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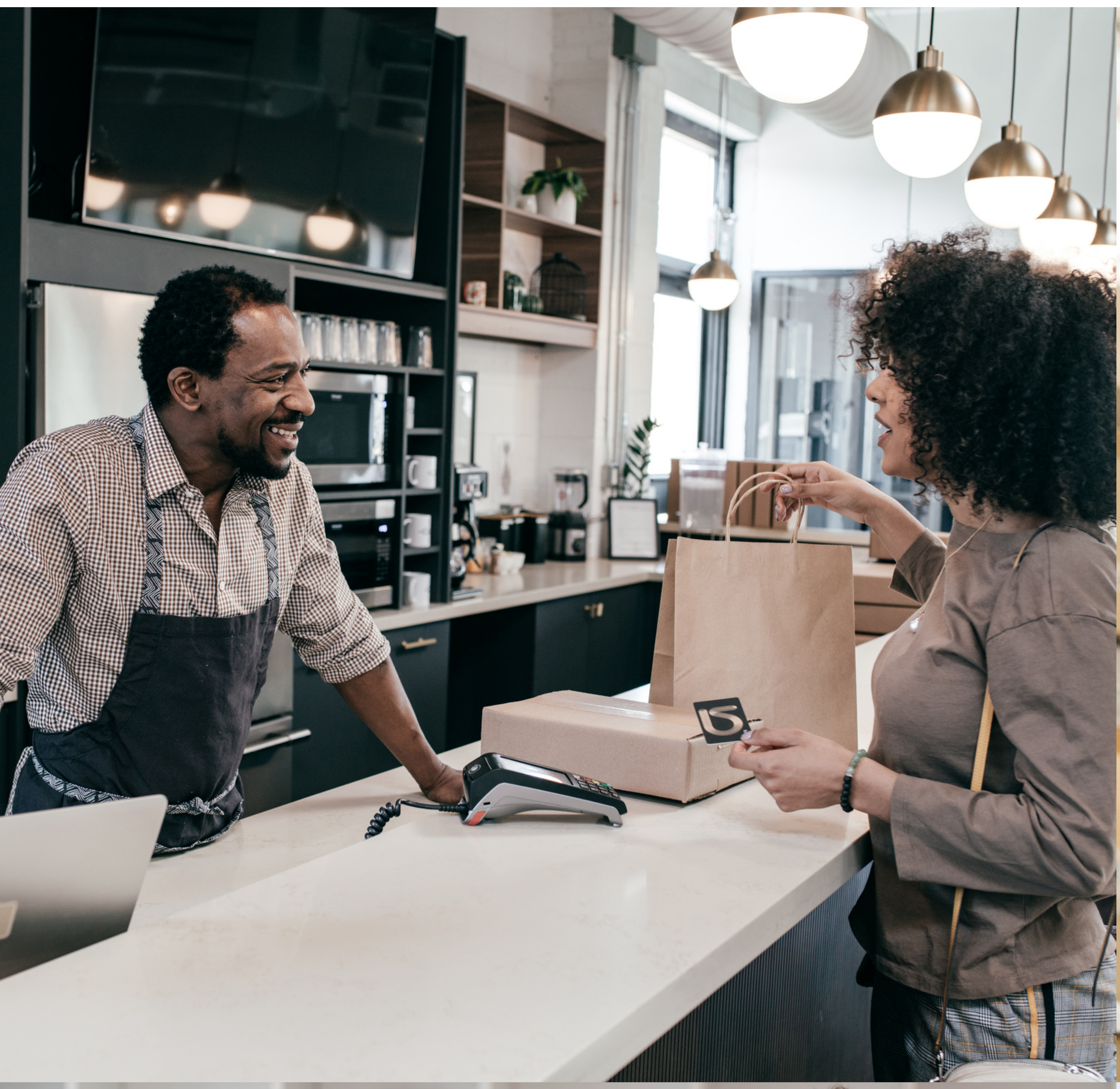

