or services *if*—and

this is the crunch—it is able to market those products or services in such a way that *the customer perceives added value*.

Promote other features and benefits that you can offer your customers—better quality, longer warranty, satisfaction guarantees, greater resale value, and so on. It may be that your competitors already offer these things, but unless they also emphasize this in their marketing, how will the customer ever know?

Your role as a marketer of your business is to create the *perception of value* and to then back it up with superb service. Remember, price is only important when all other things are equal.

What are you selling when you price work?

How do you quote for jobs? You may have used the same bid sheet for years, explaining the process by referring to material mark-ups, equipment and overhead rates, and some multiplier. How are those mark-ups, rates, and multipliers determined?

If they don't tie in to your financial statements, or if they depend on material mark-ups or overhead rates for labor hours, they may

not accurately reflect what you're selling. And as a result, they may not price the product reliably.

To identify what you're really selling and the price you're selling it at, think in terms of *value-add*—that is, the difference between the cost of production and the sales price.

For instance, the real "product" sold by a screw machine shop is

machine hours. Dividing the value add by the machine hours used to produce the sale, may give a surprising result.

By using the figures reflected in your financial statements, you're in a better position to compare your business to your competition. This in turn will help you develop more accurate bids, and become more profitable.



*"If you think you can
or you think you
can't, you're
probably right."
Mark Twain.*

Once upon a time in a land not so far away...

There once was a man who was very excited. His brand new large-screen plasma TV had arrived the week before a big football game broadcast and he was busily preparing for the big day.

On the eve of the match, the TV just stopped working. A complete blank.

He immediately ran to the store he bought the TV from to enlist their help and advice.

When he reached the counter, sweaty and in a highly distressed state, the sales clerk was at a loss as to how to help the man.

She looked around for the assistant manager without luck. After much fumbling through the piles of documents on the counter, she eventually found the code for the loud-speaker and called the assistant manager.

The assistant manager arrived and explained to the man that they have policies and procedures for this sort of thing.

"Did you fill out your warranty?" he asks, "Do you have a receipt? Did you bring the TV with you?"

Finally, he said, "I cannot issue any kind of refund. This needs to be taken up with the manufacturer."

The man was very angry, so the assistant manager called the manager to back him up. But the manager wasn't really familiar with the policy and called another store manager.

And at the end of the day, everyone was exhausted and frustrated, and no one was happy.

The moral of the story...

A business with systems such as these is doomed to fail.

The man, while they may have his money from the initial sale of the TV, will never return to that store again. What's more, it's highly likely he'll spread the word about his bad experience.

In the meantime, clerks and managers will continue to drown

in a pool of confusion, complicated policies and illogical procedures.

If the store had a simple policy to do whatever is in the customer's best interest, the clerk and the manager or the assistant manager could have resolved the problem immediately.

If that policy was clearly communicated to all employees and the clerk knew how to quickly and easily contact the appropriate team member, the customer's experience could have been far more positive and smooth. Likewise, if there were small and clearly defined teams working together, this could have been much more positive.

From decision-making to planning to communication to organizational structure, simplicity is instrumental to staying sane and successful in a complicated business world.

Avoid changing horses in mid-stream

There's a story of a professional body in the UK that ran a high-impact advertising campaign that was very successful. It generated a huge response, including a lot of free press coverage.

Then the campaign changed. And it literally disappeared from all notice.

The obvious question then, is "Why change something that clearly worked so well?"

They changed, not because they had tested and measured

the effects and found something better, but simply because they felt it was "time to change".

In doing that, they fell into the trap many companies fall into—change for change's sake.

Many companies indiscriminately change campaigns mid-stream. As a result, they:

- Don't allow the cumulative effect of a winning concept to work for them.
- Don't allow the dynamics of testing to work for them.

- Make a patchwork quilt of their company's image and position.

The truth is that you get tired of your own campaign long before it's done it's work out there in the marketplace.

Don't arbitrarily abandon it. Only replace an approach when you've verified and validated a more effective successor. Again, that requires measurement, management and testing.



Woo the ones that want you

Romance is never easy, but it sure is easier when you're a wanted suitor. Here are some tips you can implement in your own business to encourage your favorite customers.

Offer an appropriate incentive for repeat business, such as a free service or product after a certain amount of purchases or visits.

Get to know your regular customers and make it easy for them to deal with your business. Use what you know about them

to pre-empt their needs. This lets customers know you're thinking of their best interest and not just your bottom line.

