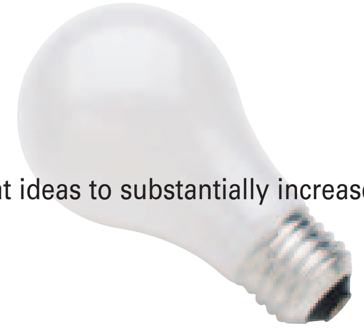
Profit Enhancement *Report*



Great ideas to substantially increase profits.

February/March 2005

In this issue

Weekly financial snapshots keep profits in focus

Traditionally, businesses have relied on monthly statements for the bulk of their financial information. But because these can take a week to 10 days to produce, the data may become stale before owners see it.

There's a solution: To supplement monthly reports and act quickly on critical information, many companies have started producing weekly financial "snapshots."

Zoom in

If creating a snapshot appeals to you, first decide how much information to include. You may wish to put in weekly month-to-date (MTD) and year-to-date (YTD) data and comparisons to budget, or to view only the current week's numbers. See page 3 for a typical report. Most companies include these categories:

1. Sales. Information can come from shipping documents, billing reports, invoice logs, cash receipt journals, or your time and billing system. Most companies consider this statistic the main barometer of progress against monthly and annual forecasts, so you'll likely want to include cumulative and comparative MTD and YTD data.

2. Cash collected. Second in importance is the cash collected for the week. Poor cash management has led many companies into bankruptcy, in spite of supposedly rosy monthly financials. Thanks to banks' online cash management services, it's easy to access and manage this data on a weekly and, if necessary, daily basis.

3. Cash outlays. Businesses often compare this to cash collections along with the current short-term loan balance and cash availability. The numbers should be easy to extract from the accounts payable module of your general ledger package or, in a manual system, straight from the company's checkbook.

4. Accounts receivable balances. This item alerts you to potential collection issues early on. You can find the data in the accounts receivable module of the general ledger package or by posting cash receipts and new invoices to each client since the prior month-end report.

5. Accounts payable balances. Here, you'll need to record the dollar amount of your company's unpaid bills and whether any are overdue. Again, check the accounts payable module of the general ledger package for this information. You also can access it by posting payments made and invoices received to each vendor's balance since your last month-end report.

6. Orders received. This shows what's in the hopper for the next week and how it compares to the monthly forecast, according to your order entry system or log. You'll probably want to include MTD sales information plus orders received compared to forecasts, to show the amount you may be ahead or behind by month's end.

7. Purchases. What materials and services have you ordered this week? Most businesses keep a purchase-orders-issued log from which to collect this data.

8. Hours worked. This item is key for manufacturing or service businesses that must deal with overtime pay. It should compare actual hours worked to the number of hours forecasted to produce weekly sales. Check your payroll system or employees' time cards for details.

9. Weekly payroll expenses. Are these in line with the weekly forecast and on an MTD basis? Find out by comparing your payroll records to your budget.

10. Inventory of key items. You can compare this information to orders received to avoid ordering mistakes and resulting production downtime. Find the numbers in your company's computerized or manual perpetual inventory system.

Say "cheese"

Once the basic report design is set up, an accounting coordinator or staff person should be able to assemble and distribute your snapshot in just a few hours. This regular overview will help you stay on top of financial developments, so you'll never have to face the unknown at month's end. ■

H-2-Eau Water Bottling Company weekly financial snapshot

For the week ended March 20, 2005

	Week	MTD actual	MTD budget	Difference	YTD actual	YTD budget	Difference
1. Sales	$ 20,000	$ 80,000	$ 75,000	$ 5,000	$ 250,000	$ 230,000	$ 20,000
2. Cash in	$ 30,400	$ 90,000	$ 87,000	$ 3,000	$ 270,000	$ 270,000	$ 0
3. Cash out	$ 33,000	$ 88,000	$ 90,000	($ 2,000)	$ 260,000	$ 280,000	($ 20,000)

YTD difference between cash in and cash out	$ 10,000
Current short-term bank loan balance	$ 100,000
Availability on bank loan balance	$ 250,000

