

# The key steps to enhanced profit

*In the current climate of interest rate rises, high oil prices, the now infamous 'credit crunch' and increased competition both at home and from overseas, it is now even more important for business owners to look at the profitability of their business*

As part of that process there are some key steps that should be considered to ensure that the time spent is focused in the right areas.

## Planning

Business owners often give lack of time as the reason why no clear strategy for profit improvement is in place. Time may be at a premium but one of the key ways to improve profit is to become less embroiled in the day-to-day running of the business and focus on setting goals – both short and long-term – and strategically plan how to achieve them.

"This is often very difficult for owners and directors," said Richard Hurst, business strategy specialist and director of Southampton-based chartered accountancy firm HWB.

"Other priorities always seem to take precedence when running a business. The idea that you should stop what you are doing and step back is not an instinctive one. It's a luxury that most people would probably say they can ill-afford.

"However, it is only by undertaking this process and allowing yourself time to think, that the business can be seen in its true light. Opportunities and inefficiencies are often overlooked in favour of just getting the job done. But this neglect is a barrier to profit.

"Important questions need to be asked such as: What is the current value of the business? What would you like the value to be when you sell? What is the structure of the business? How does it operate? And where would you like the business to be in one, five, even 10 years' time?

"Once these questions have been answered, clear business goals can be set and a plan formulated of how that will be achieved."

## Consider your change potential

Time spent developing these strategies at this stage will never be wasted but only if the business has the ability and willingness to change.

Reluctance to change is often regarded as one of the biggest problems businesses face in growing and becoming more profitable. What may have worked well five years ago may not be the most efficient process now.

It may seem obvious but in order to have more chance of introducing improvement owners need to be dissatisfied with the current performance of their business. If they are not dissatisfied then there is likely to be a lot less focus and priority given to making changes happen. If, coupled with a high level of dissatisfaction, there are clear goals and plans in place then the potential to make change is very high.

But change can be seen as difficult and time consuming to implement. This is where SMEs are in a stronger position. They are often more flexible than their larger, more bureaucratic counterparts, enabling the transition process to be quicker and less problematic.

## Sustainable Competitive Advantage (SCA)

Once the strategic planning has started another important step is to consider how the business differentiates itself from its competitors. This isn't always easy to achieve especially in service-led industries. But to be more profitable, the SCA should be identified and capitalised on.

Best service, quick response, quality staff, innovation and value for money, are all possible SCAs, but it is how the customer values them that is key. If for instance the majority of customers require a quick response time then the business should focus on improving that area so that it is ahead of its competitors.

"There is no doubt that many markets have many businesses all offering similar services," said Hurst. "But the successful and profitable ones are those which identify the key factor that customers value, excel in that area and win business ahead of their competitors because of it.

"Once the SCA has been established the marketing and opera-



HWB director Richard Hurst

tions strategies should be formulated to ensure customers receive that level of service every time."

## Growth Strategy

In order for the marketing strategy to be prepared, a market penetration analysis should be undertaken as well as a review of product and market expansion opportunities.

In addition to this a product portfolio analysis will help identify the strength the business has in each area or product and how attractive they are within the market. By carrying out this analysis it will help identify the products and services that are "stars" or "cash cows" and action plans set as to how this can be exploited.

"It is surprising how many businesses are aware of their SCA and work hard on them, but then fall down because they don't understand their market and how to communicate with their existing and potential customers. It really doesn't matter how good you are, unless your target market is aware of your strengths, you won't benefit financially.

"This kind of analysis and positioning will increase the market penetration and being ahead of your competitors will enable higher margins to be maintained."

## Cost reduction and inefficiencies

It has been estimated that on average businesses could reduce their costs by between 15-20% by cutting out inefficiencies and unnecessary cost.

"This is real lost opportunity," said Hurst. "Time and money is being wasted when if it was saved it could be spent on growing the business."

Almost all businesses have areas where improvements could be made whether it be using the wrong people for the wrong job, over-stocking, having to correct mistakes or having steps in processes that do not add value.

"By considering areas where money is often wasted and making the appropriate changes, it will have a quick impact on the bottom line. This is a short term strategy that often gives a very positive start to the profit improvement process.

"The profit improvement process is a continuous one, but once started it gathers momentum and leads to a positive and motivated environment. Failure to do anything is a strategy that could lead to regrets in the future."

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