

# 9 of the Best Tips and Tricks to Instantly Increase Profits ...Without Making a Single Extra Sale!

Make more profit! £000's of extra profit is lying hidden in plain sight, right now, in your business.

## Get into your business data!



Every business generates huge quantities of **data**: in the accounts system; **CRM package**; supplier **spreadsheets**; **budgets** and **forecasts** and so on.....and on and on.

But it's not joined up. In order to find your missing **profits**, you have to first get a clear line of sight on what's happening day by day. Who is buying; who isn't? Are you holding the right stock? Are you charging too much or too little?

### Are spreadsheets the answer?

Most businesses tackle this problem using spreadsheets. Spreadsheets are great but they generate their own problems.

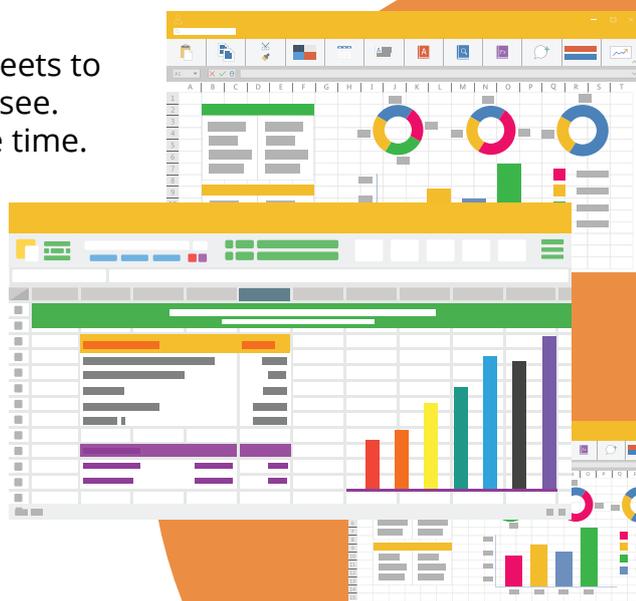
For a start, they are very time consuming. They demand hours and hours in a manual grind to get to the information. By that time however, the information will be out of date. Often other issues have loomed larger and the cycle begins again.

#### Problems caused by spreadsheets

Spreadsheets don't share. You can email your spreadsheets to team members but you can't limit the information they see. You can't all work on the same spreadsheet at the same time. Everyone ends up with their own set of spreadsheets. None of them are exactly the same. "Multiple versions of the truth" are commonplace.

#### Drowning in data

Too often, managers end up drowning in data but with little usable information. They spend so much time coping with their business data, they have no time or energy left to work on the business to make a difference. And if all your time is used just to keep the wheels turning, you won't spot the opportunities to make the little changes that can massively increase profits.



## **Business reporting software**

For years, large companies have used software (called “business intelligence software”) to handle all their business data. Business intelligence software – or, as we call it, business reporting software – basically pulls business data from multiple sources into a single database. Managers can get the reports they need automatically. No need to resort to spreadsheets.

## **Save days every month**

Typically, businesses which give up spreadsheets for business reporting software save as much as a day a week or more in management time. That’s at least one whole extra day every week to work on your business, developing and growing it. No more mind-numbing spreadsheets!

## **Increase profits; improve efficiency**

Using software to manage your business data will save you time and give you instant access to the information you need every day to maximise profits.

**At Illuminis, we are on a mission to prove to every SME that business data really is their best friend when it comes to driving growth.**

We know that there is very little advice available to the average small business on how to use its business data to increase profits and grow. At Illuminis, we include specialist data analyst advice as part of the monthly licence fee.

At Illuminis, we understand the data needs of SMEs. We have helped them access and manage their data for many years. We designed Octelas business reporting software especially for SMEs: it is simple to use; cost effective and installed in a single day. Typical return on investment is 6 months.

At Illuminis, we think every business should be able to use their business data to get these quick and easy wins. This applies to your business too. You can cost-effectively and with minimal effort increase your profits, so what are you waiting for?

## ✓ Go for the easy wins!

Here are 9 of our best Tips and Tricks which you can apply, using data analytics principles, to the information sitting in your business systems:

### 1. Are you selling at a profit?

Are you pricing at the right level to make a profit? A really obvious question, but in our experience one that's often overlooked.

Given that you must earn enough each year to pay all your costs and earn a profit, are you monitoring the profit you make from every customer?

#### Calculate gross profit on every sale

Chances are your accounts system isn't as helpful as you might think. In all probability, it will only calculate the profit on total, not individual, sales. But you need to get to this information. If you don't, you cannot know if you are charging enough to cover costs and make a good profit. Calculating gross profit made on each sale can be done by spreadsheet but it's a slow process. Business reporting software will give this information automatically.



