



8. 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. We are certified in the Profit First methodology and have direct hands-on experience increasing the profits for multiple businesses. What this means is we have the strategies to make your business more profitable than it has ever been before. And we are ready to do it for you starting now. **So how can you maximise your profits?**

Profit First

The GAAP (Generally Accepted Accounting Principles) formula for determining a business's profit is $\text{Sales} - \text{Expenses} = \text{Profit}$. It is simple, logical and clear. The formula, while logically accurate, does not however account for human behaviour. In the GAAP formula profit is a left over, a final consideration, something that is hopefully a nice surprise at the end of the year. Alas, the profit is rarely there and the business continues in being a cash-eating machine.

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With Profit First you to flip the formula to $\text{Sales} - \text{Profit} = \text{Expenses}$. Logically the maths is the same, but from the standpoint of the entrepreneur's behaviour it is radically different. With Profit First, you take a predetermined percentage of profit from every sale first, and only the remainder is available for expenses.

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, “**Cashflow Story**”, 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

Another strategy we consider:

You should also keep costs under your control:

- **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 assessment on your business.