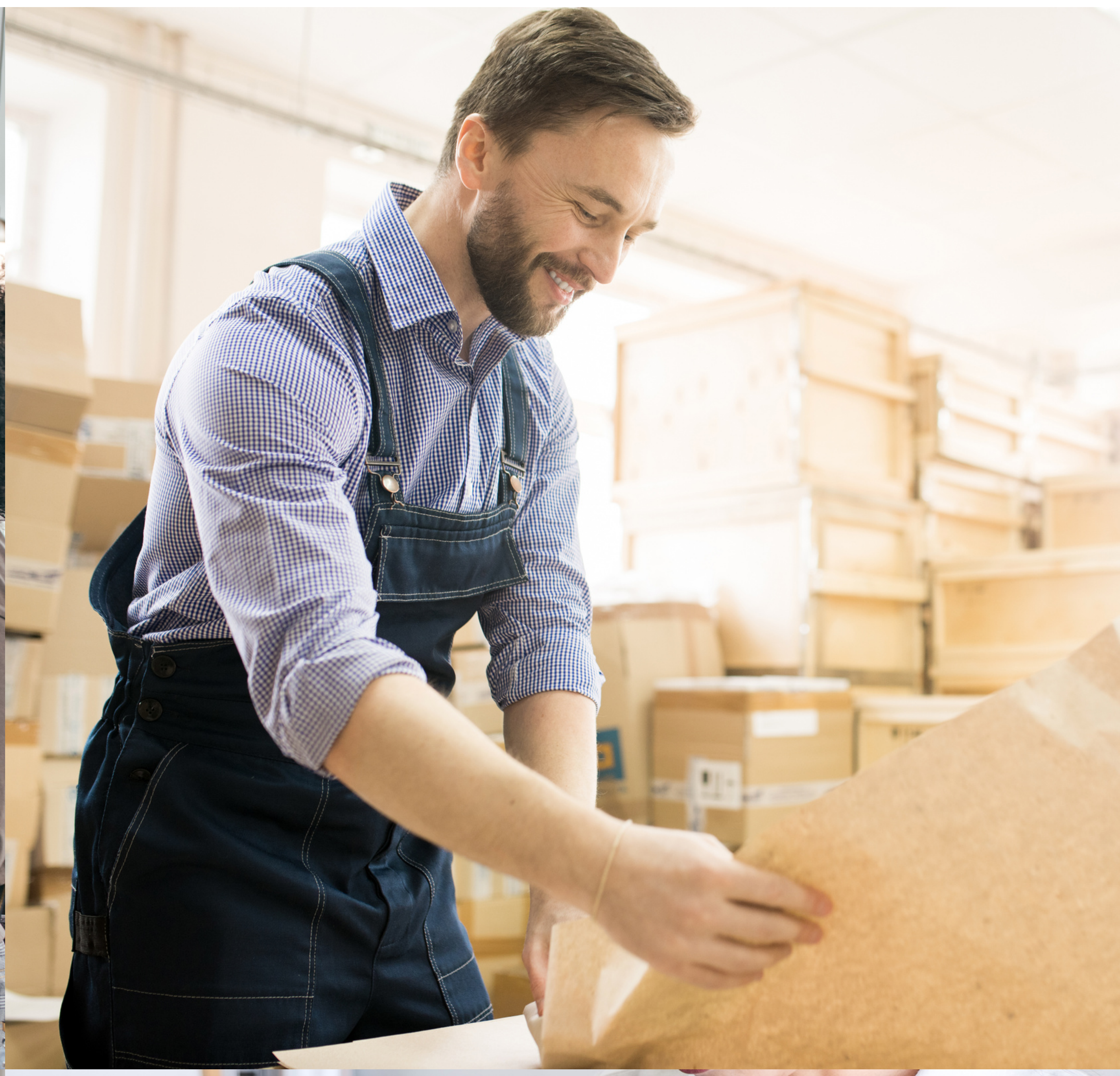

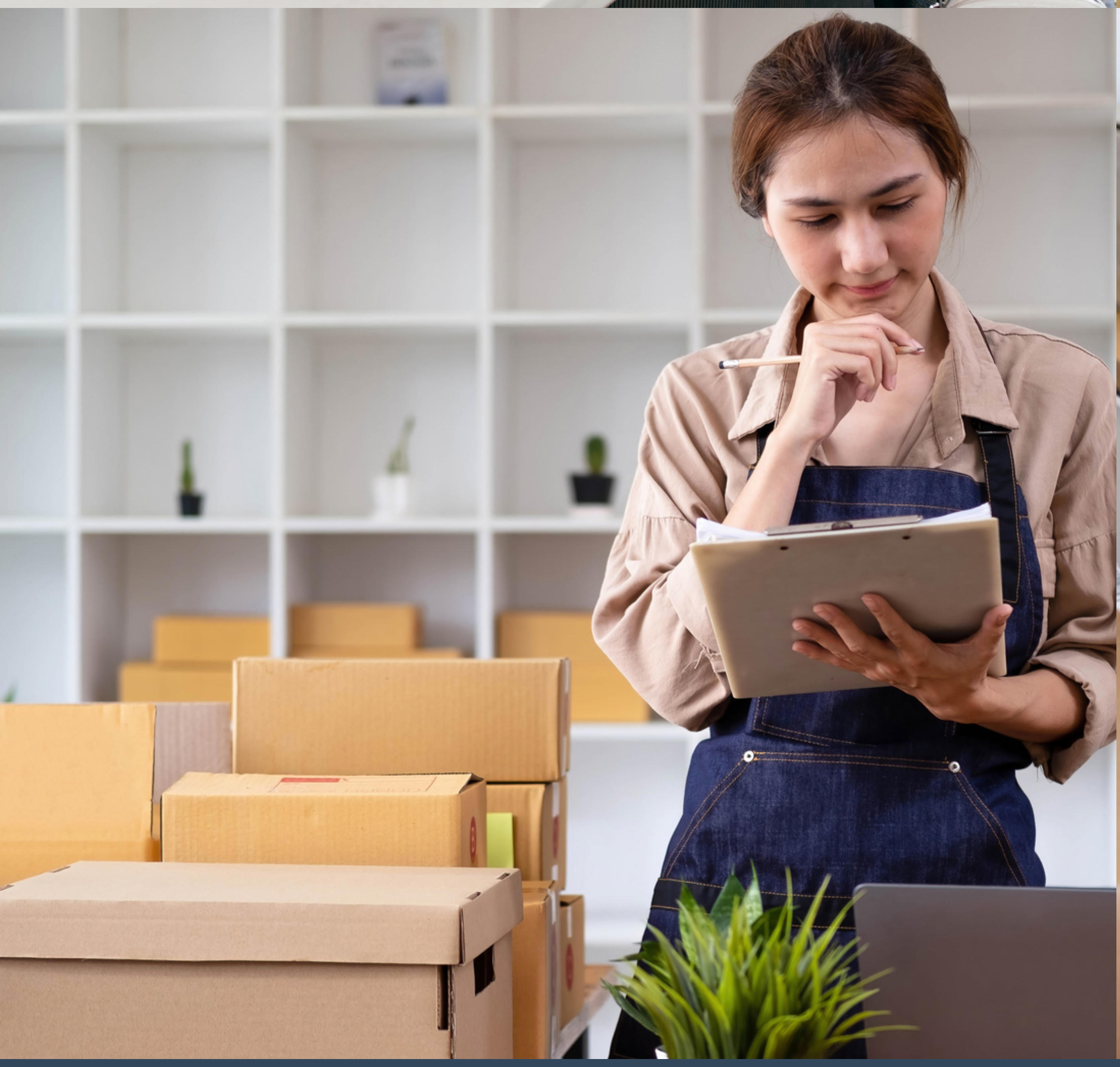

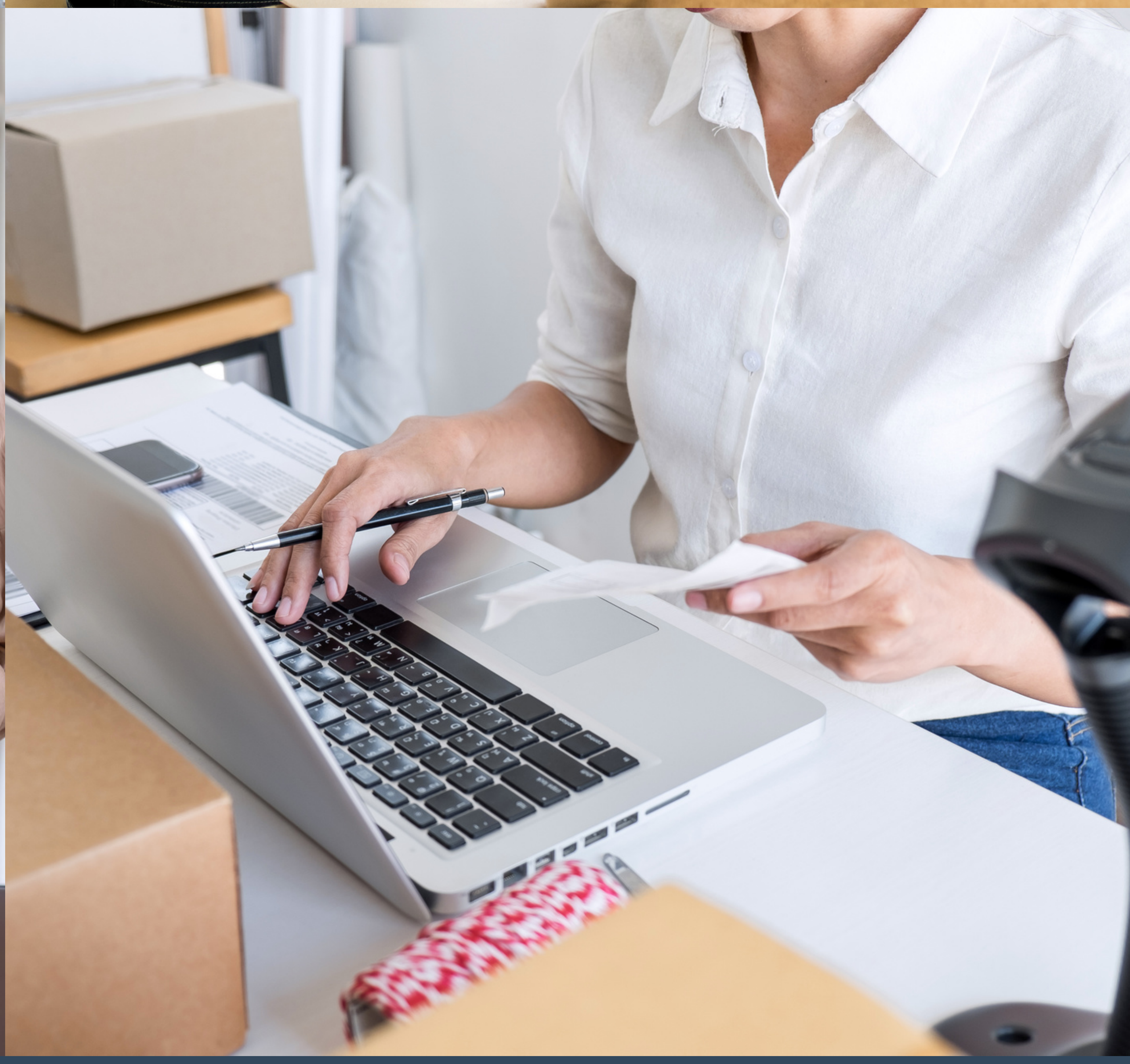

10 Ways To Increase The Profitability Of Your Business

A Guide For Small Business Owners And Directors

By Secantor Business Services

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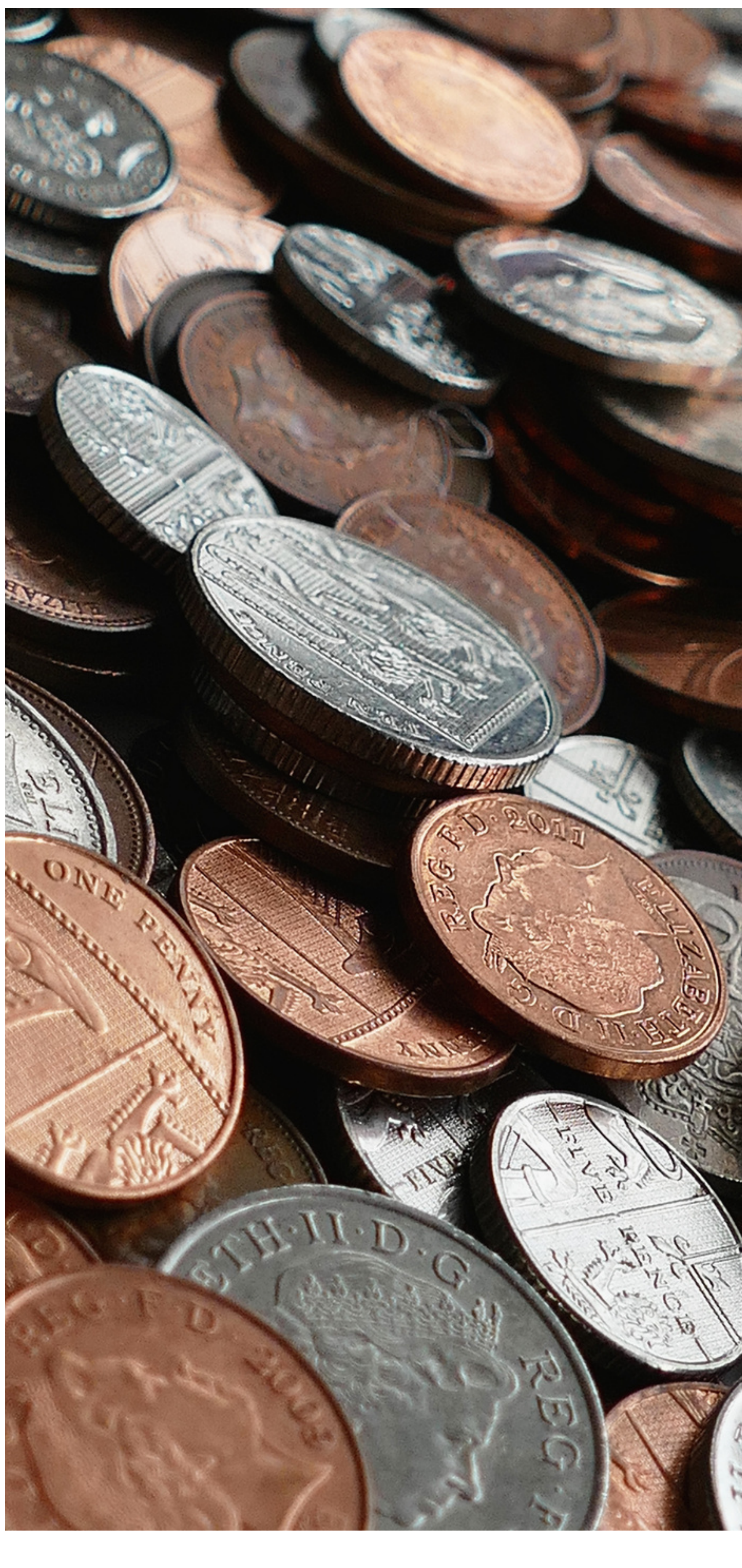
Introduction

The ability to generate profits is central to the success of any business. Healthy profits enable business leaders to grow their company, build value and financial stability, reward shareholders and ultimately achieve a better price when exiting. In this guide, we explore **10 effective ways** to improve the profitability of a business.

To find out about Secantor and our range of business support services, please get in touch today.

1) Create A Budget

Effective financial planning is the starting point for improving profit. The budget sets out financial targets which you can compare your actual performance against each month to ensure you achieve the profits you're aiming for. If you fall short, it provides the perfect tool to analyse why and take action to get back on track.



Setting a budget is the cornerstone of financial management, as it enables you to critically question margins and costs, with a view to accurately predicting your future profit, balance sheet value, and cash position. Your budget should be based