

FIVE KEYS TO IMPROVING PROFITABILITY

SCORE Chapel Hill/Carrboro

Is it really this simple?

Profit = Income - Expenses

If Profit < 0 that is bad

If Profit > 0 that is good

If Profit >> 0 that is very good!!

**Income (Revenue) =
(Net) **Units** of Sales X (Net) **Price/unit****

○ **Units** can be:

- Hours worked
- Total number of jobs
- Number of Plants sold
- Yards of Soil sold
- Number of pallets of stone sold

○ **Price** can be:

- \$/hr charged
- Job price agreed
- Plant price/each
- Soil price/yard
- Stone Price/pallet

Hidden Sales Unit “Robbers”

- Hours to “redo” at no charge
- “Extra” hours not charged
- Replacement plants at no charge
- Extra soil or stone at no charge
- Free of Charge materials
- Etc.

Gross Units minus “Robbers” = Net Units

Hidden Sales Price “Robbers”

- Special or extra discounts
- Including sales tax in unit price
- Including “extras” in the price
- Rounding bid price down
- Not including everything in the bid

Gross Price minus “Robbers” = Net Price

Expenses (Variable & Fixed)

- **Variable Expenses**

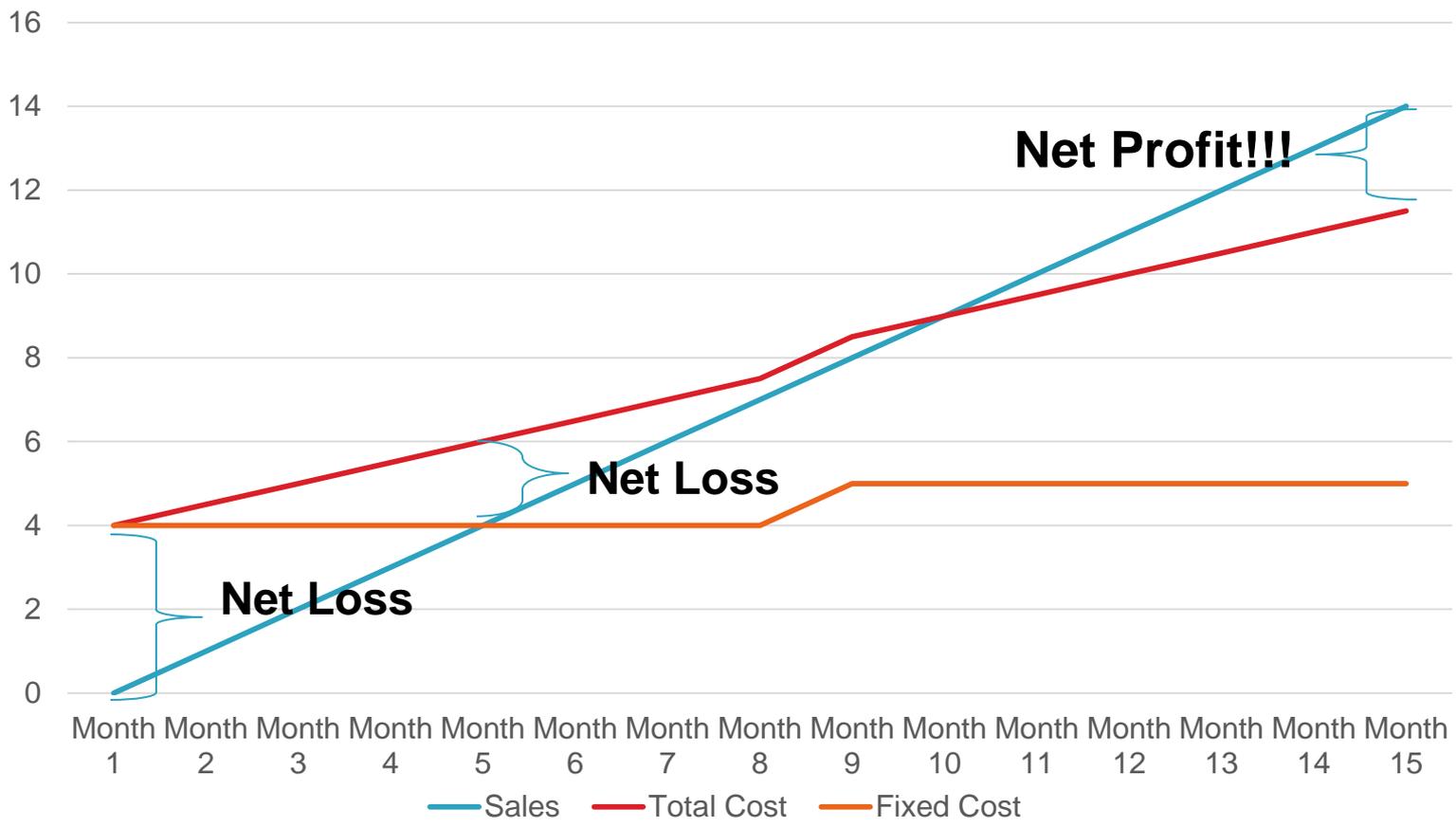
- Costs directly associated with “product” units sold
 - Labor cost, including benefits, sick time, clean up time, travel time, SS taxes, Workman’s Comp, etc.
 - Labor materials including uniforms, tools, supplies, meals, transportation, etc.
 - Raw Materials
 - Plants, soil, stones, structures, lumber, fencing, piping, etc.
 - Vehicle and equipment fuel cost
 - Vehicle and equipment maintenance cost
 - Other energy cost

