2010 – The year of Price Revenue Enhancement

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The recession may not yet be over, but that light at the end of the tunnel doesn't look so much like a train anymore. The last two years have been brutal – some say the worst since the Great Depression – certainly years many of us would like to forget. Most of us survived the awful experience by hunkering down – cutting costs wherever possible and doing everything we could to conserve cash.

That meant very hard choices: pay and bonus cuts for employees, employee terminations, and expense cuts throughout. In many cases, our survival depended on our doing all of this quickly. Cost cuts were not always efficient or equally effective. With more time, we could have been more targeted, smarter about the cuts we made. But who had time? We were all struggling as fast as we could to re-size from the business we had to the business we were facing.

We all felt the cash pinch as the credit crunch came to our doorstep. Bank credit and other borrowing sources were so tight many of us lost sales because we couldn't afford the cash investment to build the very products our customers wanted to buy.

Up and down the food chain, everyone felt it – our customers, our suppliers, and our companies. We had to fight even our best customers to hold terms, and didn't get much sympathy from suppliers who were feeling the same pinch. Not surprisingly, in our industries and all across the economy, 2008 and 2009 have come to be called years of "Survival by Expense Cutting."

Interestingly, during the entire painfully difficult 2-year experience, hardly anyone looked to improve margins, not by cost cutting, but by increasing prices – even selectively.

"Increase prices?" you ask. "Are you crazy? We were trying to protect what we had. What do you mean 'increase prices?' We would have lost even more business than we actually did. And, by the way, who had time?"

Good points. Who was buying? No one. And price pressure has never been tougher. Still is. Our customers have been cutting expenses right along with us. And they have been getting smarter, with more resources at their fingertips online and elsewhere. Their buying power has been growing as industries consolidate or band together. These and other factors are all combining to pressure prices.

But this is 2010. What now? Many of us are looking to emerge from the recession, rebuild top lines, and get back to business as usual. Certainly, we're going to continue to focus on costs, but we've already cut costs almost as far as we can go. True, we may adjust some by rehiring critical resources we lost, and by keeping the total costs even by cutting elsewhere — but these opportunities are few and far between. Making strategic cost adjustments when you're already cut to the bone is challenging at best.

Many of us hope to grow our way out of the recession by replacing lost business, winning increased order volume from traditional and hopefully new customers, and maybe even winning "the big one" — a primo large order that will put us right back on track. We may have to lower our price some to do it, but it's all about volume, filling the plant, and shipping product – right? Wrong.

Be very careful before going too far down this road. Growing volume by holding or lowering price can be a slippery slope — a big hit to cash flow — more cash up front to buy raw materials and pay workers, less coming back in when you finally collect from your customers, and more hard work.

Additionally, there's a major change in the market from the easy credit days before the recession. Credit remains extremely tight. While bankers are anxious to lend again, they are justifiably being cautious. Many non-bank lending sources from before the recession are not yet lending again or are even more cautious as they continue to "lick their recession wounds." Bottom line, winning that primo order could be a blessing and a curse as business volume grows rapidly but then comes to a screeching halt if you run out of cash.

So how do you grow your bottom line without bringing back top line volume and filling the plant?

"Don't tell us you want us to raise prices," you say. "Don't even go there. Our customers are in the same position as we are. They're continuing to control costs wherever they can. And our competitors are only too happy to take business away from us by beating our prices."

Here's what we at JC Jones & Associates believe, and what our customers are telling us works.

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The real answer is not volume growth or across-the-board price increases (we call them "peanut butter spreads"). Both approaches can be more harmful than helpful. The real answer is price revenue enhancement.

Price revenue enhancement is not growing sales volume or increasing prices across the board. But it's all about continually increasing gross margin by strategically adjusting prices up or down, product by product and customer by customer. It's about looking for those gems in your products and services. Those gems are the products and services that, when your customers want them, they really want them! As a result, their prices are "sticky." In other words, because they "stick," you may be able to raise them significantly without losing volume — possibly bundling them with other product and service sales where prices are more sensitive.

One common example is a product family (say piping) with a range of pipe diameters (say from ½" to 2"). Within that product family are pipe sizes that are standard commodities. These are products with prices that won't "stick." You can only raise prices in very small increments and more commonly have serious pressure from competitors to reduce them. But then there are the non-standard sizes — the ones that aren't needed that often, but when they are, price isn't a problem. These products are more subtle but they do exist. The challenge is finding and using them to drive greater margins.

Price revenue enhancement is not rocket science. But it's not all that easy either. Price revenue enhancement is all about understanding your customers, your products, and even your competitors at a detailed level. It requires detailed analysis by customer and product to identify: (a) what products cannot be price-adjusted without impacting sales volume, (b) what products are opportunities for price increases without impacting sales volume, and (c) building and implementing a plan to make it all happen. The amount of analysis you need in your organization depends on the complexity of your business, products, pricing, customer buying patterns, and the like. Depending on the complexity, the tools you need could vary from back-of-the-envelope calculations to spreadsheets to use of sophisticated, complex specialty software.

Communication is extremely important throughout. Price revenue enhancement will most likely be an unpopular concept with your sales force at first. Coaching, adjusting incentives, and constant communication are essential to success. Communicating with your end customers and distributors is equally critical. Bottom line, everyone needs to understand what's in it for them if they succeed.

Experience shows that a well planned and executed price revenue enhancement program can provide significant cash inflows to your organization without consuming that same cash building inventory. Recently, a client of ours increased their bottom line 6 percent of net revenues in the first month after implementation alone. Results can be much smaller than that and yet well worth the effort.

Bottom line, before you go after new and bigger sales orders to get your business back on track, before you consider an across-the-board price increase or reduction, think about price revenue enhancement. Go below the surface to think about your products, customers, and product groupings at a detailed level. Communicate with and train your sales force, your customers, and anyone else with a need to know. And don't stop. You'll be pleased with the results.

Learn more about exploring price revenue enhancement at an **AMT sponsored webinar on May 27 at 2 pm EST(http://www.amtonline.org/calendar/revenueenhancementwebinar.htm)** (free for AMT members). Part of the Recession Recovery Webinar Series.