on your business plan so it represents the financial outcomes of your strategic goals and objectives. It's a good idea to create more than one version to demonstrate the financial consequences of different trading scenarios and the potential impact of failing to achieve your plan. Your financial forecast should be broken down into monthly targets, taking into account any expected seasonal fluctuations. Once completed don't just put your budget on the shelf. Compare your actual performance against it each month, so any shortfalls can be quickly identified and addressed. By aligning your financial planning strategy to your business plan and goals, you can achieve higher profit margins, eradicate unnecessary costs, and improve your credibility when looking to raise funding.

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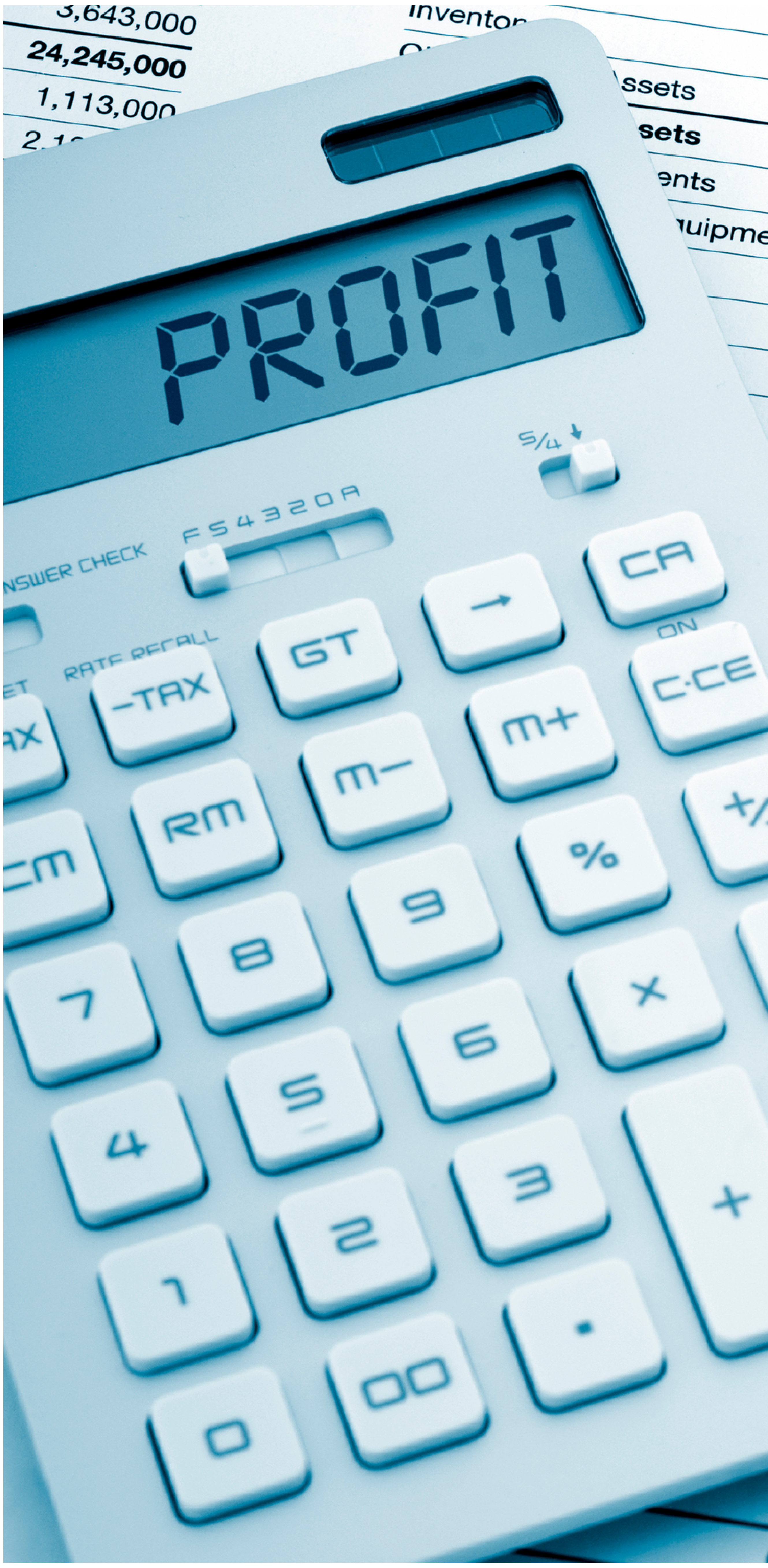
2) Understand Where You Make Profit

All business leaders need to understand their Gross Profit (GP) margin. GP is the profit you make on your sales after deducting the cost of sales. These are the costs associated with producing goods or services and are often referred to as direct costs. They include materials, direct labour, shipping costs, and transport costs. Gross profit margin is expressed as a percentage as well as in monetary value, making it easier to compare relative profitability across products and services.