Expenses

- **Fixed Expenses**

- Costs incurred whether you have a sales or not
- Office rental, furniture, equipment, food, coffee, supplies, etc.
- Office utilities including heat, AC, lights, phone, internet, computer, etc.
- Office staff including benefits, paid vacation, uniforms, SS taxes, etc.
- Vehicle leasing, operating and maintenance costs
- Insurance including liability, hazard, workman's comp, vehicle, other
- Marketing Costs including brochures, website, ads, email marketing, market research (subscriptions)
- Selling Costs include people, transportation, selling materials, meals, entertainment, promotional items, signs, trade shows, etc.

PROFITABILITY OVER TIME



Five Keys to Improving Profitability

- 1. Know your Net Sales Units and Net Price**
- 2. Know your real Variable Cost in detail**
- 3. Know your real Fixed Cost in detail**
(With 1, 2 & 3 right get your bid right!)
- 4. Talk to your accountant regularly (at least monthly)**
(Pay attention to the numbers!!!)
- 5. Always be Selling!!**

Five Keys to Improving Profitability

1. Know your Net Sales Units and Net Price

- Understand the hidden “robbers” and either acknowledge them or get rid of them
- Build the “Free” stuff into the bid
- Assume certain “Redo” or “replacement” costs in the bid
- Charge for “ad-ons” or change of scope
- Be realistic about time and materials needed to do the job
- Base the bid on your actual experience not your “best case”
- Don’t be afraid to raise prices if warranted (competition is higher, your expenses have gone up)
 - Charge what the market will bear!
- Add sales tax afterwards

Five Keys to Improving Profitability

2. Know your real Variable Cost in detail

- Keep track of every cost no matter how small
- Treat every expenditure like it was your own money!!
- Understand and account for the hidden extras like supplies, transportation, extra labor hours for clean-up or transportation
- Make an estimate for each job and then compare it to the actual.
 - Know what caused the differences!!

Five Keys to Improving Profitability

3. Know your real Fixed Cost in detail

- Keep track of every cost no matter how small...coffee, pens, meals, paper clips,
- Treat every expenditure like it was your own money!!
- Regularly check to see if you can save on big ticket items like insurance, rent, phone, advertising, etc.
- Monitor fixed costs monthly...Be sure they are in fact Fixed (i.e. constant or decreasing and not increasing)

Five Keys to Improving Profitability

4. Talk to your accountant regularly (at least monthly)

- Have him/her to explain to you what is changing from month to month
- Ask him/her to make recommendations to reduce expenses and increase net prices
- Make sure your expenses are commensurate with your revenue. Monitor your backlog regularly.
- When faced with an imminent downturn or seasonality adjustment cut your costs sooner rather than later!!

Five Keys to Improving Profitability

5. Always be Selling!!

- Volume drives profitability!
- Keep your website updated...always be adding content
- Add testimonials
- Add videos, pictures, etc.
- Network via trade groups, chambers of commerce, business groups, neighborhood listserves, etc.

RESOURCES

For Free Business Mentoring Help

SCORE Chapel Hill

www.chapelhill.score.org

SCORE Raleigh

<https://raleigh.score.org/>

For Free Help on NC Business Regulations

Business Link North Carolina

www.blnc.gov

1-800-228-8443

QUESTIONS?????