

Six steps to building profit*

Increasing profits is about making small improvements across your business to improve profitability, retain your best customers and build your business.

It's often accomplishing lots of little things better – rather than making one huge change. Try and improve each one of these six business tasks by 10%.

Step 1. Increase your sales

Yes, this is the most obvious. Most businesses will focus on increasing sales to improve their profit which, as long as it doesn't have any major expense increases, should work. Be aware of the usual tricks such as discounting or running large sales. It could improve short term revenue, but not overall profit. Carefully calculate the profit margin of your products or services to ensure you have them priced appropriately, whether they be full or sale prices. The price of your product or service should exceed both the fixed and variable expenses associated with the product to your business. Occasionally it is ok to have a loss leader, a product sold at a loss to attract customers, if it leads to sales of additional profitable products. You will only build profit if you increase the sales of products or services with a favorable profit margin or attract long-term customers.

Ideas to help you increase sales include:

- Look to add new markets and distribution channels to your sales strategy. Where else can you sell and how else can you get in front of potential customers?
- Review your digital strategy and try to make the best use of the internet through online sales or digital marketplaces.
- Seek to form strategic alliances with complementary businesses or joint ventures to tackle work you don't have the resources to handle on your own.
- Maximize the value of your sales by considering moving upmarket and providing a premium product or service. Add features if the perceived value to customers is greater than the cost to you.

- Keep your products or services up-to-date by extending your product range or work to ensure it stays ahead of your competition.
- Focus your sales efforts on your most profitable customers – the ones who place large or frequent orders, pay their bills on time and are low maintenance. Also, consider what these customers have in common and use that information to narrow your target marketing for potential new customers.

Step 2. Focus on your best customers

Divide your customers into four categories and allocate different effort and resources based on their value and the profit they generate. Customers that have:

- A high percentage of sales and high profit margins – nurture these customers as they are critical to your success.
- A high percentage of sales but low profit margins – if they don't contribute enough to your bottom line, consider even a small price increase or how you can cut expenses to increase your profit margins on these volume customers.
- A low percentage of sales but high profit margins – these customers have potential so focus on selling to more of them.
- A low percentage of sales and low profit margins – these are your worst performing customers so think about how to move them into another category or find operating efficiencies for doing business with them.

Use our SWOT Template to evaluate your current customers to see which are worth more time and effort.

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Step 3. Decrease your costs

An easy way to increase profitability is to reduce your expenses, as long as you're maintaining the quality of product and service. Identify the steps you can take to minimize your direct expenses such as:

- Negotiate lower prices with your regular suppliers (you will be surprised how many will agree to review their prices if asked). If this doesn't work, you can also research if any new, more affordable suppliers have entered the market and become options for you.
- Review internal processes and systems to minimize waste (both physical waste and the loss of time with any inefficiencies).
- Implement additional security to reduce the chance of theft.
- Make sure you get paid by putting systems in place to ensure that invoices are sent and paid promptly, reducing any finance costs.
- Review fixed business costs such as utilities (power, telephone and internet) and check if there are cheaper providers available.
- Check any on-going subscription services in case they're no longer being used or you're paying for more than you need.

Step 4. Focus staff on profitability

Helping staff understand profitability can have a dramatic impact if they are aware that small savings can benefit everyone. Develop incentives if they assist with:

- Reducing power costs by switching off equipment when not in use.
- Finding causes of waste and eliminating to increase overall profit margins.
- Referring new customers or making extra effort to keep existing customers happy.
- Identifying any way in their part of the business to lower costs, gain revenue or improve efficiency.

Step 5. Increase margins with small, frequent improvements

Instead of increasing prices every few years with a noticeable increase, consider more regular smaller increases each year. Your customers will have more respect for the way you operate your business if you implement minimal price increases when you need to – they may not even notice on products or services that are insensitive to price increases.

Focus on small increases in prices and minor cuts in your costs on regular occasions. You may be able to slowly increase your profit margins if you go about this in a smart way.

Use our Five ways to increase profit calculator to find out how small changes can make a big difference in your business.

Step 6. Aspire for constant improvement

A simple planning cycle greatly enhances your ability to make continuous improvements while growing your business. Thorough planning also helps you anticipate problems and adapt as your circumstances change. Aim to:

- Set measurable, time-limited targets to monitor how effectively your plans are implemented.
- Review what you've achieved so you can learn from your experiences and make continuous improvements.
- Keep improving your underlying systems and your planning process but be ready to alter your business and sales strategy if necessary.

If you can, focus on items with higher profit margins. Calculate your profit margin on each product in your range. Consider withdrawing products with a low or very low profit margin. Devote the extra shelf space (either physically or online space) to products and services with higher profit margins.

Begin by introducing limited quantities of new or alternative products with higher profit margins and monitor their sales. Incorporate those that are popular into your regular product range.

Similarly, if you offer services, identify the services that deliver the most profit to your business. Discontinue services that aren't very profitable – or add value to them and raise your prices.

Next steps

- Look for reasonable ways to cut costs in your business. Ask your accountant or business advisers for input – they'll be able to identify any expenses that look out of balance.
- Be ruthless when deleting products or services that are not contributing any profit to the business (unless there is a good reason, like a loss leader or necessary compulsory product to a high profit margin product).
- Develop your own plan of action that suits your business.
- Use our [location finder](#) to visit a Store, call us on 1-855-278-8988 or [schedule an appointment online](#).

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