Understanding where you make gross profit – and losses – is vital to identify areas of stronger and weaker margin. You should analyse your overall business gross margin, but also segment by product/service, customer, region, sector/industry, and any other area that is relevant to your business.

The findings of this exercise are very powerful as they enable you to make informed decisions and pursue actions that improve your profitability. This includes targeting sales efforts and investment into more profitable areas whilst improving weaker margins. It might even be necessary to cull unprofitable areas of the business, for example ceasing to serve certain customers or marketplaces so your resources can be focused towards more profitable areas.

Continue to monitor your GP margin every month to ensure you achieve your targets.



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3) Create Differential Advantage

If your products or services are similar to those offered by other businesses you need to create a reason for customers to select your brand. To engage with new customers, you must demonstrate what the incentive is for them; a distinct product or service benefit over the competition will increases sales volume and gain you valuable market share because customers see your offering as superior.

Higher customer numbers aren't the only benefit of creating a differential advantage. It causes customers to be less price sensitive meaning you can charge higher prices and thereby increase your profits.

There are numerous ways to create differential advantage, some of which relate to the product or service itself, and others to the customer experience. For example, you can promote the quality or reliability of the product or service; the knowledge, friendliness, or responsiveness of your staff; the availability of a product in high demand; or product personalisation options to give your customers greater control and ownership of their purchasing decisions.

The aim is to make price the least important factor so, the greater the differential advantage, the more opportunity you will have to increase your prices.

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4) Increasing Sales Price

Increasing prices to widen the margin between sales and direct costs is an obvious route to increasing profit. However it is not without risk.

Increasing prices too much could lead to a drop in sales quantity and potentially reduce your overall profit. Your business is unlikely to be the only provider available to customers so if the price is unattractive they may reduce the amount they buy from you, or shop elsewhere. The extent to which this happens will depend on how sensitive your customers are to a change in price and is linked to differential advantage (see 3 above). You'll need to carefully consider the value that your customers place on your product and the alternative options they have when deciding how much to increase prices.

In inflationary times, it is imperative that you act quickly to at least recover your supplier cost price increases to ensure you do not erode your GP margins but also take advantage of the opportunity to gain margin.

When setting prices, it is important not to confuse **mark-up** and **margin**.

- **Mark-up:** the amount added to the cost price to achieve the sale price.
- **Margin:** the difference between the sale price and direct cost required to produce it.

Whilst they are the same in monetary value, when expressed as a percentage they are different. This is because mark-up is expressed as a percentage of the **cost** whereas margin is expressed as a percentage of the **sale price.**

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Mark-up Is Not The Same As Margin

To achieve a given margin percentage, the percentage you mark-up by will need to be greater. For example, to achieve a gross profit margin of 40%, you must mark-up by 67% as shown below:

Cost price: £100

Sale price: £167
Difference: £67

Margin % calculation
67 ÷ 167 = 40%

Mark-up % calculation
67 ÷ 100 = 67%

Many business owners confuse mark-up and margin assuming they are the same thing. This misconception leads them to achieve lower profits because, expecting a 40% margin, they mark-up by 40%. In fact 40% is only a 28.6% margin. Avoiding this common mistake will improve the profitability of your business.

Remember when quoting to include all direct costs. As well as the more obvious items such as materials & labour, be sure to include other associated direct costs like packaging, postage, shipping, and others specific to your trade e.g. design, site surveys, client consultation etc.

When considering increasing sales prices, ask yourself if you are under-pricing or can justify an increased price. Differentiating your offer (see 3 above) will create additional value for which customers are willing to pay. If customers are persuaded about the benefits of the differential advantage, price will be less of a game-changer.

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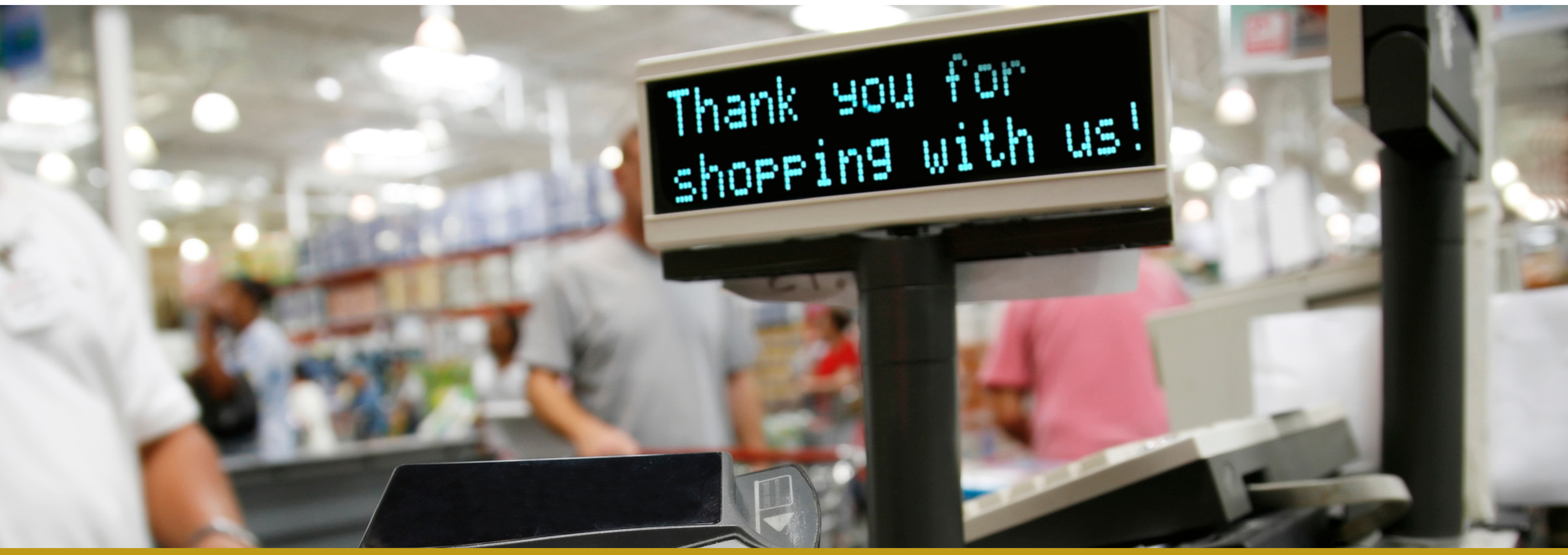
5) Maximise Sales

Successful businesses often achieve ‘economies of scale’: as they expand, they benefit from cost advantages due to increased production. For each additional pound earned through sales, profitability increases, as overheads don’t rise to the same extent.

This means you should maximise every sales opportunity, both to new and existing customers. You should always be looking for new customers to increase sales and de-risk your business by spreading your income over an ever increasing number of customers. But finding new customers is inherently more costly and time consuming than increasing trade with existing clients. You should focus on strengthening relationships with existing customers to increase sales and build long-lasting trading partners. Effective strategies for maximising sales with existing customers include cross-selling and upselling, both of which increase loyalty and commitment, as well as increasing spend.

Cross-selling and **upselling** opportunities can be identified by monitoring patterns in sales behaviour across your entire customer base and using this information to target sales opportunities with each client on an individual basis. You can track your success at this by monitoring average order value and total spend by customer. Finally, keep close to your customers’ thinking and needs to ensure you do not risk losing them to competitors.

Increasing sales not only helps you to achieve increased net profits through greater economies of sales, but combined with targeted improvements to margin also delivers a greater level of gross profit too.