#### Watch your gross margin!

Once you know your gross profit, you are able to set the minimum gross margin (ie the minimum amount of profit you need to make on every sale as a percentage of the total price). Many businesses will set a range (say 15 - 20%) which they will expect to make on any sale.

Business reporting software will capture this for you and track how well you are doing month on month in meeting your profit target - so you can make adjustments to your costs and your pricing policy as you go along.

#### Gross margin gives insights

Once you have the data, gross margin can be used in a variety of ways to create valuable insights.

#### Using "loss leaders"

You may have decided to sell certain goods as "loss leaders" as a strategy to persuade customers to buy additional lines. But this only makes sense if it drives additional sales. You also need to know exactly how much profit you are willing to sacrifice in reduced pricing during the campaign.

## Maximise profit per sale

Once you know the gross margin for each sale, you can use the data to test different pricing strategies. You are looking for the selling price which will give you maximum sales volume for greatest profit on each product or service line.

## Slice and dice to find best sellers

By looking at gross margin earned on each group of products or service you can quickly identify your most profitable lines and vice versa. Your sales efforts can then be directed to those goods and services.

## Some customers cost you money

By identifying the gross margin on each sale you will often discover customers who are giving you very little profit or are even loss-making. You need to stop supplying them or significantly increase prices. You are not a charity!

## Geography matters

Often, some products perform better in particular geographical areas or with specific types of buyer. Once you have the data, you can investigate what's behind the differential. Is it due to local market conditions (which probably you can do little to affect) or to more effective sales practices in your best performing territories? If your sales team in certain areas are performing better than others, maybe it's the way they are working which is making the difference. If so you can replicate that best practice across the whole business.



## 2. Are your customers earning their keep?

If you always sell against a fixed price list and you know your gross margin, you can easily identify your most profitable customers. But many companies – especially in the B2B space – operate a raft of different pricing policies.

### Variable price deals need to be managed

Large customers can often negotiate competitive discounts. Prices may be agreed based on purchase of minimum quantities or mixed bundle of goods. There may be a sliding scale of discounts according to total volume purchased over the year.

### Commission payments to sales teams, agents and distributors

Similarly many companies sell through commission only agents. Sales teams need to be incentivised and commonly commission and bonus schemes vary year on year.

In the case of manufacturers, the customer may in fact be a distributor working a given sales territory.

### Impact of special pricing and incentives on gross margin

In all of these cases, manually calculating profit per customer is a complex and difficult exercise. By contrast, business reporting software will give you the information completely automatically. However you do it, it is essential to set a gross margin target for each special price customer and then track gross performance on every sale month by month.

Once you have this data, it will be immediately obvious if something unexpected has happened. You can investigate and if necessary make adjustments to get profits back on track.

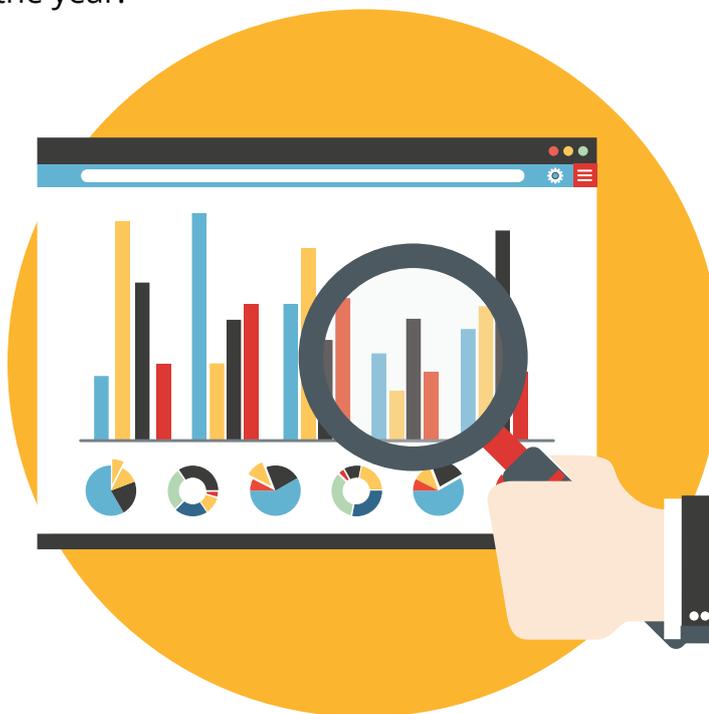
### Are your customers buying enough?

