

How to increase your profit

In business, your profits are your reward for your endeavours. In fact, profitability is the only reliable measurement of a business' success. Profits are the very lifeblood of a business. They fuel growth, support the owners, provide for the well-being of the staff, and ultimately determine the success or failure of the business. So how can you increase your profits?

Gross profit

The objective is either to expand sales income while controlling direct costs, or reduce direct costs to increase gross profit.

You should ensure that:

- You know your market and your competitors
- Your product knowledge is complete and you are technically able in all aspects of the business
- Your service is of high quality, delivered on time and according to specification
- You take advantage of cost-effective means to increase sales - consider recommendations, promotions, leaflets, press releases, and adverts

Warning - Be wary of dropping prices to boost sales. The increased volume may not be sufficient to cover the reduced gross profit margin

- Your direct costs are kept to an absolute minimum. Most businesses should aim to reduce direct costs by at least 5% every year. Look carefully at material and labour costs, as well as production methods. Be flexible and innovative in seeking more cost-effective solutions

Warning - Before changing your supplier, consider the level of service you are receiving as well as the cost

- If you charge a rate for a job it is important to ensure that you use your working time effectively. On average, a self-employed trader should endeavour to charge for 35 hours per week, and receive not less than £450 for that time. Keep a timesheet so you can monitor and adjust your use of time

Overheads

You should aim to keep costs under your control:

- Expenses - Keep your business expenses to an absolute minimum, and ensure that any additional overheads you assume result in increased profitability/efficiency
- Increasing your overheads - Are you satisfied that for all new overheads you have reviewed the market to establish where to place your orders? Reliability and backup service are important factors to take into account. The cheapest may not be the best for your business
- Where assets are acquired on finance - Be sure to obtain quotations for your finance from your suppliers, your bank, and a finance company. Check with us to see if your finance costs could be reduced
- Reviews - Many businesses could benefit from a regular review of their telephone and insurance costs. Even bank charges can often be reduced
- Credit - Control your credit account customers closely to avoid bad debts

Summary

You must be aware of your income and expenditure. Proper books and records are essential for monitoring the trends and patterns in your business.

It is not necessary to produce a full profit and loss account every month, rather select the key factors that will best help you understand how you are doing, e.g. chargeable hours, sales volume, wastage, and materials used. Compare these figures with previous months, and with your targets.

Do call us if you would like further help or advice on this subject.

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