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6) Control Costs

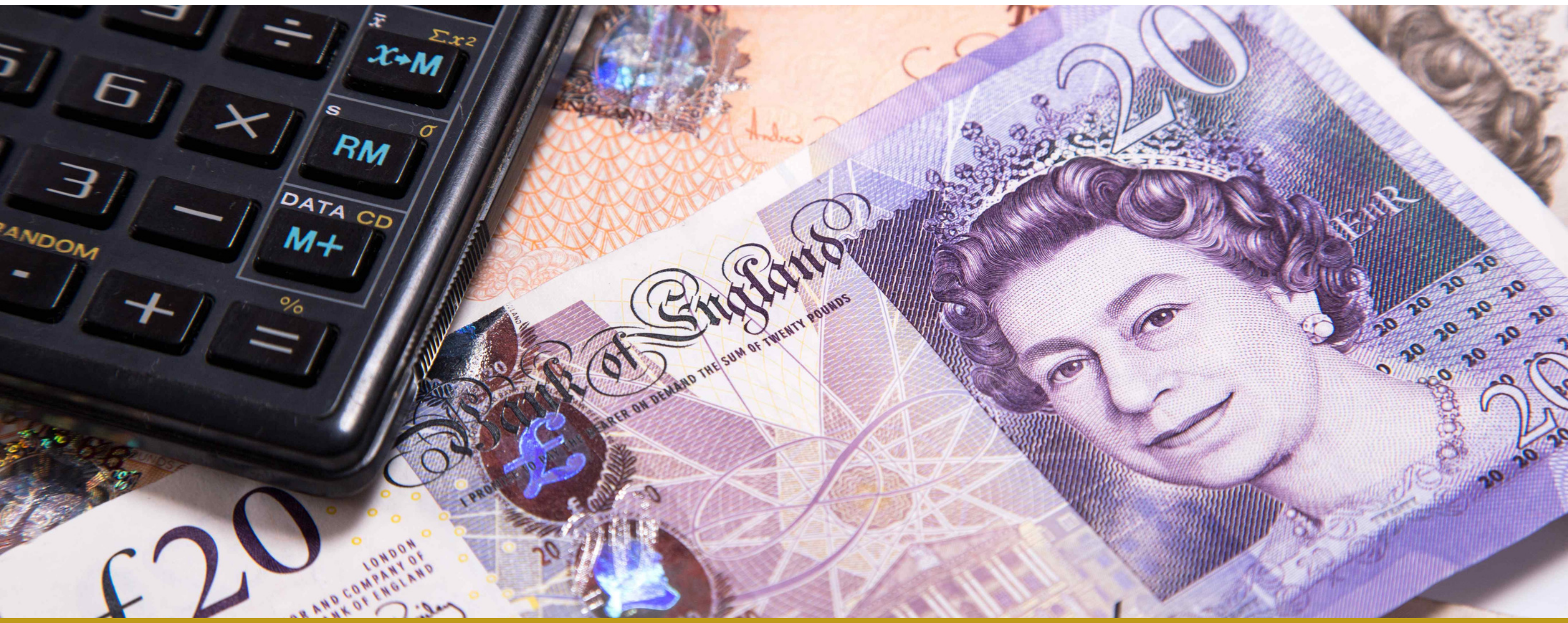
Keeping a tight control of your costs is essential to profit improvement. All costs should be examined regularly to ensure that money is not being wasted; many businesses pay for resources, services, and software subscriptions that are out-of-date, redundant or unnecessary; a targeted cost examination exercise will quickly expose these so that they can be assessed for their value to the business.

1. Direct costs can be controlled both absolutely and through improved efficiency, for example by:

- ✔ Renegotiating contracts with suppliers.
- ✔ Purchasing in larger, more cost-effective volumes.
- ✔ Changing suppliers to achieve preferential terms.
- ✔ Changing to a more cost-effective product or service.
- ✔ Reducing waste.
- ✔ Improving productivity.
- ✔ Optimising operational planning.

2. Overhead costs can be controlled by close examination and questioning. List your outgoings and scrutinise them, considering carefully whether each is necessary or beneficial. As sales grow, check that your overheads aren't soaring, so you can benefit from greater economies of scale.

For every £1 you cut that does not reduce sales you have increased your net profit by £1.



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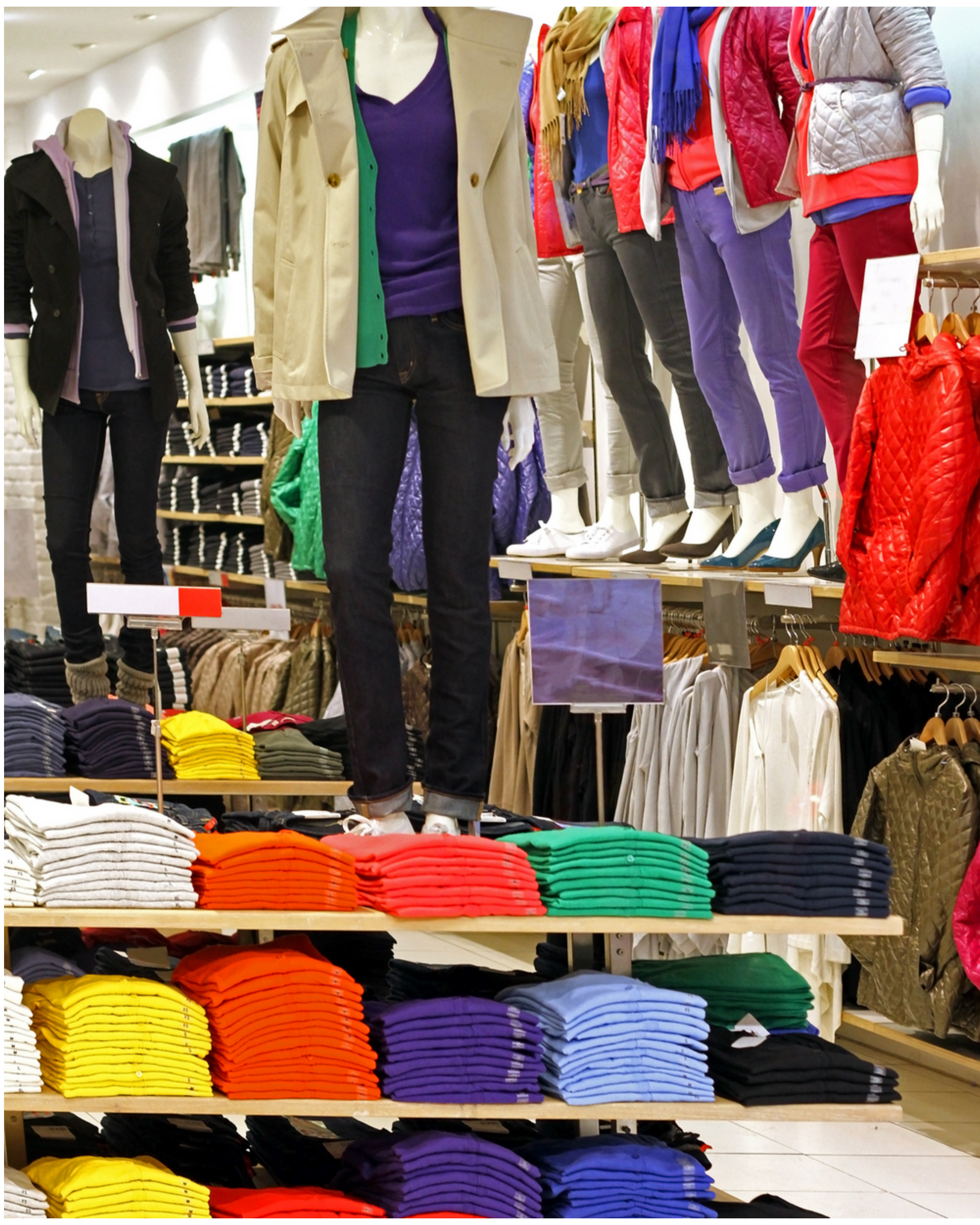
7) Optimise Stock Levels

Many businesses hold too much stock without fully considering the impact this is having on their profits. Slow-moving stock ties up cash that could otherwise be used to purchase products that sell more quickly, generating profit.

