

## Business Management Survey: Basis of Profit Tips

By John R. Hall

I recently conducted a survey at LinkedIn and got responses from 112 people to the following question:

If you were to create one 'profit tip,' what would it be based on?

- a. Better marketing/advertising
- b. Understand how to set pricing
- c. Controlling fixed costs
- d. Flat rate or T&M pricing
- e. Employee incentives

Nearly half of the respondents (46 percent) said it is most important to understand how to set pricing (b). Better marketing/advertising was a distant second with 28 percent and none of the other answers got more than 9 percent of the votes.

The results are not surprising considering the fact that setting prices pretty much includes all of the other choices. Here are some comments:

- *"Understanding how to price ties right into knowing your costs. The trend of manufacturers (ductless & tankless HWH) putting a MSRP on their website is impacting perceived costs. In some cases we are forced to back into our final price by building up from the MSRP. Interesting trend and one to keep an eye on." - Bob McAllister, VP at McAllister, The Service Company*
- *"My business coach tells me that if you don't understand how to set pricing you can spend a lot of money on marketing and advertising and still lose money or even go out of business." - Carolyn Christensen, owner, DUCTZ of Greater Atlanta*
- *Understanding market pricing and positioning to participate effectively in that market is key. Once a decision is made to participate then emphasis must be placed on driving costs down and improving efficiency to maximize profit. - Joe Bliss, owner, JBC Technologies, Inc.*
- *Understanding how to set pricing seems like best approach because it takes into account both costs and consumer insights if done correctly. "Managing the Right Tensions" addresses profitability and growth indicating both can be achieved simultaneously by focusing on the common bond: "Consumer Benefits". What do they value and what will they pay for it. Answer this and you're well on your way to structuring your offer to yield both growth and profitability.- Chris Dunn, owner, ClearSight Marketing*
- *It's true that understanding how to price is critical. If you are a true flat rate pricing company, you must know all the factors that allow you to price for profit. Just agreeing with those who canvas the crowd and ask "who would like to add \$25-50 to your labor and put that in your flat rate book?" is not the way. Set your pricing and then get that price with FR. - Tom Templeton, Coaching for Contractors*
- *In today's climate the companies that know what it cost them to run their service department (for example--and are using flat rate for example) and are running a positive, team-oriented CSRs center are better poised to continue making a profit above what they did last year (the percentage of profit may be lower; but they are still making a profit.- Jannifer Anderson, secretary, Ferris State University*
- *If you don't know how much to charge you are disaster waiting to happen. Setting your prices based on others in your area is an example of driving while blind. If*

*you don't know what you are doing in this area...GET HELP.- Andy Holt, president, Toprate Services*

- *I think I finally got it. Last year I made 10 cents on the dollar. Today I make 50 cents per dollar. Maybe I still need to work on pricing. - Geri Hess, Helping you Feel Better In Your Space*
- *The problem is people who set pricing wrong, don't read or study info how to do better. - Corey Hickmann, owner, Comfort Matters Heating & Cooling, Inc.*
- *I see the problem as not knowing how much your labor cost you. Anyone can mark up a product, knowing labor cost is key.- Dusty Rhoades, owner, Aire Serv of Weld County*
- *Profit is calculated after cost is identified. Spend more time on controlling cost and becoming the low "cost" provider and profits improve. It will be amazing how quickly your marketing has improved. - Dennis Laughlin, president, Arzel Zoning*

Better marketing/advertising was the choice of the following responders:

- *We are up 23% from 2008 and 08 was a great year for us. We tend to be the leader in our area in Advertising and Marketing. - Greg McAfee, president at McAfee Heating & A/C Co., Inc.*
- *As a small manufacturer of HVAC controls, we are always trying to figure out the best way to get our name out there. - Thomas Jackson, CEO, Jackson Systems LLC*
- *This was a toss up for me between better marketing and understanding how to set pricing. I feel both are very important. - Kim McKenna, owner, Angel Baby Organic*

Some respondents believed that the key to profitability is to have a happy and motivated staff. Here are some of their thoughts:

