

SMALL BUSINESS FINANCE MADE EASY: How can I improve my profit?

This article is fifth in a series called 'Small Business Finance Made Easy' by Sophie Paine. Future issues will cover things you can learn from your balance sheet, and ways to use internal controls to improve business profit.

The business environment has become gloomier than ever in a few short months. Increasing or even maintaining profit it is becoming ever more crucial. We will examine two important tools you can use to crisis-proof your business.

Your first tool is your income statement (or Profit and Loss statement – it is the same thing; accountants like calling the same thing different names!). You should focus on three areas: sales, margins and expenses.

Sales are a combination of volume and prices. Ask yourself the following questions and brainstorm the answers step-by-step:

- ◆ How can you push your business volume up (for example, the number of hours of consulting that you sell or the units of products you trade)?
- ◆ How can you make your existing customers buy more?
- ◆ How can you attract new customers, and what is the cost of generating new sales? This is the right moment to check if your marketing is appropriate and efficient.
- ◆ Do you reach all your potential customers?
- ◆ Do your products or services deliver as promised? Do your customers understand clearly what they can get from your services or products?
- ◆ Are your prices consistent with your product image?

The second area to focus on is your margin. In other words, is your business activity making money? Examine the costs and incomes directly linked to your activity. For product-based businesses, margins are usually the difference between the sales and the costs to make and sell products. For retail shops, it is the difference between the sales and the cost at which you buy products plus distribution costs. Services are slightly trickier – the margin is the difference between your sales and any expense you incur to generate these sales, probably mainly your time. Don't know which service or product makes more money? It is never too late to gather numbers from your accounting and analyse them. If you sell several products or services, push the ones that make more money. You may want to get rid of loss-making products, unless they help support your structure costs. Check how you could improve your margin, either by reducing costs (new suppliers or higher productivity) or by increasing the selling price. Do all these numbers put you off? Focus on your main two or three products and get a rough idea of how many dollars you gain from them – having a clear vision of 80% of your business is better than nothing!

Your third area of focus is your structure expenses (office, utilities or administration). Go through each expense and examine (1) alternatives and (2) the consequence of cutting the expense and the resulting impact on your business. Be imaginative. Some expenses may just be for your comfort. On the other hand, cutting subcontracting expenses can have a direct impact on your profit if you end up doing the work and spending less time meeting customers and generating sales. Organise your expenses into three categories: comforting non-essentials, essentials or business drivers.

Another crucial tool in your repertoire is forecasting, which will help you with critical decisions should the business environment suddenly worsen, or even change for the better. Picture different scenarios and ask yourself the following: what if your customers are reduced by 50%? 20%? What if they increase by 20%? How much would that impact your profit? What could you do to minimise the impact of lower sales on your profit? Try to assess risks and opportunities.

Don't be afraid of your numbers, and get your accountant to help you increase visibility and react as quickly as possible during these unstable economic times.

Next issue: What can I learn from my balance sheet?

Comments or questions? Email me at Sophie@aandbmake3.com

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