What to Consider in Improving Profitability, Efficiency, and Keeping Your Hard Earned Money

by Mike Hawkins
mike@alpinelink.com

Money is only financially rewarding if you spend less making it than you actually make. Net income is the real yardstick of successful companies and individuals. Someone who produces $100K, but spends $95K is not as financially secure as someone who makes $50K and spends $30K. If either of the two should boast, it should be the latter. As the cliché goes, "revenue is for show, profit is for dough". Revenue and gross income may be glamorous, but if you care about economic longevity, net profit is what truly counts – in your business or at home.

Increasing the profitability of your organization, family, or self depends on either increasing your revenue or decreasing your costs. When revenue is flat, or decreasing as it has been for many people over the last few years, the lever of necessity becomes decreasing costs. It's not the most pleasant alternative because reducing costs means giving up something, but for many it is the only option to maintaining financial viability. To be sure, there are other considerations such as maintaining an enjoyable place to work/live, contributing to charity, and making strategic investments, but keeping as much of your hard earned money as possible becomes a top priority. It provides you security. It gives you options.

You impact profitability every day by the choices you make. Regardless of your objectives or how you are measured, consider profit one of the most important areas to manage for your individual and organizational longevity.

There are many ways to impact profitability. Here are twenty:

1. **People** – Maintain high engagement, a positive attitude, and a spirit of collaboration. You and your team are your organization's most important assets. Your team's attitude is the biggest factor influencing productivity. Ensure you have a positive attitude and team spirit. Eliminate infectious negative sentiment that drains people's energy. Ensure you have the right people with the right skills in the right roles. Move exceptions to more suitable positions.
2. **Obstacles** – Look at where you are spending time overcoming problems. What exceptions or obstacles do you regularly encounter? If you frequently deal with an issue, seek to understand its root cause and resolve it once and for all instead of covering it up with temporary quick-fixes. Obstacles include processes, systems, policies, procedures, employees, suppliers, incentives, strategies, and plans.
3. **Time & Energy** – Eliminate time and energy wasters. Studies show that two out of three meetings are not only unnecessary, they actually detract value from an organization. Look at why so many meetings are called and eliminate the sources of misinformation, lack of ownership, poor direction setting, or whatever the root causes. Consider what you do that wastes people's time and energy. Replace after-the-fact brute force effort with smarter upfront planning.
4. **Processes -** Implement processes and methods that maintain continuous flow of work and information. Increase capacity at points of constraint. Streamline hand-offs between process elements. Document important procedures with flowcharts so they are executed consistently. Embed repeatability of best practices into the fabric of how you operate. Make it easy for new people to quickly become productive.
5. **Systems -** Put systems, templates, and tools in place that enable efficiency. Look for ways to automate recurring manual tasks. Enable repeatable best practices and processes. Give people the tools they need to be the best they can be. Use the tools at your disposal. Disciplined use of simple calendaring, note taking, and task tracking tools on your personal computer can provide an immediate boost in productivity.
6. **Standards** - Standardize practices and purchases where there is no valuable difference in function or utility. Guide decision making through documented operating principles. Operating principles fill the *guidelines gap* that exists between high level core values and detailed operational procedures.
7. **Flexibility -** Design flexibility into your principles, systems, and processes that allow adaptation to changing requirements. Avoid exerting excessive control. Rigidity stifles innovation, hinders doing what is right, and one of the main reasons organizational initiatives fail.
8. **Value -** Optimize the value in your offerings to what your target customers are willing to pay for. Find the right balance of features and services for the price points you are targeting. Too little value is bad for sales. Too much value is bad for your financial longevity.
9. **Design & Delivery** – Look for new ways to build your products and deliver your services. Consider different designs, methods of fabrication, delivery channels, and approaches to installation. Foster a climate of innovation. Be creative.

What to Consider in Improving Profitability, Efficiency, and Keeping Your Hard Earned Money

10. **Terms** – Terms you extend your customers such as extended warranty periods, low interest financing, no-charge exchanges, complimentary upgrades, alluring renewals, and disproportionate liability limits have a cost. Align your terms with your prices so that you protect not just your current gross margin, but your longer term net margin too.
11. **Collections** – Income does not result from doing work. It results from getting paid. Providing a great service or product is insufficient. The job is not complete until you have been paid. Keep your accounts receivable and days outstanding sales at a minimum. Make collecting the money that others owe you a top priority.
12. **Inventory -** Limit inventories to what is minimally required. Speed up throughput to limit work in process and enable real time production rather than maintaining inventory. The more inventory you have, the more money you have tied up and the less money you have to put into something more important. Inventory requires space, becomes obsolete, and has a tendency to disappear.
13. **Waste -** Reduce your waste. Look at how you consume energy and water. Consider where you could reduce your use of packaging materials, supplies, or other raw materials. What are you purchasing that you really don't use or need? What expenditures might you do without? Do you pay fees, fines, or late charges that could be avoided? Consider what you need versus what you want. It might be that you can do with less, at least for now.
14. **Sourcing -** Ensure that work is performed by the most efficient source possible, internally or externally, for the criteria you define. If you need a commodity service that has no strategic value to you, consider outsourcing it to someone with the expertise and who has an economy of scale advantage. If you currently use an outside supplier for something you could be doing better in-house, in-source it.
15. **Costs -** Obtain the lowest cost capital, materials, goods, supplies, services, and labor at the most attractive terms within your established criteria, e.g. dependability, availability, and quality. Evaluate your objectives. Be practical about what you really need. Be careful about simply moving costs from one part of your business to another, or to your customers. The "lowest price" isn't always the lowest cost, particularly when there are new costs incurred or simply moved to other areas.
16. **Quality -** Eliminate defects, scrap, and rework. Conduct inspections throughout your processes so that you're not adding value to activity that is already defective. Remove obvious product and service defects. Consider the rework and costs associated with mediocre customer service, poor presentations, bad proposals, miscommunications, misinformation, bad decision making, disorganized meetings, and other intangible areas where poor quality can have a significant impact.
17. **Assets -** Fully utilize your assets, property, and resources. Unused buildings and idle equipment waste energy and require maintenance. They tie-up your money. It may be that renting would be better than owning. Or if you are an owner, consider how you might share your assets with others.
18. **Logistics -** Optimize shipping, travel, and transportation. Look for ways to consolidate trips or replace them with webinars or conference calls. Ship full orders and fill shipping containers to their fullest capacity.
19. **Metrics -** Measure leading and lagging indicators of performance by putting reliable feedback mechanisms in place. Don't merely rely on lagging financial measures that only reveal after the fact that something isn't right.
20. **Continuous Improvement -** Continuously enhance processes, practices, systems, and skills. Improvement isn't an event. It is a mindset. It is a never ending process. Technology improves, products improve, methods improve, and so do people. Don't be satisfied with the status quo for too long.

Be open to new ideas, foster innovation, consider how you might improve, and keep as much of your hard earned money as possible. In lean times when you've done all you can to maintain your revenue, your efficiency will be the difference between success and failure.

Article written by Mike Hawkins, award-winning author of Activating *Your Ambition: A Guide to Coaching the Best Out of Yourself and Others* (www.activatingyourambition.com), and president of Alpine Link Corporation (www.alpinelink.com), a consulting firm specializing in leadership development and sales performance improvement.