Maintaining stock is a fine balance. Running out of stock also decreases your profit by limiting sales, forcing customers to go to your rivals instead. Being aware of your suppliers' lead times will ensure the fluid movement of stock through the supply chain, so you aren't caught out by a shortfall of in-demand products. Ensure that you have clearly defined replenishment order levels that trigger appropriate action.

When stock becomes redundant, for example, because of changes in fashion, seasonal demand, or out-of-date technology, it's important to liquidate early so you don't get stuck with slow-moving stock. Use the cash generated to purchase products that move quickly and can be sold, replenished, and sold again repeatedly, thus maximising profit.

To optimise your inventory and reduce stock levels, consider these strategies:



Monitor stock turn:

Regularly analyse slow-moving stock and take action to liquidate. Identify fast-moving stock that sells out and consider larger or more regular orders to ensure sales are not lost due to lack of availability.

Stock rotation:

For time-limited or perishable items, organise inventory to reduce the risk of stock loss when these products are no longer saleable. Products with imminent sell-by-dates should be prioritised.

Clean obsolete stock:

Identify obsolete or slow-moving stock and explore ways to optimise inventory by returning stock to suppliers, introducing promotions, cancelling existing purchase orders, and donating or destroying stock which cannot be sold to free up space for faster-moving items.

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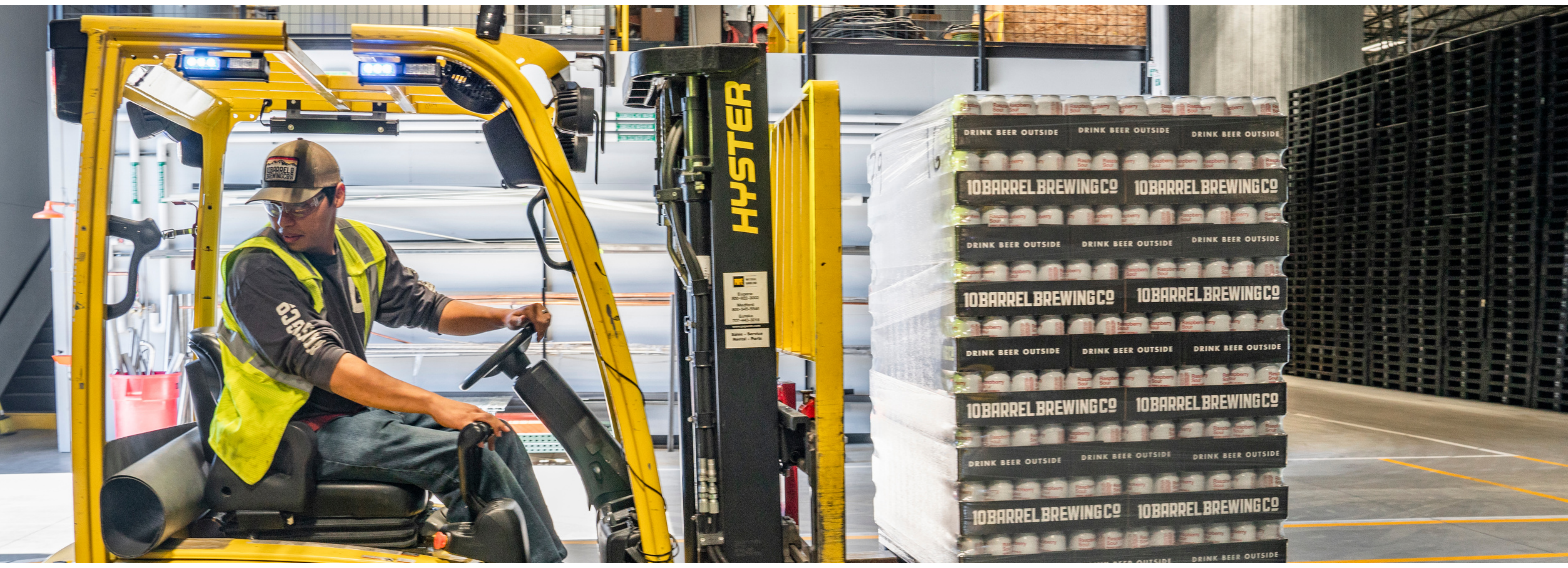
8) Monitor and Control Purchasing

To improve stock management and purchasing behaviours you'll need an effective performance monitoring and reporting strategy. Real-time stock alerts are invaluable in improving stock control, by automatically triggering the purchase of new stock when levels reach a pre-determined volume. This ensures that popular items are always available, avoiding the problem of stock outs.

Explore strategies to improve your planning and forecasting to optimise the volumes of each stock item to avoid overstocks and understocks. It can be useful to develop partnership relationships with your suppliers to obtain greater security of supply in the medium-term; by sharing your expected purchase quantities, you can take advantage of price breaks to achieve the most favourable terms. By suppressing prices and reducing shortages, you can significantly improve profit margins.



9) Motivate And Develop Your Staff

An excellent, high-performing staff team is one of your most valuable assets. However, for most businesses they are also one of the biggest costs. Maximising productivity and retaining talent are crucial to ensuring your team deliver the highest level of profit and you reduce costs associated with high staff turnover.

Increased productivity improves output relative to cost so improves your profit. It is achieved through a combination of strong **leadership** which engages and motivates staff, **investment in skills**, and various rewards and **incentives.**

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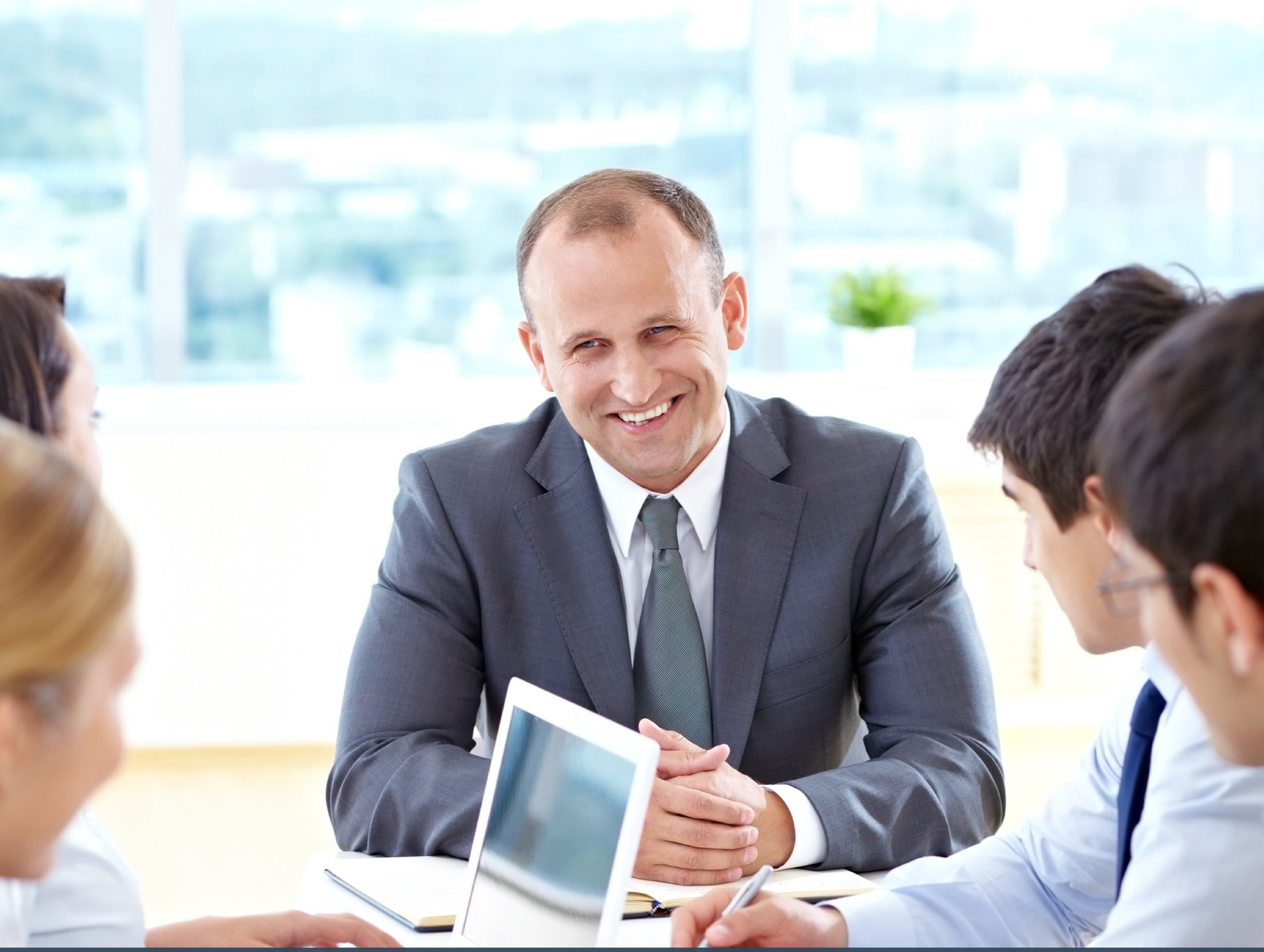

