

# How to Improve Your Business Profits

Whether you are already running a small business or just starting a business of your own, here are few steps you can take that will help increase your company's net profit.

## Manage your company's growth.

- It's possible for your company to grow too rapidly. Growing requires more cash for such things as inventory, more floor space, more employees, and possibly higher accounts receivable.
- If the growth demands more cash than is generated by company profits, someone needs to provide that cash. If the funds come from bank loans, you will be faced with a repayment schedule that will need to be met with future profits. If the future profits are not forthcoming, you could find yourself scrambling for a new source of funds.
- Many small businesses expanded too fast too soon. They found themselves with excess capacity which never became profitable. Ultimately, their uncontrolled growth caused their companies to fail.

## Implement internal and external controls to avoid frauds.

- American businesses lose billions of dollars each year due to fraud. Small businesses are especially vulnerable since they often lack the proper controls. Even in very small companies, some controls can be put in place with very little time or money.
- It is important to divide certain jobs to avoid giving one employee too much control over a procedure. For example, the person responsible for making bank deposits should not be the one to reconcile the bank account.
- Fraud from outsiders can come in the form of phony invoices, shipments of goods which you did not order, or a vendor or its employee working in partnership with one of your employees to overcharge you for goods or services.

## Become a customer of your competitors.

- One excellent form of market research is to see what your competitors are doing. Unless it is cost-prohibitive, you should buy a few products from your competition.
- This will give you insight into how your competitors operate. You will learn about their marketing, pricing, customer service, after-the-sale customer relations, and possibly their packaging and shipping methods.

## Pay your invoice on time and take cash discounts.

- Don't miss the cash discounts offered by your suppliers. A 2% discount for payment in ten days, versus net payment in 30 days, computes to an annual

rate of return of 36%. If you can get a 10% discount for paying twelve months of payments in advance, you will earn 23% on your prepayment.

### Manage efficiently credit card debt.

- It is estimated that at least half of all small businesses use credit cards to finance some or all of their business. Due to the credit limit on cards, the chances are that you would need several cards to secure adequate financing for even a very small business.
- Using a credit card in this fashion is not a good business practice. Not only will you be paying premium rates for funds, but you will also have several monthly payments on several cards.
- Instead of owing money to five sources, consider consolidating all your debt into one loan with your local banker. If you can arrange a loan against your real estate, for example, you should be able to get a long-term, low interest loan with a smaller monthly payment.

### Learn to read between the lines.

- Experience is a dear teacher. In addition to what you have learned in your own business and industry, learn from others. Someone once said, "I can't live long enough to make all the mistakes myself."
- By observing other businesses, even those outside your industry, you can take what worked and apply those techniques to your company.
- It is a mistake to rely solely on "industry standards" when trying to improve your company profits. For example, a full money-back guarantee without time limits may be a very profitable customer satisfaction technique. Don't let the fact that it is not done by others in your industry slow you down.

### Review your legal entity.

- Business owners are often confused about the various forms of operating a business. Many incorporate their businesses without understanding why they are doing so. Some think it makes them sound like a more substantial entity. Or their friend incorporated his business and is happy with it. These are not sound reasons for incorporating.
- Take a little time to learn the tax and nontax aspects of sole proprietorships, partnerships, limited liability companies, and corporations. Then you can make an informed decision for your business.
- As your business grows and changes, you may benefit from changing the form in which you do business.

### Review and test your marketing techniques.

- Too few companies test their marketing. If you want the highest dollar return from your marketing efforts, test your marketing techniques. Test one advertisement against another, one price against another, or one market

segment against another to see which performs the best. If your current marketing produces good results, see if a test against that program can improve your sales. Testing can produce some surprising results.

### Get into a buying alliance.

- To compete with large merchandisers on price, you need to buy at lower prices. Consider joining with a few other businesses so that you can buy in large quantities. When you buy for less, you can pass the savings on to your customers and still maintain the profit you need to be successful.
- To determine the benefits of such an alliance, ask your supplies what the price break is for much larger quantities than you currently order (six to ten times greater, for example).

### Handle customer complaints carefully.

- If you handle customer complaints properly, you should be able to turn an unhappy customer into a long-term, profitable one. Put yourself in the customer's shoes. What would it take to make the situation right?

### Sign all checks personally.

- If you are not doing so already, sign every check that leaves your company. Small companies have a limited number of checks to sign, and you will get a close look at what is being purchased.
- You may discover that cash discounts for prompt payment are being missed. Perhaps purchases are not being consolidated to take advantage of quantity discounts. Maybe you have been paying for overtime that could have been avoided with proper planning. While signing checks, you may identify items that could lead to major savings for the company.

### Be good to your customers.

- The success of most business can be attributed to repeat customers. Some studies show that it costs five to six times more to acquire a new customer than it does to retain an old one. Ask yourself: What more can you do for your current customers to get their repeat business? Can you provide more product for the price, deliver your product or service more quickly, or perhaps provide useful information to the customer after the sale?