If you're offering prospective customers some incentive, consider making the same offer to existing clients to encourage repeat business.

Find ways to acknowledge repeat visitors and let them know you appreciate their business. For instance, send a thank you note or a coupon, or consider having a community

corner to display photos of customers.

Give your customers an opportunity to give you feedback and then let them know when you've implemented their ideas. This might be a suggestion box, an email address, or an organized meeting with your regulars. The key thing is to commit to responding to the feedback, implementing an idea or offering a plausible and reasonable explanation as to why something can't be done.



Steps for starting a successful team

Management gurus agree: teams can do wonderful things. But just how do you get one up and running? Here's a few simple steps to help you get started:

1. Create a strategic focus

Incorporate the vision and values of your business so your team understands the goals you're trying to achieve and can manage its own performance.

2. Identify the team's purpose, authority and duration

Knowing the whys and

wherefores allows people to work more effectively together, to know what decisions they can and can't make, and what deadlines need to be met.

3. Select members carefully

Make sure they have the qualities and knowledge needed to accomplish the team's tasks.

4. Set early and realistic goals

Goals can evolve and change as the team becomes more confident.

5. Define measures of success

E.g. Customer satisfaction, cost of production, profits, delivery, downtime, etc.

6. Clarify roles and responsibilities

An essential ingredient to team development is clear identification of roles and responsibilities, both within and around the team.

7. Create a team charter

Include things like mission and goals, leadership roles, success measures, and guides to team

"Coming together is a beginning; keeping together is progress; working together is success."

Henry Ford

5 tips for writing successful letters

"Dear Sir,

Please find attached hereto our schedule of fees as per your request..."

Not very inspiring is it? You can bet you're not the only one who switches off after a couple of lines like this in a letter. Make sure *your* letters get read—and acted on! Try these steps when writing your next business letter:

1. Think Outside the Box

Throw away that stuffy, old way of writing letters. Write as if

you're talking to that person face-to-face.

2. Grab your reader early

Catch their attention early and get them reading further. Invest a little time into getting your opening just right. It will set the tone for the rest of the letter.

3. Get to the Point

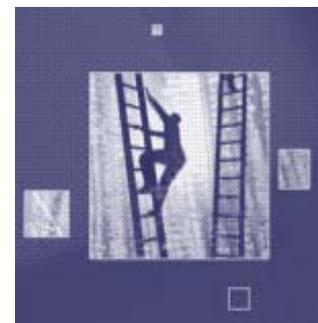
Once you've got them, establish your purpose with subtle linking phrases like "Let me explain...", "You see,..." , "Consider this..." and so on.

4. Write from your reader's point of view

Tune in to the wavelengths of WII-FM—*What's In It For Me?* Present your facts in a way that will be of interest and benefit to your reader.

5. Closing your letters—get the action you want

Make sure you leave your reader knowing precisely what action to take, or what you'll be doing to follow up the letter. Remember to keep the closing in tone with the rest of your letter.





Measuring record accuracy

Manufacturers who don't measure stockroom accuracy often believe their performance in this area is satisfactory. But stockrooms that aren't measured and don't perform cycle counting rarely have accuracy levels above 50%.

Your current status can be determined quite easily by selecting a representative cross-section of sample items, counting them, and comparing the counts to on-hand records. The results will determine the amount of work that needs to be done to achieve 95% accuracy, the level considered adequate for a basic manufacture resources planning (MRP) system. If your

initial sample results fall far below this figure, set interim goals for improvement.

Maintaining Record Accuracy: Rewards and Audits

While continuing cycle-counting routines is important, there are other steps you can take to maintain high standards:

A consistent reporting structure provides a continuous measure of on-hand balance accuracy. It also identifies strengths and weaknesses and warns you if accuracy declines.

If you already have a wage incentive system in place, tying record accuracy levels to this system can be quite effective. Or you may consider rewards

such as cash bonuses, lunches or dinners, event tickets, or other items.

Recognition within the company is often a greater motivator than material rewards.

Personalized items, such as coffee mugs, or T-shirts can be used to offer such public commendation.

Periodic audits, conducted at random by an independent agent, are quite effective in maintaining high levels of stockroom accuracy.

Reporting the results of such audits helps make on-hand balances credible to workers outside the stockroom management chain.

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5001 California Ave, Ste. 122
Bakersfield, CA 93309-1671

Questions or comments:
Phone: (661) 716-1160
Fax: (661) 716-1166
Email: rblanton@odellcrosscpa.com

www.odellcrosscpa.com