	Total	Current	Over 30 days	Over 60 days	Over 90 days
4. A/R balances	$ 130,000	$ 80,000	$ 30,000	$ 15,000	$ 5,000
Problem accounts:					
ABC Company		$ 0	$ 0	$ 10,000	$ 0
XYZ Company		$ 0	$ 0	$ 5,000	$ 5,000
5. A/P balances		$ 100,000	$ 10,000	$ 0	$ 0
6. Orders received this week		$ 30,000			
MTD sales		$ 80,000			
Booked sales + orders		$ 110,000			
Monthly forecast		$ 100,000			
Potential ahead (behind) forecast		$ 10,000			
7. Purchases this week		$ 25,000			
8. Hours worked this week (plant only)		1,500			
Forecast		1,300			
Over (under) forecast		200			
9. Weekly payroll		$ 9,000			
Forecast		$ 8,500			
Over (under)		$ 500			
10. Key inventory items					
12 oz. bottles		8,000			
20 oz. bottles		18,000			

Mining the gold from existing customers

Are you doing all you should to keep your customers happy? It costs six to eight times as much to attract a new customer as to keep an existing one. But some business owners believe that their loyal customers will stay forever. As a result, even though they're sitting on gold mines, they devote most of their efforts to attracting new customers.

If your company is like most, you probably have a marketing plan with lofty goals and detailed budgets. But does it include dollars for basic customer recognition and retention? If you haven't devised strategies to strengthen relationships with your current customers, it's time for some gold mining.

Rewarding loyalty

Think back over your own experiences. Have you ever received a gift thanking you for being a loyal customer? If so, you know even a small gesture can go a long way to boost loyalty.

Send cards, notepads, beverage coasters, letter openers or other promotional items to thank customers for their continued patronage. Good, old-fashioned personal letters can be a powerful means of recognition. Forget the marketing hype and write as you'd speak to a respected friend.

Welcoming complaints

Customers complain when they're dissatisfied. Fixing what's wrong forges a closer bond while avoiding subjecting others to the problem. Give your employees the tools, skills and support to cheerfully resolve complaints on the spot, whenever possible.

Also, listen to front-line employees, who often pick up on customer needs while engaged in friendly conversation. Ask them to share all comments and suggestions, and be sure to take action on the tips they provide.

Staying in touch

Set up an e-mail, direct mail or phone campaign to remind past customers you're ready to serve them. Keep them informed about sales, new product development or tips for more effectively using your products or services.

It's equally important to keep active customers engaged. Discounts, sweepstakes, loyalty programs, advance notice of sales and sneak previews of new products or services can make people feel good about doing business with you.

Exchanging referrals

Everyone knows word of mouth is the most effective marketing tool.

To remind satisfied customers to spread the word about your business, send them comment cards to refer friends, associates or clients. Ask for referrals after successfully completing projects. And when a customer makes a referral, take time to write a personal thank-you note.

When a referral comes your way, find an opportunity to reciprocate the favor. When attending networking events, be on the lookout for people or information that might be of value. Learn how to give 30-second "commercials" about your customers. Then, let them know each time you've promoted their businesses.

Striking pay dirt

Simple measures like these can go a long way in retaining valuable customers. It's just a matter of listening, treating them with respect and showing appreciation. Do those things, and you'll be able to mine gold for many years. ■

Are your sales calls going nowhere?

Meet objections with dialogue

Why does making sales calls cause such anxiety, particularly among new sales representatives? Most would say it's the thought of a prospect voicing an objection — and the dead silence that can follow. But by identifying common sales barriers and learning a repertoire of effective responses, a salesperson can keep the conversation going, clarify the prospect's real needs, and ultimately land the sale.

Break down to the ridiculous

Take one of the most frequent objections, price. Say you're selling telecommunications equipment, and the conversation goes like this:

Customer objection: "It costs too much."

Your response: "What are you comparing it to?"

Your goal: To clarify how the prospect views your product's value and return on investment, and whether they've made competitive comparisons.

Once you know price is a barrier, seek common ground on lowering communication service costs but maintaining the level of quality and performance the prospect really needs. For instance:

Customer objection: "It has too many (or too few) features."

Your response: "What features are you referring to?"

Your goal: To find out whether they're basing their objection on prior experience or simply preconceived notions.

With each exchange, steer the conversation toward the real issues affecting the prospect's decision. For example:

Customer objection: "We already have this and it's working well, so there's no need to change."

Your response: "Are you sure it's working as well as it can? If there were something about it you could improve, what would it be?"

Your goal: To discuss process improvements and find out whether changing circumstances would make your product a good match.

From this hypothetical sales call, it becomes clear to the prospect that purchasing your equipment will mean moving, reconditioning and effectively reconfiguring the company's systems before workers' productivity can increase. The prospect isn't sure it's worth the time and effort.