Leadership

Recognising that it isn't possible for a business owner to carry out all the tasks involved in operating and growing the business, the first task of leadership is effective delegation. Successful delegation is a delicate balance that requires careful planning, capable employees, clear goals, and systems of accountability – and above all, mutual trust and respect. This trust doesn't develop overnight. It starts with the business owner and his or her managers establishing a clear direction for their employees. This should be communicated using realistic and clearly defined roles and responsibilities supported by a framework of performance reviews and two-way dialogue in which you share your plans and progress with your team and celebrate success. This framework allows you to identify and develop your talent into a strong team through on-the-job mentoring, identifying and addressing training needs and investing in upskilling your employees (see below). It also takes self-confidence on the part of the business owner to be able to step back and allow the team the space to grow and take ownership of their roles for themselves. You will likely be surprised by the hidden talents within your team.

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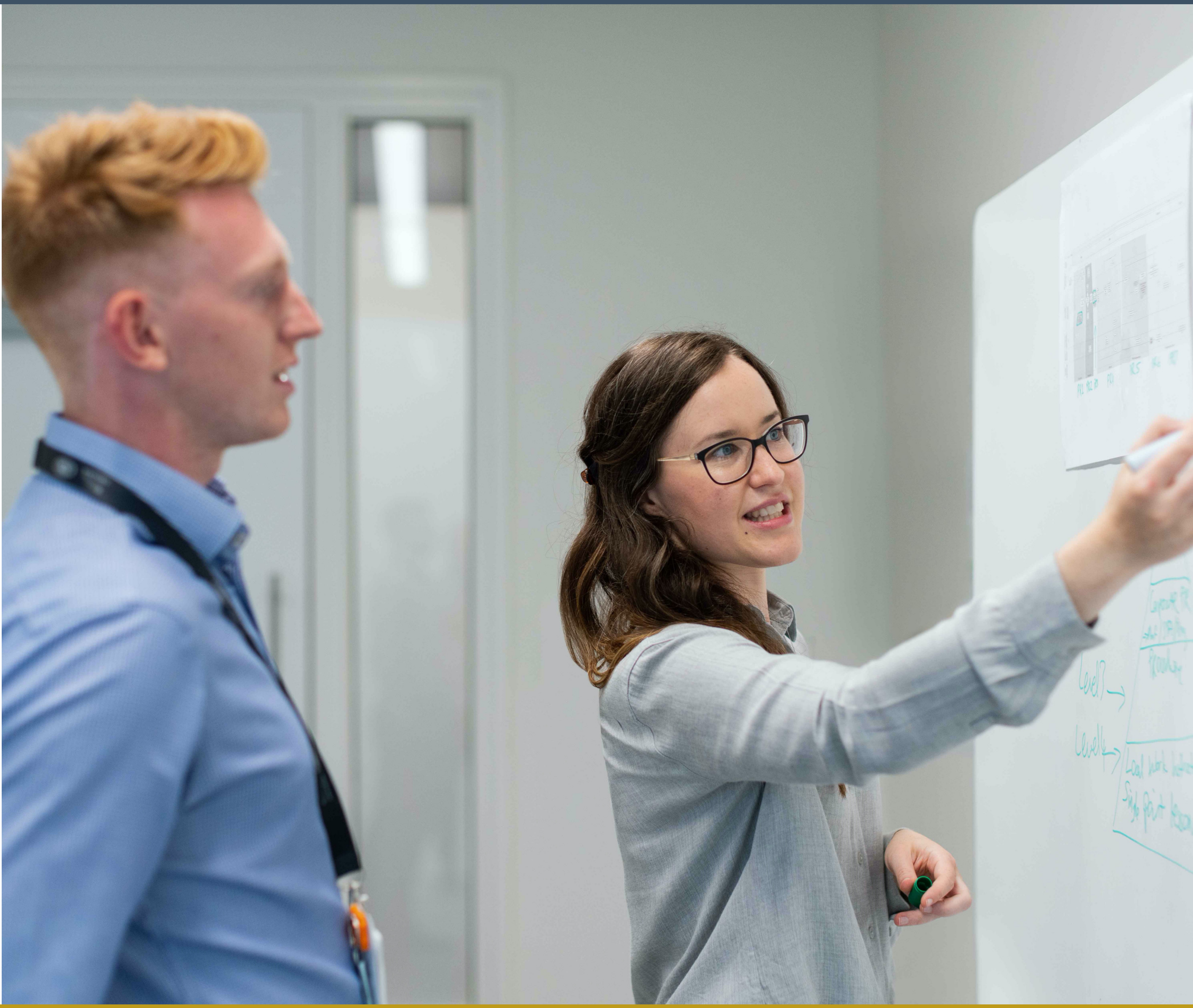
Investment in Skills

Whilst welcoming new people onto your team can open up fresh perspectives and ideas, it is more cost-effective to invest in developing your current employees into the managers, leaders, and specialists you need to drive the business forward long-term. Identify staff members with the potential to create more value for the business who are well-respected by their colleagues, and demonstrate motivation and commitment to their role – and invest in upskilling them into specialist and management positions. This is a more certain and immediate strategy than recruiting for every new requirement, and can cement the loyalty of promising and ambitious employees so that they stay with your company for many years.



