

# Maximising the Profit in Your Business

Profit is a reliable measurement of a business' success. Profits are the very lifeblood of a business. They fuel growth, support the owners, provide for the wellbeing of the staff and ultimately determine the success or failure of the business. So how can you maximise your profits?

## **Gross profit**

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

You must 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 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 a supplier, consider the level of service you are currently receiving as well as the cost.**

We have a fantastic tool, "Business Analyst", that can help to show you gross profit strategies such as the effect of:

- Reducing expenses
- Increasing the number of items you sell
- Increasing prices
- How much you can increase / decrease sales prices to achieve a certain profit



CHARTERED ACCOUNTANTS

————— *The Right Balance* —————

Another strategy we consider:

You should also 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
- We also consider the ways of minimising your tax burden e.g.:
- Dividend vs salary vs bonus
- Getting the timing of receipts and payments
- Admitting a partner / spouse into your business
- Pension and investment planning
- Company car vs loans
- A number of other strategies!

**In 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 to 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.

Please call us for a profit improvement day on your business

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