

Guide: Profit improvement and productivity

Do you already track your gross and net profit but are at a bit of a standstill on how to increase your profitability? Increased productivity can have a powerful impact on profitability.

Productivity measures the resources (eg staff or materials) needed to produce the final product or service. If you use fewer resources to produce more, you will typically have higher productivity.

You can increase your profitability if you produce more and pay less for the resources needed to produce and sell your goods or services. It's not about cost cutting. It's about looking closely at the value you get for what you spend and how you can best create value for your customers.

Productivity is about generating more sales per dollar of fixed costs. It can be achieved by either or both:

- increasing your sales faster than your fixed costs increase, or
- reducing your fixed costs without affecting your sales

Fixed costs

Start by looking at your fixed costs. You must pay these to stay in business, although some costs may be negotiable to some extent. Examples include:

- rent
- wages
- advertising
- interest
- insurance
- leasing costs
- utilities

Identify value

The critical thing with each is to ask:

- What service does this provide to my business?
- Can I obtain the same service from another source at a lower cost?
- Is it feasible to switch to another supplier?
- If I did switch to another supplier would I get equivalent quality, and would this affect the quality of my product or service?

All of these questions relate to what you're getting for what you're spending. They are not simply concerned with whether you can eliminate or reduce the cost.

Wages

Take wages for example. In difficult times people often think of dismissing staff. This may be appropriate but should be considered carefully.

Your investment in a motivated, trained, and inspired team may drive your business' bottom line profitability in a way that can't be equalled by simple staff cuts.

Often, a better strategy is to invest more into staff training. Help your team improve customer service and sell more to your customers. Encourage them to make changes to workplace habits to improve productivity and office efficiency. Support and challenge them to get more quality work done in less time and reduce the amount of time spent on unnecessary tasks.

Advertising

What about advertising and productivity? There is a standing joke in the industry that 50% of your advertising is wasted. The problem is to identify which 50%.

In a Business Review Weekly article, a manager of a major supermarket chain said that 91% of readers took very little notice of price and item ads — only 9% looked at them for shopping purposes. If that's true, why do the major supermarkets still persist with this type of advertising? Because product suppliers pay for the ads and the supermarket gets to:

- promote its name, and
- create consumer perception that it's a price competitive retailer.

Value in advertising

This does not deny the value of advertising. On the contrary, it is one of the best ways to multiply sales. But it is not productive to spend on advertising that doesn't work. Identify your target market(s) and create focused campaigns for them. Monitor these and test the results.

Increasing productivity in advertising is about getting the most out of your advertising dollar. This can be a major untapped area of potential profit growth.

Systems

Whether your business sells goods or services, effective systems can cut wastage, double handling, training time and poor execution. Analyse your business systems to consider whether different approaches could boost productivity. For instance, lean systems have helped many businesses to improve productivity, with a focus on creating more value for the customer and eliminating anything that does not add value to the customer.

Business performance

Anything your business can do faster or better than your competitors sharpens your competitive advantage.

Productivity helps drive profitability. It's important to remember that both fit into the bigger picture — improving business performance. Regular monitoring of expenses and income is essential but you also need to understand how the numbers translate to key performance indicators for your business.

Tracking your business metrics gives you a great strategic advantage to plan and achieve your goals.

Next steps

But it's not just about the numbers (did we just say that out loud?). What other measures help you look at how your business is performing? Your people, workplace culture, business strategy, a continuous improvement framework, how well you adapt and how well you innovate are all part of the big picture. It's important to understand the process overall and see how all the elements fit together.

Contact us if you would like to discuss how you can improve your business productivity and profitability or if you would like help with a business performance analysis.

Disclaimer

Stephen Larsen and Co has provided this report on the understanding that:

1. The report is a guide only and should not form the sole basis for any decision without first obtaining proper professional advice.
2. We will not be responsible for and expressly disclaim liability, whether under contract or negligence:
 - (a) For the results of any use made by users of the report
 - (b) For any errors or omissions in this report

(c) For any direct or consequential loss or damage to arising from the use of this report, whether to a direct purchaser of this report or to any other person who may borrow or use them

(d) If any part of the report, whether used in its original form or altered in some way by the user, proves invalid or does not attain the result desired by the user

(e) For any negligence in the publication or preparation of these reports

3. This disclaimer extends to the user and to any client of the user who suffers loss as a result of the use of these reports.

4. The user acknowledges that it has not told us any particular purpose for which these reports are required and that it has not relied on our skill or judgment to provide a paper suitable for any such purpose.

Intellectual Property Notice

Stephen Larsen and Co is the owner of, or has the right to use, all copyright, trademarks and other intellectual property rights comprised in this paper, and all related documents, and in providing this guide does not allow these rights nor any part of this paper to be used, sold, transferred, licensed, copied or reproduced in whole or in part in any manner or form whatsoever without its prior written consent.

Last reviewed on 12 May 2021