



Managing margins and improving profit

To build a more profitable business, take practical steps to fine-tune your operation by focusing on driving profit throughout your business.



- Increase prices
- Decrease stock levels
- Chase debts
- Send invoices out faster
- Check communication and technology costs
- Review communication costs
- Check credit terms
- Use technology
- Check your cash daily
- Trim your costs
- Offer incentives for early payment
- Sell unused assets
- Improve your cash cycle
- Check you have the right products
- Review suppliers
- Stay on top of competitors
- Sell online



- Keep an eye out for new markets
- Target your advertising
- Review seasonal trends
- Ensure systems are efficient
- Use inventory software
- Offer your customers more ways to pay
- Reduce fraud and theft
- Use accounting software
- Review sales volume
- Recalculate your break-even point
- Compare sales against forecasts
- Check costs are within budget
- Match or exceed industry gross margins
- Stay focused on profitability
- Increase sales
- Manage your customer cycle
- Use the rule of 80/20

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Increase your prices

Small businesses may not always charge what things are worth.

Evaluate regularly whether prices can be increased by checking your costs and what competitors are charging. If you don't keep up with inflation, you're going backward, so as a rule-of-thumb, customers should be paying more each year, unless your input costs are also falling.

A small increase in price without any fall in sales, or increase in overheads, adds up over time.

Identify services you provide or products you sell that are price insensitive and increase the price by a small amount.

Decrease stock levels

Reducing stock levels can transfer cash directly to your bottom line. You might be able to reduce the stock and raw materials you hold by making better use of online ordering and more efficient warehousing software so that you stock only what you need for the immediate future.

By holding a stock review every few months, you may be able to eliminate any redundant products and slow sellers. You may also be able to buy stock from suppliers just a few days before you need it. The money saved can then go straight into the bank.

You can sometimes receive large discounts by buying stock or materials in bulk, but always weigh this against the fact that this cash is then not available for anything else. This is especially critical when times are tough and you need cash for working capital.

Chase debts

Contact the customers who owe you money. Many small businesses feel uneasy about asking their best customers for overdue payments as they fear being pushy might send the customer elsewhere. But they do owe you money – money that could be spent on growing your business or getting you through a tough patch.

Develop a firm but fair collection policy. Customers need to know you will consistently follow up on overdue bills. This is where good accounting systems are essential because they enable you to quickly generate overdue payment reports, or flag them automatically for your immediate attention. Also, offering alternative payment options, such as taking credit card payments, or accepting electronic payments can sometimes help you collect faster.

If a client is routinely late with payments, then it makes sense to call them and ask why. It may be due to a misprinted payment date on their invoice, financial issues, or even customer disputes. Whatever the reason, the only way this problem can be resolved is by first discovering the issue.

Send your invoices out faster

Consider delegating a responsible person to handle all the invoicing. This cuts down on the chances of misunderstandings or forgotten invoices. Any bills should be sent out as early as possible, regardless of the due date. A client is more likely to pay you earlier if they receive the bill promptly.

Check communication costs

Two recurring costs for businesses are phone and internet costs. These costs are changing all the time, and usually track downwards. Check regularly to see if you're getting the best deal you can. Don't hesitate to change to a cheaper supplier, but make sure the quality and service are equivalent to what you're receiving now.

Review your communication costs now and you might save hundreds a month.

Credit terms

If you offer credit, make sure that your payment terms are clearly indicated on invoices and other correspondence. When negotiating a new contract, remember to include payment terms so your new customer is aware of your expectations from day one.

Use technology

Make and receive payments electronically, saving you time and money, and avoiding invoices getting lost or misplaced.

Check cash daily

Make a record of how much cash is spent daily and ensure that you are satisfied with the reasons for spending. It will be much easier for you to identify improvements and learn where your cash is going.

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Trim costs

Reducing costs can be a fast and effective way of increasing profitability. Look carefully at your expenses to see what items you can reduce or eliminate. Even small changes will add up to significant amounts over time.

Offer incentives for early payment

Encourage early payment by offering some form of value to your clients. This could be a discount on follow-up orders or a small service offered free of charge. However, make sure these incentives are feasible, especially where free services are concerned.

Sell unused assets

Do you have equipment that's underused? If you use an asset only a few times a month or year, then could it be a better option to rent or lease similar equipment when you need it? Many businesses have assets that, if sold, create cash that may be better used as working capital to grow the business.

Improve your cash cycle

A shorter cash cycle can make it easier to manage your money so consider ways to get paid quicker. Some customers may be willing to pay a deposit or full payment in advance.

Check that you have the right products

Whether your business focuses on one primary product group or sells a variety of products based on a theme it's important to make sure what you're selling is still relevant to the market.

Use your product sales data to review your range and determine which of your products are the most popular. Can you add a wider range? Do you need to retire products and services that have falling sales and increase others?

Review suppliers

Identify new suppliers who can offer new products. Explore importing products direct or building relationships with wholesalers to identify new products you could be offering your customers.

