

From The Editor...

GROSS PROFIT MARGIN

One of the easiest ways to improve the bottom line of most businesses is to increase the “Gross Profit Margin.” This can be accomplished by increasing the prices of a business’s products and and/or services or finding a lower cost of goods. Finding a lower cost of goods can often lead to an inferior raw material, which could harm the quality of the business’s end product and/or services; thus, extreme care and consideration should be given when considering that scenario. However, that being said there can be opportunities to find a lower cost of materials as good as or possibly even better than those presently being used. Why not at least explore this option in order to stop leaving money on the table?

If a business increases its pricing for its products and/or services by just one-half of one percent that increase will raise the Gross Profit Margin, and the benefit will go all the way down to the bottom line.

Further, I would guess most businesses’ customers would not even notice a one-half of one percent pricing increase. The result to the business’s bottom line is for every \$1.0 million in sales, a 0.05% pricing increase means \$5,000 more to the business’s bottom line. For a \$20.0 million business that is \$100,000 more that the owner gets to decide how to spend: perhaps to hire a new employee, buy a new delivery truck, or a purchase a new piece of equipment.

Far too often I have seen businesses that never even look at their Gross Profit Margins unless they experience a cost increase in the products or goods they are purchasing. Most customers will accept a slight price increase as just the normal cost of doing business.

I have recommended to many clients that they look at increasing their pricing annually when they do their budgeting process for the next year. I know a specific case where a company had not increased pricing for over three years because the owners didn’t think the market would accept an increase. Reluctantly, they tried a 3.0% increase in their pricing; when they started using that pricing on new bids they put out to their clients, they continued to win bids and increase their business. Their bottom line increased that year by nearly \$700,000. The business’s G and A expenses as a percentage of sales remained relatively the same, so the increase in the bottom line was directly the result of their Gross Profit Margin increase.

If you would like to improve your business’s bottom line and explore ways to accomplish that improvement, or if you have a question about your bottom line, contact a **Silver Fox Advisor** today. Remember, having experience on your side always helps. We encourage you to visit our Website at www.silverfox.org or www.silverfoxadvisors.com to select a **Silver Fox Advisor** and also to learn more about the **Silver Fox Advisors**, as well as our great programs and community outreach endeavors. ♦



Richard T. Hendee

Richard T. Hendee, Editor
The Silver Fox Advisor