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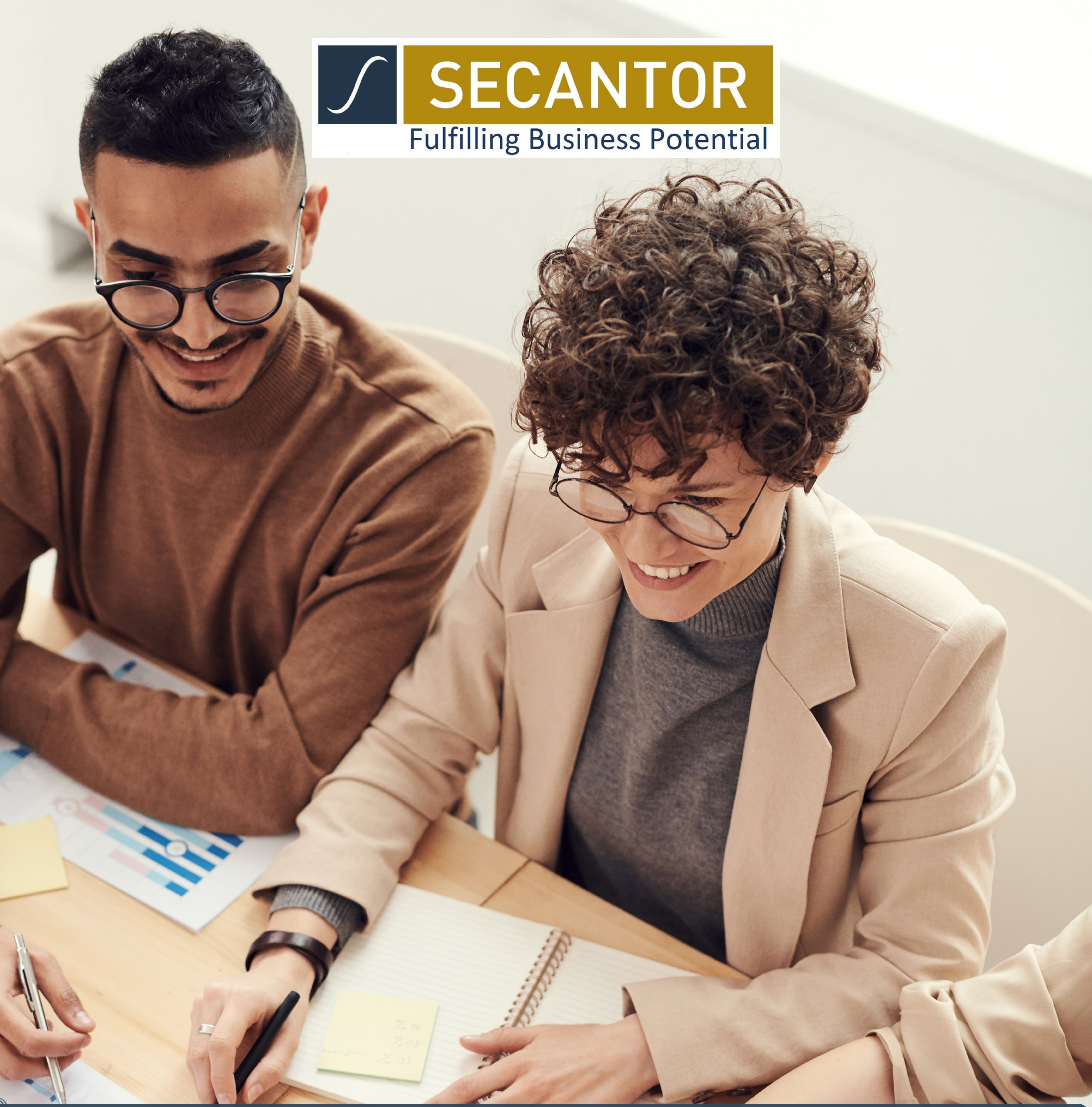

Incentives

It costs a lot to retain and develop skilled employees, but one of the keys to greater profitability for businesses is to spend more on ensuring that each employee has access to fair remuneration, training, career progression opportunities, and incentives appropriate to his or her role. Failing to do so risks losing talented employees, and giving you the headache and additional cost of finding a replacement. A well rewarded employee will put in more effort and commitment into their role, improving output and productivity. Set up a development and training plan for each member of your team and invest in their success in your business, finding out what motivates them, and recognising success in ways that strengthen loyalty and retention. Salary is only part of a happy workforce.

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10) Find a Business Friend

Being a business owner can be a lonely experience. Employees – even senior colleagues – are unlikely to challenge your decisions openly or highlight areas for improvement in the business, and it is often difficult to find someone to share your ideas and plans with. The way out of this situation is to find a *business friend* by inviting an experienced Non-Executive Director (NED) to join your team.

He or she will be a critical friend for your business and can help improve profitability through expert advice and an impartial, external view of your business.

Your business friend should be chosen for his or her wide commercial experience of managing small businesses, and not necessarily for their technical expertise or direct experience in your industry – this is something that you already have. By bringing fresh ideas and experience to the table and challenging you and your team to set and achieve ambitious targets for the business, your business friend will ensure that you don't get stuck in a bubble mentality, or become mired in details at the expense of strategy. An experienced NED will help you to focus on each of the areas in this guide ensuring you maximise profits.

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Benefits of working with an NED or FD:

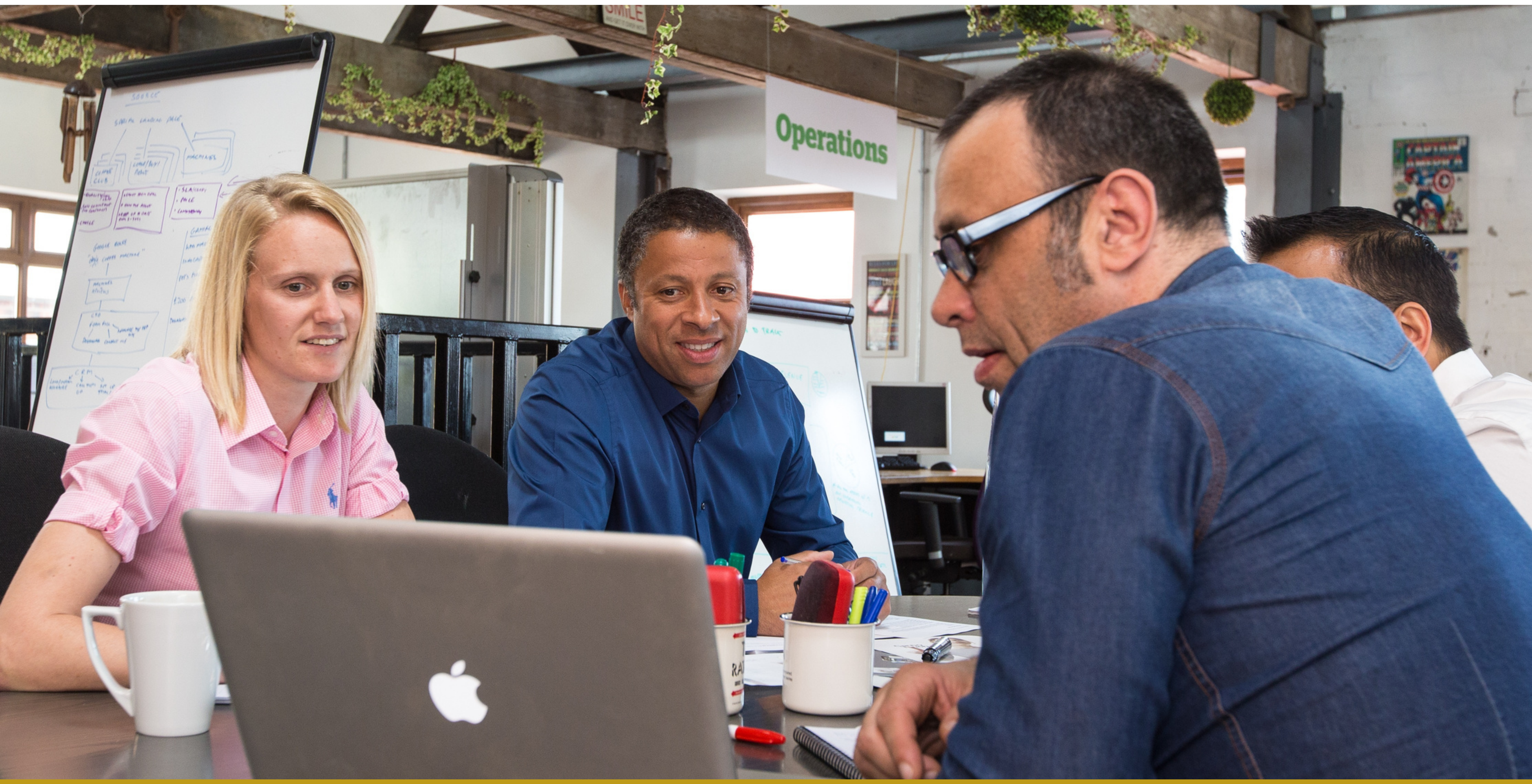
✔ Acts as a sounding board for your ideas.
✔ Provides an independent and impartial view on your strategy.
✔ Brings specialist and complementary skills to enhance the team.
✔ Contributes fresh ideas, methods, advice, and experience to help you grow your business.
✔ Helps you evaluate your options and make the best decisions.
✔ Asks tough questions and holds you to account in delivering your plans.
✔ Acts as a diplomat where there is tension or disagreement among directors.
✔ Introduces you to a network of expert professionals.

If any of these ideas resonate with you please allow us to discuss the practical details of how to implement into your business.

Book Your Free Business Review With Secantor Today

At Secantor, our experienced business consultants can help you to identify and implement effective ways of improving profitability and building value in your business.

To book a free **business review** with our team, please contact us today for your free consultation with our expert.



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