

IF YOU'RE NOT MAKING A PROFIT, WHY ARE YOU IN BUSINESS? (Part 1 of 2)

(5 Minute Read)



Let me be clear; I most definitely think there is *no* business if it is not profitable. Why else take the risk and grind all day long? One's personal joy and achievement quickly gives way to resentment and negativity if there are no tangible rewards to enjoy.

I often consult with clients who are so caught up in their own understanding of how their businesses work, yet they are constantly under immense personal (time) and financial (cashflow) pressure. This begs the question; are they really addressing the right issues?

In this two-part blog series, I will address a number of important concepts which all SME's can focus on, in order to become more profitable.

PRICING AND THE POWER OF PERCEIVED VALUE

Few voices can write with such authority on pricing as Hermann Simon, Chairman of Simon-Kucher & Partners Strategy and Marketing Consultants, nicknamed *The Pricing Man*, and a giant within the discipline of pricing research and practice, it hardly comes as a surprise that his take on pricing is pure commercial wisdom.

In his famous book, [*Confession of the Pricing Man*](#), Simon explains one of the most fundamental principles on pricing:

*“People have asked me thousands of times to name the most important aspect of pricing. I answer with one word: **“value”**.*

*When asked to elaborate I will use the term **“value to customer”**. The price a customer is willing to pay, and therefore the price a company can achieve, is always a reflection of the perceived value of the product or service in the customer's eyes.*

If the customer perceives a higher value his or her willingness to

pay rises. The converse is equally true, if the customer perceives a lower value relative to the competitive products, willingness to pay drops”.

A business owner has 3 important tasks when it comes to pricing:

- *Create Value* – use quality materials, top performance, and design, to drive perceived value for your customers.
- *Communicate Value* – influence the customer’s perception by how you describe your products (or services), your unique sales proposition and your brand.
- *Retain Value* – provide a post-purchase experience that creates a lasting impression on your customer.

Price is often quickly forgotten, but consumer research and behavioral studies often confirm that we struggle to remember a price, even if recent, but quality, good or bad, *stays* with us.

The process of setting prices begins at the conception of a product idea and company's must think about prices often and early on, not just once the product or service is launched.



FORGET ABOUT THE POUND AND WORRY ABOUT THE PENNY

One of my business savvy and successful clients, a man in his senior years, once said, *“Learn to guard the penny, the pound will look after itself”* and no truer words have ever been spoken. I have implemented those words over the years in my business, and they ring true to this day, now more than ever before.



Examples of enterprise building blocks are items such as capital, assets, cash, new clients, and revenue, and they are all useful in growing your business and increasing its value.

At the opposite end of the spectrum, are costs related to the running of the business. These are forces that *erode* the ability of these *building blocks* to add value and reduces the profitability of the enterprise.

The prudent business owner is forever aware of the exponential (destructive) power of these costs and watches them closely!

If you own a *services* company reducing costs such as building rental, telephone costs, internet service providers, office supplies, lazy employees, unreliable delivery vehicles, sub-standard suppliers are all examples of costs that you need to keep a close eye on.

If you own a *product* company you need to know your production costs at the top of your fingers, you need to know what each component in the production cycle costs and understand the implications of elements such as discounts offered, poor debt management and reduced selling prices.

All of these strategies can erode your overall profitability if not watched carefully. Learn the implications on your revenue.

GO STRAIGHT TO JAIL!



Many a lazy Sunday afternoon have been spoiled by the *“Go To Jail”* card from the famous game [Monopoly](#). The little blue card, with its condescending instructions; *“Go to jail. Go straight to jail. Do not pass GO. Do not collect R 200”*, have been the cause of many a family member feeling like a criminal, locked in a cell while the game seemingly went on without interruptions.

While *Monopoly* is only a game about keeping your business wits about you, one could actually end up in jail for tax evasion; the deliberate non-payment of due taxes. For obvious reasons, this is best avoided.

Tax avoidance, however, is a legally recognized process whereby a business owner may legally structure their business in such a way as to achieve maximum tax benefits.

Make use of tax professionals with the necessary expertise when structuring your business because managing your tax liability correctly might also mean you can actually be financially rewarded.

When structuring your business consider important aspects such as the size of the business, the type of business, the location of the main operations, and the type of industry, as these are all factors that play a vital role when deciding how to structure your business and create a growth and development strategy.

As soon as you start procuring assets, for example, it's important to discuss this with your accountant as these actions have financial ramifications, and if not recorded correctly, may indeed result in serious tax complications.

IN CONCLUSION

The effective business owner will make it a priority, early on during the establishment of the business, to focus on three important areas, namely, pricing, cost management and taxes.

While having a good working understanding of the theory of the three areas is important, it's in the effective *execution* of the tasks related thereto, where the real magic happens. Understanding without action is fruitless.

Wanting to be profitable is good; focusing all your attention on the right tasks is divine. How else will you be sure to make a profit?

Join me toward the end of April, for the delivery of Part II, where I will further explore how to be more profitable in your business.



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