If you agreed a price based on your customer buying minimum quantities or a bundle of goods, are they living up to their promises? Tracking the gross margin on each sale against total volume of sales to each customer will keep you fully in the picture.

### Data reveals incorrect pricing

We find that clients using our Octelas business reporting software for the first time often spot some unexpectedly low gross margin sales. In most instances, on investigation, the cause is one of the following:

- Incorrect pricing which customers are taking advantage of;
- Incorrect calculation of promotional pricing (discounts etc);
- Incorrect entry of promotional pricing on the customer price list;
- Customers cherry picking after negotiating discounts based on a commitment to purchase a bundle of goods.



### 3. Are you paying too much sales commission?

Many companies incentivise sales staff and agents by paying a sliding scale of commission against sales achieved. There are lots of schemes in common use.

#### Track sales performance against incentive schemes

Whatever the scheme, do you have the mechanism in place which will allow you to track how total sales have been affected by the incentive scheme? If sales have increased, is there sufficient increased gross margin on those sales to justify the commission?

#### Feedback loop needed to confirm customer lifetime value

In the absence of accurate data, many businesses simply reward sales teams on a “head count” or “first sale” basis. Sales teams may be paid on the basis of customer accounts opened or a first sale achieved, on the assumption that the new customer will go on to purchase at least a minimum value of goods.

Without a feedback loop in place, often there is no easy way to check if the customer is buying at the expected level. Unless that information is available and tracked, sales commission may completely drain the profit on total sales to that account.

#### Tracking the “before and after” picture for sales incentive schemes

Business reporting software enables the “before and after” gross margin on sales to be tracked and compared, period on period. The impact on profits - both good and bad - of the sales incentive scheme is immediately apparent.





## 4. Low hanging fruit is best!

We all know that selling more to an existing customer is both cheaper and quicker than continually finding new buyers. But how do you achieve this in a way which is targeted and effective?

### Selling more to the same customer

Unless you are a single product company, the chances are that you could sell a much wider range of goods to your customers.

### Sort your customers into groups and track like for like sales

Group your customers by size or business type or whatever way makes sense in light of what you are selling to them. Then look at the basket of goods which each one buys from you. Are some customers buying a wider range of goods from you than others? Are you able to sell at a higher price to some customers than others? Do some research. Speak to your customers and find out how you can sell more to them and at better prices.

This exercise of grouping customers in light of actual sales can be done manually, but this requires a high level of expertise and is extremely time consuming. On the other hand, business reporting software can deliver all of this information in an instant.

## 5. Do you know what your stock is really worth?

Keeping track of the actual value of your stock can be very tricky.

### Sage 50 stock pricing

Sage 50 users have a particular problem in keeping track of historical costs. Sage 50 only records the most recent price paid per item of stock purchased. Sage 50 then applies that price to the total holding of that item even if that includes stock purchased at an earlier date and at a different price.

Consequently it is not possible to use Sage 50 stock data to get to an accurate calculation of gross margin on sales.

### Calculating Gross margin on Sage 50 sales.

The answer is to keep a separate record of the cost of each item and use this data, and not the Sage 50 cost price entry, to calculate gross margin on sales.

Octelas business reporting software achieves this by taking a “snapshot” of the cost price of stock on the day it is entered into Sage 50. That cost price is then matched to each item of stock as it is sold and the data used to calculate the gross margin on each sale as it occurs.



