Make your business more profitable

Essentials Guide

small business accounting

How to become more profitable

If you want to succeed in business, you need to remain as lean, efficient and profitable as possible. Controlling your costs in all areas of your business is essential.

If you fail to control your business costs, it may place unnecessary additional pressure on your cash flow. At best, this may affect your ability to run your business, it will be less profitable and your earnings won't be as high as they could be. At worst, if your business costs are allowed to spiral out of control or they stay the same but your sales dip, your business can quickly run out of cash. Soon your business could fail.

Reducing spending must remain a key priority for your business. There should be a valid business reason for everything you buy and you need to deal with suppliers who can offer you best value. It's not just a question of cheapest price, because quality and service are also key considerations when choosing suppliers.

Your prices will also determine how profitable your business is, of course. Setting optimum prices can enable you to increase your margins, while ensuring that customers won't be put off. You need to assess your prices regularly to ensure they remain optimum. Sometimes increases will be necessary, if you're to protect your margins. You may even be able to find ways to boost your sales so your business becomes much more profitable.

So, how might your business be able to become more profitable? Let's begin by addressing your costs.

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Reducing your business costs

Controlling your costs should be a priority for your business. You should regularly look at your costs to try to identify places where savings can be made. Having your costs detailed conveniently within a spreadsheet or (or alternatively) bookkeeping software will make the job much easier.

Try to understand where your costs are rising significantly. How much have they risen and why? Crucially, is any money being wasted? Could you get better value in some areas? If necessary, seek input from your staff, because they may be able to suggest ways you can save money.

Cost cutting can involve having to make sacrifices, compromises and some tough decisions. You should be aware that cutting costs too drastically or in the wrong areas can damage your business. Be mindful of the effect it can have on your staff, suppliers and customers. Caution is advised, and guidance from your accountant can really help. Getting it right can leave your business much stronger and more profitable.

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Getting better value from suppliers

It's important to establish good relationships with valued suppliers. It's not just a question of how much they charge you, but also the quality of what they supply and the services that go with it.

But just because you have a good relationship with a supplier, doesn't mean you can afford to ignore your costs. Nor should you disregard alternative suppliers who might be able to give you the same quality and high-quality service for a lower price. You may regret choosing a cheaper supplier if your continually being let down by poor quality or customer service. Focus on value not just price.

Whether you stick with the same suppliers out of habit or because you like them or even because it involves less hassle, inertia when it comes to your suppliers can make your business less profitable. Keep an open mind.

You should take a closer look at your costs to try to identify areas where you could and should be getting better value. You could speak to your current suppliers first to ask them how you could save money and get better value from the relationship. If that's not possible, quietly begin your search for new suppliers. Find out what they can supply, how much they charge, what their terms are and what services you can expect. What do other customers think of them?

Whether you're negotiating with new or existing suppliers, you need to be professional, firm yet fair. Both parties must be happy with the deal if the relationship is to work.

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Are you charging enough?

A key reason why businesses become less profitable over time is their margins get smaller as a consequence of rising costs, yet they seldom increase their prices. And when they do, sometimes the increases are too modest to cover rising costs, which can have a major impact on cash flow and profitability.

Perhaps understandably, some business owners are reluctant to increase their prices too much or too often, for fear their customers will desert them in droves. In some cases, this can be a risk, so caution is advised.

Having sound knowledge of your market is essential when considering your prices. You must know how much your competitors charge and how much customers are willing to pay in your market. Before changing your prices, if necessary, update your market knowledge.

Customers who appreciate the value they get from your products or services might also understand that you have to increase your prices from time to time. Good communication with your customers is essential at all times, but especially if you need to increase your prices.

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Growing your sales

Once you've reduced your costs and increased your margins, the only way to increase your net profit is to grow your sales revenue. There are many ways you might be able to do this.

If you can't sell any more to existing customers, try targeting new ones, possibly a different demographic or those in new locations (including overseas) or new sectors if you sell to businesses. Another option could be to explore new channels, so, for example, selling your products online if you currently sell offline (or vice versa).

Developing or introducing new products or services could make a big difference to your revenue, while you could try something completely new by diversifying (possibly into entirely new markets).

You may be able to turn your business into a franchise, while buying or merging with another business can help to fuel significant growth. Whichever growth strategy you choose, your business must prepare, plan and budget for growth, and reach out for professional advice and support where necessary.

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The business benefits of cash flow forecasting

By **Bivek Sharma,**
Head of Small Business Accounting at KPMG

"Businesses of all sizes can waste money. Sometimes wasteful habits build up over time and they're evident in just a few areas or throughout in the worst cases. Waste can be caused by lack of knowledge or awareness. Sometimes business owners have so many other things demanding their attention that managing costs falls down the list.

"Wasting money by buying stock that doesn't sell is common in retail, while manufacturers can waste money on materials, whether buying too much or paying too much. This ties up working capital – money that could be put to much better use.

"Businesses also waste money on badly placed adverts, overly fancy websites and expensive leaflets that don't deliver sales. Money can sometimes be wasted on wages, when working with freelances is more cost-effective. Many businesses outsource to save on managing IT, marketing, recruitment, accounting and tax.

"Less business travel and arranging video meetings where possible can also deliver significant costs savings, as can improving processes and systems. Premises are most business's second-largest overhead (wages are normally first), and you could be wasting money on rent, rates, utilities, telecoms and insurance, when shopping around can bring savings on your fixed costs.

"Owners should assess their costs regularly and look for ways to cut costs and boost efficiency. It can make your cash flow healthier and your business more profitable. Even small changes can make a big difference."

"You need sound knowledge of your business and market, and some caution is advised. You can even produce different forecasts based on varying assumptions about your sales and costs.

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