Stay on top of competitors

Watch your competition closely to make sure they haven't launched new products or found exclusive new suppliers which you can't match. If they seem to be generating more sales than you, determine why. What are they doing that's enticing your customers away and how can you address this? Complete a competitor analysis to understand what they are doing well and what you could do to offset these actions.

Sell online

Businesses are increasingly going online to widen their distribution channel and to target new markets. Even if you can't match overseas online prices, target those customers that will pay a premium. Customers often prefer buying online from a local brick and mortar business especially with products that require guarantees or servicing.

If you do sell online, invest in a responsive/mobile website, a great end-to-end user experience and have a planned online campaign to generate awareness.

Keep an eye out for new markets

If your business is doing well in your current location, research the market in a different region. Document what makes your business work, then target similar areas with similar customers.

Target your advertising

Advertising works best if you know the customers you're targeting. Determine who your ideal customer is, and what their needs are. Then make sure what you offer matches.

Review seasonal trends

Review seasonal issues that could affect your business, like school terms, the weather and national holidays. Coordinate your promotion and product purchases with events that are planned during the year. Develop a calendar that captures any excuse to get in front of customers, from sports events, local celebrations, to national holidays.

Ensure systems are efficient

If you're purchasing a wide range of different products it's important that your system is effective, efficient and easily understood by your employees so you can manage your cash flow and stock levels.

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Use inventory software

All businesses should automate what's being sold to measure inventory levels and what you have left in stock. It will allow you to use 'just in time' ordering to keep your inventory to a minimum without running out.

Offer your customers more ways to pay

Customers appreciate being offered the latest way to pay, with the most up-to-date technology. Online and mobile payments mean that you aren't spending time invoicing and chasing down late payers.

Reduce fraud and theft

Train staff on what to watch out for concerning fraud and theft. Security is a balance between a great customer experience and reducing the chance of having product stolen.

Use accounting software

A good accounting system is crucial. With it you can monitor cash flow, transactions and inventory, develop a customer database, and keep up to date with your bills and payroll. A cloud-based accounting system offers increased security, as well as being able to check all your financial data in real-time.

Review sales volume

If your business has lines outside the door and you can't keep up and customers are turning away, you need to find a solution. Larger premises, more staff, longer opening hours, or mobile payments are all options.

Recalculate your break-even point

If you find you are busy but not making a profit, then it could be time to review break-even. If you lower your overheads, raise prices, and focus on selling higher margin products, you will find you need to sell less to make the same money.

Compare sales against forecasts

This is to make sure that your forecasts are on track, so that you can use them to continue to predict sales and make decisions based on them. If your sales forecasts are inaccurate, it's time to review how you predict sales and costs so they're more realistic.

Check costs are within budget

Keep an eye on fixed costs to make sure that they're not going over budget. Review your overheads – rent, utilities, internet, etc. – and if they're more than you expect, look at ways to reduce.

Match or exceed industry gross margins

Every industry tends to have standard margins. If you're below industry norms, it's time to look at ways you can increase your margins. Increasing price, targeting less price sensitive customers, widening your product range to cover better margin product will all help.

Increase sales

A straight sales increase should improve profit, if there is no discounting. To improve your sales, it's not only looking for new markets and distribution channels, but also:

- › Forming strategic alliances with complementary businesses or a joint venture to tackle work you don't have the resources for on your own.
- › Actively selling by identifying those customers in your database who are inactive, or have bought recently and it's time for a renewal or reminder.
- › Spending time on getting existing customers to come back with targeted offers.
- › Adding value by providing a premium product or service.
- › Extending your product range or work to ensure it stays ahead of your competition.
- › Focusing your efforts on your most profitable customers, such as those who place large or frequent orders, pay their bills on time and are low maintenance.

Stay focused on profitability

Focusing staff awareness on profitability can have a dramatic impact. Share with them which products and services make the most money or have the best margins, so they know what to sell the most. Rank the top ten of what generates you the most profit and then triple check it's these that are promoted or have most of your marketing funds or time.

Use the rule of 80/20

The 80/20 rule outlines that 80% of your profits comes from 20% of your goods or services. Make sure they are the high margin products.

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Manage your customer cycle

Review your overall product and service mix and manage them based on where they are in your business lifecycle, for example products or services with:

- › High percentage of sales and high profit margins should be the key focus. Promote these, make sure you can deliver, guard against the competition and monitor any KPI's (Key Performance Indicators) set up to inform you when sales could be slipping.
- › High percentage of sales but low profit margins are problematic. You're busy, but not making much profit. Here, look at a price increase or examine how you can cut costs to increase your profit margin per product.
- › Low percentage of sales but high profit margins have potential but are not getting the attention they deserve. Maybe it's time to dust off these items and promote them.
- › Low percentage of sales and low profit margins should be your bottom priority. So much so, that maybe it's time to let these items go and delete them from your product or service mix.

Notes