This is the time to sit down with the prospect and create a spreadsheet that identifies unwelcome surprises, milestones along the way and the absolute bottom-line cost issues. Some salespeople call this process "break down to the ridiculous." But removing doubts creates trust and can ultimately make the sale.

Encourage elaboration on objections

Try graphing similar strategies for future reference. Draw two lines down a piece of paper. On the left, jot objections you and your sales colleagues commonly hear, with corresponding responses on the far right.

In the center, list open-ended questions to encourage prospects to elaborate on problems, so you can suggest solutions. Keep adding to this document, and over time you'll develop an important sales tool.

Build relationships

Clearly, colleagues' war stories as well as your own experience can help you deal proactively with sales barriers. It's all about learning prospects' real needs and explaining how your company can satisfy them. As your genuine interest and understanding help you develop relationships, you'll realize how valuable objections can be. ■

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6 strategies to lower employee turnover – and save money

Some employee turnover is unavoidable. But if turnover is threatening your company's bottom line, the fault may lie in your management practices. Remember, employees aren't working just to earn a good living — they also need respect, appreciation, motivation and a feeling of accomplishment. By fulfilling these needs, you can keep turnover to a minimum and save money recruiting and training new people.

The high cost of turnover

How expensive is turnover? Many employee benefit consultants have estimated over the years that replacing a single person can cost 30% of annual wages for hourly employees, and considerably more for highly trained and compensated staff. Even using a conservative 50% replacement cost, turnover can have a devastating effect.

Say a company with 100 employees and an average per-employee salary and benefits cost of $50,000 has a 27% annual turnover rate (the 2002 national private sector average, according to the U.S. Department of Labor's Bureau of Labor Statistics). That turnover would cost the company approximately $675,000 per year. See "Turnover costs add up" on page 7 for a breakdown of how companies spend the money.

Confronting the problem

You'll never reduce turnover to zero, but you can lower it by gradually and selectively changing the way you operate your business and treat your employees. Here are some tips:

1. **Benchmark.** Be aware of your turnover rate, associated costs and industry averages. Are your numbers better or worse than last year? How do you stack up against competitors? Drop your company's rate below the industry average and you'll gain a competitive edge via lower costs.

2. **Add a turnover rate to your budget.** If the company in the example above planned to reduce its 27% turnover rate to 20% for its next year's budget, it would lower annual turnover costs from $675,000 to $500,000, saving $175,000.

3. **Create a positive employee environment.** Most companies with low turnover rates are highly employee oriented. Workers are regularly consulted on how to improve specific jobs and the company in general. Open-door policies are implemented to limit grist for the rumor mill. And employees are given ample advancement opportunities.

4. **Train, train, train.** Continuous skill improvement is a must to keep employees happy with their jobs. Most want to learn and appreciate the opportunity to do so.

5. **Top the competition's compensation and benefits.** Money may not always prompt an employee to stay or go, but it's usually high on the list. Know what competitors pay and offer a better deal. Beef up your benefits package with tax advantaged programs such as a 401(k) plan and flexible spending accounts.

6. **Have fun!** Add a budget line item for parties and other fun activities. Hold occasional Friday afternoon pizza parties and a "bring the kids to work" day. Sponsor an employee softball team. These types of activities show your company cares, make it feel family oriented and build team spirit.

TURNOVER COSTS ADD UP

Turnover occurs in every business, but do you know how much you're actually spending to replace employees? To find out, start by calculating the direct costs, which you can capture and track using almost any accounting software package.

Direct costs include such separation expenses as severance pay, time for exit interviews, outplacement expenses and possible litigation stemming from involuntary terminations. And then there are replacement costs: recruiting, interviewing, testing, orientation and training, plus possibly travel and relocation expenses.

Indirect turnover costs are much harder to quantify, so they're more serious profitability threats. The most damaging is decreased productivity — and not just for the departing employee's job functions. Greater workloads as the employee prepares to leave and you hire and train a replacement can cause supervisor and co-worker productivity to decline as well.

Should you really go to all this trouble to avoid replacing employees? Yes. Not only is turnover extremely expensive, but today's boomer generation is beginning to retire. In coming years, U.S. businesses will find it even tougher to find and keep qualified employees.

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Fulfilling employees' — and your business's — needs

Poor management practices can make turnover a serious — and unnecessary — financial problem. If you understand what employees need and fulfill their needs before they become dissatisfied, your company can also fulfill its own needs and keep turnover expenses within reasonable bounds. ■

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