

5 Easy Ways You Can Increase Gross Margins

One of the issues that should always be at the top of your mind is ways to increase your gross margins. In some cases, they are “gross” and we want to work on that.

There are several things you can do to improve them. Pick at least one of these and work on it over the coming year.

Raise prices on your lowest tier of customers Every business has a list of “F” customers. Using the ABC ranking does not really describe these folks. Do an analysis of your customer base and identify the bottom 20%. They probably buy a small amount from you—maybe only once a year. Raise prices on this group, only. Give them a hefty price increase and see what happens. You might be surprised by the fact that they not only do not go away but don’t even complain. And if some of them do go away, so what? The cost of serving them might be bigger than the value. Many organizations have increased their gross margins by at least 5% by this tactic, alone.

Target products/services with higher margins to sell Many organizations have products/services that have higher margins than others, yet they do not focus on selling them. Look at the things you sell that have the best margins. Put together a list of focus products that includes these items. Put together a customer list of where you want these products/services presented. Direct the sales calls to occur. One organization increased its overall margins by 15% in one year by implementing this tactic and increases of 5-7% are fairly common.

Telesales A way to take costs out is to make sales more profitable. Look at your customer list. Are there a group of customers that are being serviced by outside sales that could be handled by inside sales? What would happen to the real profitability of those customers if you created an inside telesales territory and proactively sold them on a regular basis? We have seen margin/profit increases of up to 20% in this group of customers by implementing this tactic.

Strip away service levels to customers that do not pay for them This is pretty radical but a lot of organizations are doing this one. For example, one company instituted a shipping fee for orders under \$500.00. Even though they had their own local delivery trucks (and they offered free shipping), they decided to add a cost to customers that did not order the minimum quantities. (This did not apply to good customers which had an occasional order that failed to meet the minimum but you get the point).

Other companies eliminated warranties or 24 hour service or technical support to customers who bid them out every year, for example. When your product or service is defined as a commodity (and the customer is not willing to pay for the “extras” you offer, why do you continue to offer them?). If this is something everyone does, maybe you have to continue to offer it but if you are the only one and the customer perceives no value, maybe there is something you can do...

Companion sales A lot of companies have single-item orders. A lot of these same organizations have companion products that should be bought at the same time. Put together a list of companion sales items and at least try to add the second (third) item to each order. This will not only increase sales but also has the great ability to increase margins. We have seen improvements in margins by over 15% for this one—in one year.

Bonus thought...

Right people. Right message I have talked about this one before but it bears repeating. Most of the margin you get is because you are not directing the sales team to talk about the right things to the right people. For example, if 80% of your sales calls are on purchasing people, you can expect to talk about price a lot—with a corresponding negative impact on your margins. Conversely, if your sales team is constantly trying to get people to buy your product because it is the lowest price (as opposed to the best value), you are going to get downward price pressure, regardless of who you are talking to at the customers. Make sure that your people are targeted to the right people and have a message of value and you can probably spend less time defending your margins.

Reasons Why...

In addition the obvious reason to increase margins is that you get more in the coffers, but these days, with business tight, competition getting tougher, business having to raise prices at the same time face overseas competition at increasing lower price point, is it become inherently valuable to make the most of what you've got.

It's like I told the participants in my recent “how to sell price increases” program; You've got to have an organized way to engineer more margin in every deal, effectively sell your existing customers on price increases, (just to keep in business) all while NOT losing them as a customer.

Hope this helps.

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