

Increasing sales margins

– not as hard as you think

In this article, Daniel E. Lach, managing director of Beaufort International LLC, discusses strategies to increase top-line profitability.

When I get nostalgic, I sometimes gather the children round the campfire and tell them stories from my youth. I always begin with: "In the olden days, when you wanted to book an airline ticket, you went to somebody called a travel agent. They had lovely shops on the high street where you chatted with nice ladies who used a computer to find you a flight so you didn't have to ...

"No way!", my kids say. "You mean you didn't have to go on-line yourself?" Nope, didn't ever have to touch the keyboard. Didn't even have to read the monitor. They did it for me." "Oh Daddy", they exclaim, "What wonderful days those must have been!"

Yes they were. But, you see, times change. Once upon a time, big companies didn't want to suffer the aggravation of

dealing with the small customer. After all, small customers were smelly and nasty creatures that bought tiny individual quantities and spent too much time wasting a sales rep's time. So, they got agents or dealers or distributors to do the dirty work for them in exchange for a piece of the profit.

However, once the Internet came along, big companies started to realise that dealing with the end-user did not have to be the horrible and nasty business it usually was. If they could be persuaded to place the order directly on-line, you didn't have to meet them or listen to them or even speak to them. Nirvana!

On top of all that, small customers pay full price and pay immediately. No 60- or 90-day credit terms are required and no haggling for individual discounts is needed. Credit card payments meant you didn't even have to handle the cash.

Now, bearing all this in mind, let me ask you, what percentage of your gross margin do you hand over to some intermediary that deals directly with your end users? Fifty percent or more? If so, theoretically by eliminating the middleman you could double profitability without increasing turnover. But how do you do it without alienating your existing sales network?

The answer to this question lies in identifying your end user. Obviously, you cannot sell to him or her directly if you do not know who they are. That is the power of the sales agent. Your end user is in reality his customer, not yours. However, after that first sale, your objective must be to sway allegiance on the part of the end user without upsetting the middleman.

This objective is most easily accomplished via the product registration process. By ensuring that all end users register directly with you, it becomes possible to build your true customer base without relying on the sales intermediary. Warranty registration is best done by encouraging end-users to contact you via your web site, where conveniently you can begin to sell to them directly.

The danger, of course, is the loss of sup-

port of your distributors. However, distributors are quickly running the risk of becoming the dinosaurs of the supply chain.

If you are not in a position to supply your product directly to the end-user at a lower price, your competitor soon will be. This means that your wholesale prices will come under greater pressure as your distributor base struggles to hold clients that are being tempted by lower prices coming directly from your competitors' web site.

Of course, losing your distributors' business can be avoided in the short term, provided that you act discreetly. To begin with, avoid undercutting your distributor end-user prices directly, at least until your existing web sales become well established.

Of course, inviting customers to accept specific "discount codes" that you provide them with in order to register their warranties on-line should prove useful in building your site traffic. Temporary offers of discounts can also be made available, especially to first time purchasers or during times of the year when business is usually slow.

In any case, your goal should be to build up your end-user sales business at the expense of not expanding your existing domestic distributor base. Foreign distributors are an exception, as frequently it is more cost-effective to deal in larger shipments with respect to cross-border transactions.

If this strategy still proves frightening to you, consider dipping your tow into direct sales by offering spare parts or extended "repair or replace" warranties that are not in direct competition with products sold by your own intermediaries.

Remember, by selling direct you significantly increase margins, improve cash flow and reduce sales expenses. And in today's on-line world, you minimise having to deal with that nasty customer.

And, finally, it is important to note that businesses possessing a significant proportion of on-line sales revenues trade at significantly higher earnings multiples when they are divested. ■