- *Co-workers will do what you want when you share in the rewards. Set up a spiff program for replacement sales leads, and for sales of accessory products. - Ron Smith, owner. Ron Smith Consulting & Coaching*
- *I see that employee incentives are one of the lowest of answers. I got so much more out of my employees when I treated them well and they seemed to be happy working for me. I've worked in 2 retail environments over the last 30 years and one offered more increases, some merit, and was very vocal about it. The working environment was much better than the other one who left you in the dark about pay increases and the compensation was very low. Moral in that environment was low and getting people to produce beyond the minimum was marginal. - Annette Thompsett, owner, Computer Tech Art Services, Inc.*
- *Granted they are all important factors and we need to do them all, and do them well. However, the way the question was phrased it was asking "what is the single key", i.e. the one thing without which the others don't matter. From the comments it seems like many responders focused on one choice because they felt they already had the other things in place. (Effective) marketing will increase sales. But it won't necessarily increase profits unless the employees move the customers' decisions in the right direction. Having the right pricing structure is critical. But it won't help unless the employees move the customers' decisions in the right direction. Our employees have the greatest opportunity to influence the customers' buying decisions – all day, every day. Our job is to take care of the employee; their job is to take care of the customer. So set up an incentive*

*structure that rewards the behavior you want -- your profits will increase and your overall costs will go down. - Stroh Brann, owner, Seneca Consulting, LLC*

- *Employee incentives indicate a very small percentage of the feedback for this poll. As an employer, the right employee incentives worked well for me. Circumventing customer excessive charges is key to policing this event. I agree that the value add to accomplish my preference requires a business to first control cost and understand fair pricing for work. - Rhamy Morrison, STEP/START Program Manager, Trane, Inc.*

Flat rate pricing rounded out answers from the list, but there were also some responders who felt that the most important items were not on the list. Below is the remaining list of replies:

- *Flat Rate pricing is long overdue in our industry as the way to do service work in our industry. Even installation work is worth using flat rate pricing. – Tom Moersch, owner, Tru-Temp Heating & Cooling*
- *Being a major supplier of and believer in flat rate pricing systems, it goes without saying that flat rate is one of the keys to profitable business. However, if you don't set your prices right, you will not be profitable, regardless of how you present your prices! Know your true cost of doing business and then use flat rate pricing to get that price for you goods and services! - David Holt, National Sales Manager, Profit Strategies, Inc.*
- *Because I work primarily in light commercial or commercial industrial my first "pick" was not on the list: better sales processes and sales training. So marketing stands out to me with pricing as a major contributor to profit after the negotiations and closed sales. Setting up pricing for commercial and flat rate for residential is critical. - James Graening, owner, b2bsalesexcellence.com*
- *What a tough answer to give! There is almost no right or wrong answer. All of these things are critical aspects of a business, regardless of what sector you are coming from. I chose better marketing and advertising because it's the one thing that I have never done enough of. It's also the one thing that I believe can help you overcome many other short-comings in a business. If you have an actual marketing plan, you can create volume and capital that will help you get past other things such as setting your pricing or employee incentives. You will have the money you need to make up for not knowing EXACTLY what your fixed costs are or EXACTLY how to set your pricing. I do love flat rate pricing, but I think it can be a hard sell in a down economy like here in Michigan. In our area my business, which is electrical contracting, is hurting in part because of all the laid off workers out there taking all the smaller work. This means that I have to go compete against someone working out of a pickup truck, which is impossible for a brick and mortar operation with 10 trucks and lots of overhead. The flat rate pricing that I have seen would be nowhere close to some of our competition. Especially when that competition is charging \$35 per hour which doesn't even cover my costs.- Christopher S. Mandel, Electrical Estimator/Project Manager, Superior Electric Company of Greater Detroit*
- *I did not see an option I would have chosen. In my opinion it is to be of real value to your customer. With tough economic times, money needs to be spent on things/services that truly enhance our company or personal lives. Add value.- Annette S. Calloway, Director of Religious Education, St. Jude Catholic Church at Archdiocese of Indianapolis*