Vizant

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Maintaining Profitability When Revenue Pressures Collide with Increasing Operating Expenses!

To anyone reading this article, you know this is a never ending challenge your organization faces every day. At a very simplistic level, without factoring in such important items as working capital and balance sheet structure, a product or service must be sold at a price point that will result in some level of profitability. Any business selling its product or service at a loss is eventually doomed to failure. It is very rare for a company to share information with its customers as to the many costs of its product or services, its margin or its profitability. Frankly, customers do not evaluate a service or product based on any costs that the seller or provider incurs. They care about price, service, value, quality, convenience, safety, and many other factors.

Recently, there was the story of a restaurant chain in Florida (Gator's Dockside) that decided to be very clear as to how its costs and profitability were impacted by the Affordable Care Act (ACA). They wanted to inform their customers of this new cost and how they could not bear it, while maintaining their food and drink prices at the same level. The chain was very clear as to its messaging and the nature of this new cost. They stated that the cost of providing medical insurance for employees who previously were not covered was a new cost they could not absorb and would force them to close. What exactly did they do? They created a new charge and every customer now pays it; they add 1% to every bill and it is called the "Affordable Care Surcharge."

Now, one can debate the tactics of the Company as to this approach, but no one can challenge this simple fact: an organization with increasing costs that are not recovered from increased prices of some type are ultimately doomed to encounter financial problems. Gator's Dockside was actually being proactive, albeit surprising. They had many options to deal with this new ACA cost: 1) increase the cost of food or drinks, thereby indirectly passing on the costs, 2) pass on the new costs directly and inform the customers exactly what it is, 3) create some other new pass through cost with a different description (FDA charge, etc.), or 4) do nothing and bear the cost totally. All of their competitors will be faced with the same decision at some point, as this new cost will be borne by every single one of their competitors. They simply stepped out in front of this problem and lead the way.

The airlines have educated all of us as to how to create new revenue streams or charge for new costs, all in an effort to maintain a certain level of profitability. In the past, they would add fuel surcharges when jet fuel prices rose. Now, we pay fees to check a bag, fees to change a ticket, and fees to eat and drink. Also, how about Spirit Airlines? They charge you if you want to use a customer service agent to get your boarding pass. In the end, no matter what the "stated" ticket price is and no matter what the ancillary fees add up to, all of the airlines have a goal to attain a certain level of bottom line profitability.

The higher education world has made a science out of this: let's keep tuition only rising by say 8% a year, but now let's charge for everything we can think of: administration fee, registration fee, graduation fee, dormitory fee, transcript fee, financing fee, grant processing fee, and, by the way, if you pay tuition with your credit card, we want an additional 3% fee on top of that, Visa not allowed. The point is this: passing on costs is not a new concept…it is all about what you call it and how it is positioned.

Any organization anticipating setting new prices or directly or indirectly passing on new costs must have a thorough understanding of its industry and its customers. Historically, most companies have not focused on the cost to accept and process a payment from their customers for two reasons: 1) the cost was minimal, and 2) allowing many methods of payment was more important than the cost of the payment. Those days have come to an end. The cost to manage and accept payments of all types has risen dramatically over the years, whether it is a physical or online credit card, prepaid card, debit card, private label card, e-check, paper check or ACH payment. Accelerating financial payments in a B2B environment and/or reducing the cost of accepting payments in a B2C environment are critical to maintaining stable and increasing levels of profitability.

Vizant has assisted many organizations, from healthcare to online consumer to communications companies to companies in many industries. We work by your side in evaluating, analyzing, reducing and recouping the numerous costs of accepting and processing financial payments. We do it with one main focus at all times: understanding our clients industry, marketplace, customers, and dynamics. Also, most importantly, our services are performed in a 100% "results based model".