

IMPROVING PROFITABILITY

We are all in business to make profit for re-investment in the future and to reward owners. Every business should examine & improve profitability routinely but in the current economic climate it is an essential activity to strengthen your finances.

GROSS & NET PROFIT

First you must be clear about the difference between gross & net profit. Gross profit is the difference between your sales and cost of sales (materials, direct labour/services, sales fees etc.) Net profit is gross profit, minus overheads. Gross profit is improved by increasing price and/or reducing direct costs. Net profit is improved by increasing gross profit, reducing overheads and increasing sales relative to overheads.

WHERE DO YOU MAKE GROSS PROFIT?

Surprisingly many businesses cannot answer this basic question. It is vital to understand where you make gross profit (and losses). You should analyse profit margin by customer, product/service, project, industry etc. This insight will enable you to decide where to focus sales efforts, highlight areas for profit improvement and reveal unprofitable areas to be culled.

INCREASING SALES PRICES

Ask yourself whether you are under-pricing or can justify an increased price. Consider how you can differentiate your offer to create extra value that customers are willing to pay for. Every product is topped with a service such as pre & post-sales support, delivery, warranty etc so don't forget to incorporate this into your pricing.

REDUCING DIRECT COSTS

This can be achieved through a combination of methods including: improving efficiency (reducing time, materials and other resources required); reducing waste; negotiating with suppliers; and, taking cost out by redesigning products, production methods and service delivery.

SALES MAXIMISATION

Maximising sales of profitable products & services will improve net profit because overheads won't increase to the same extent. Review each customer to identify what more they could be buying from you. Consider up-selling and cross-selling. Rekindle relationships with lapsed customers. Target new customers and develop new products and services.

