

YOUR CFO FOR RENT *Gene Siciliano*



CELEBRATING OUR  YEAR

A Management Update from Your CFO for Rent

Pain-Free Price Increases

By Gene Siciliano

Nobody (but you) likes to see your prices go up. Least of all your customers and your sales force. But you will inevitably need to charge more at some point to pass on cost increases you've been absorbing, or to bring your own profit margins into more respectable territory.

If your product or service incurs transportation costs or uses some of the other skyrocketing raw materials in the news of late, you definitely have higher costs. So how can you get your customers to accept a cost pass-through, or a pass-through plus, without irritating them?

Well, you can simply tell them the truth about your cost increases and the need to keep your business healthy so you can continue to serve them. Most will understand, some will still gripe. Others who are perhaps struggling or just resistant to cost increases might take it personally. How can you keep them all happy and buying? Here are two ideas you might consider, both proven to work some of the time, maybe even for you, compliments of Chris Blanton, a high energy "business growth specialist" I met at a recent conference (chris@bizMD.info).

1. Announce a price increase but give your current customers a discount equal to the increase for 3 to 6 months. Your invoice should reflect both the new price and the discount, so the customer gets used to seeing the new price but doesn't yet feel the pain. As the discount period draws to a close, you will either have a customer accustomed to the new price and its inevitability, or you will hear complaints about the upcoming loss of discount. You can then make a decision to extend the discount ("just for you"), retract the increase permanently, or consider that you may need to find a

higher value customer who will appreciate

the product at its current price.

Key point: After the price increase goes into effect new customers pay the higher price without the discount, of course.

2. If you have a reputation for outstanding service that far exceeds your competition, you have a unique opportunity your competition can't match. Lower your standard service level to the point that it is just enough better than the competition that

customers can notice the difference. Then offer a premium service at a premium price that provides the same high level of service you were previously providing, and will not cost you any new investment because you're already geared to providing it. Net effect the entire premium drops to your bottom line.

Key point: This too will probably only apply to your new customers, unless you think your existing customers will be oblivious to the service level change. If they are, your assessment of the difference between your new service level and your old service level might need a second look.

Either method will take time for your profit margin to feel the full effects, but they will be more likely to be accepted without resistance, and that means no loss of business as a result. If you'd like our help in implementing a price increase, or any other improvement in your profit margins, call us at 888-788-6534. We're ready for you.



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Does Your Company Pass the Eyeball Test?

By Lee Schwartz

In today's world, lean practices . . . those that emphasize order, process, removal of waste, efficiency, productivity . . . are the canons in manufacturing and distribution environments everywhere. Makes sense unless you too had to overcome the impressions of an eighth grade science class lesson.

Students take their seats. The teacher points to two stacks of paper on the front counter and asks "Which pile is more stable?" One is so pristinely stacked. Not a corner out of alignment. Maybe two feet tall yet only consuming an 8-1/2" x 11" area on the counter. Just to the left was another stack. What a mess! Probably as many sheets of paper as the first stack but strewn over a footprint two to three times wider.

Group consensus points to the neatly stacked pile. "Are you sure?" the teacher quizzes. In a split second, with a simple thrust of his index finger, that perfect pile collapses. So which was the most stable pile? Scientifically speaking, it was the one already in disarray. Hard to make more of a mess.

Fast forward some 25 years later. I'm interviewing to become President of a 70+ year old family run manufacturing company. Touring the active factory floor I'm impressed. The floor is spotless. There's an order and cleanliness everywhere I walk. I think back to eighth grade. I'm reminded of that perfectly stacked pile. Was this factory too neat and tidy? Not at all. Lean practices at work before it was fashionable.

*"conduct your own...
eyeball test"*

If I'm to believe the scientific definition of stability as proffered by my eight grade teacher, then what I saw should have been of concern. But I wasn't phased. My simple eyeball test told me that this company had its affairs in order. Real world had trumped science?

Ever since then as I've moved from job to job or consulting engagement to consulting engagement, I've relied on my non-scientific eye ball examination to be the first

litmus test of a company's commitment to excellence. It hasn't failed me yet. Maybe it is possible to judge a book by its cover.

Within the last few weeks, along with Your CFO for Rent® Gene Siciliano, I toured a couple of manufacturing facilities. In both cases, the shop floor was immaculate, raw materials were fastidiously stored, tools and equipment were neatly in place. Both

of these companies are successful and have plowed through the recent

recession with their heads above water.

On the flip side, I've walked through several plants and distribution centers over the years that failed the eyeball test. Inventory in disarray. Papers scattered about. Tooling that couldn't be

found. Trash strewn on the floor. Any surprise to learn that these companies represent that cluster of organizations struggling to meet their financial and operational goals?

So next time you're walking through the shop floor, the warehouse or the office, conduct your own non-scientific eyeball test. Would you give a passing grade? If not and you need help as a champion for change, call the Schwartz Profitability Group at 310-450-2628 or send us an e-mail at lee@schwartzpro.com. Time to pass that eyeball test!

Lee Schwartz is a management consultant helping manufacturing and distribution companies realize increased profitability by becoming operationally efficient on the shop floor, in the distribution center, within the company and throughout the supply chain.

*"You learn something every day
if you pay attention."*

---RAY LEBLOND



Your CFO for Rent

Gene Siciliano, CMC, CPA, is an author, speaker and financial consultant who works with CEOs and managers to achieve greater financial success in a dramatically changing economy.

As "**Your CFO For Rent**" and president of Western Management Associates, Siciliano has spent more than 25 years helping his clients build financial strength and shareholder value through applied knowledge and process improvement. His bestselling book, **Finance for Non-Financial Managers**, (McGraw-Hill, 2003) is available in bookstores and online. Gene's new book, **Financial Mastery for the Career Teacher** (Corwin, 2010) is a must read for educational professionals. More information and free articles are available at www.GeneSiciliano.com.