## 6. Which lines are doing well and which should you cut?

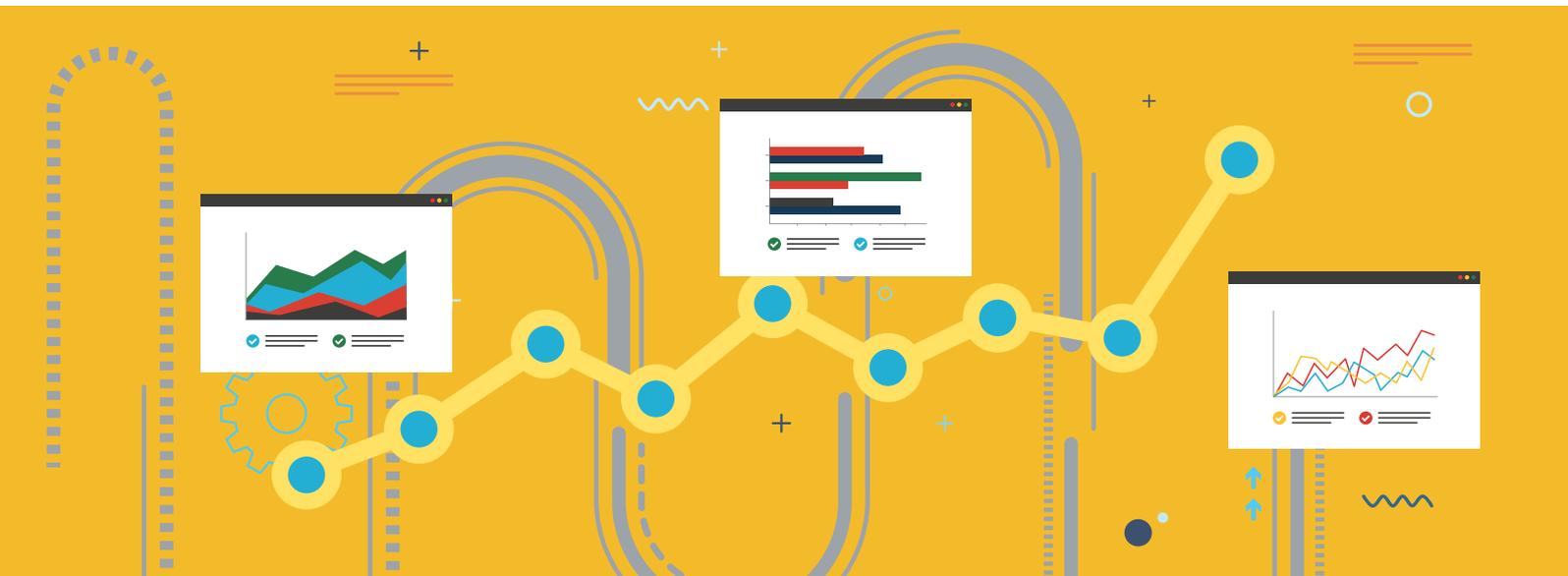
Knowing what is selling well and why is key to managing your stock and delivering a profit. This is particularly so in fast moving environments such as retail and online sales.

### Track FMCG sales day by day

However, by having sales data at your fingertips every day, you have a valuable performance tool to keep you ahead of the competition.

Remember that standard annual accounting information can only tell you what happened months after the event. Even monthly management accounts, by definition, cannot give you a window on your current business performance.

By contrast, business reporting software works by collecting all your data together and sifting it for you so that you can easily track sales as they happen. You can compare sales with previous years using a rolling monthly average calculation which will quickly reveal the true underlying position.



### Spot trends

Armed with the right data, you can have full visibility on best and worst performing goods over any period. Tracked daily or weekly, you can respond to trends immediately by focussing all your efforts on the best selling goods and clearing those doing less well.

### Flex prices

Likewise, by knowing the gross margin of every sale you can match selling prices to shifting market demand. With the ability to calculate gross margin automatically and spot pricing errors as they occur, you can adjust prices as often as you need to, to reflect customer demand and still make a profit.

### Price well, move stock through

By keeping agile in this way, you can move stock through and still bring in an acceptable level of profit over the period.

## 7. Don't overstock!

If you are holding too much stock or stock which isn't selling, then you are losing money. Often the best solution is to sell it off as soon as possible for the best price you can get so that at least you generate as much cash as quickly as possible.



### Problems identifying slow moving stock

For most SMEs, identifying slow moving stock is surprisingly difficult – especially if you hold 000s of different lines. Regular stock checks help but full stock take is very time consuming. Most small businesses once or at most twice a year as part of the annual audit.

### Cash Drain

Holding on to old and slow moving stock causes a number of potentially serious problems. The obvious one is the drain on cash. If you have budgeted to turn over stock in total say 4 times in each year and in reality you are only managing 2.5 times, say, then clearly your cash is going to come under considerable pressure.

### Excess Storage costs

Then there is the question of storage. Old stock takes up expensive warehouse space and so, as well as draining cash, is actually costing you money.

If you sell products with a shelf life then all of these issues become particularly acute.

### Slow Moving Stock Reporting

Business reporting software can identify these problems quickly and easily, as they occur. First you need to decide on the stock turnover you wish to achieve on each type of good stocked. Every item of stock sold is then deducted from the total stock holding. You will then receive a report on all stock items which are taking too long to sell.



## 8. Involve your team!

There is a large body of evidence establishing the gains to be made by simply engaging the whole workforce in better management of your data. Increased efficiency leads to increased profits.

### Avoid manual data inputting

If customer orders are in-putted into a different system than goods arriving into the warehouse, then employees have to manually look up stock location every day before orders can be made up.

### Save hours of production time

Literally hours of production time can be lost every working day. The same applies to manufacturers and assembly processes. It is also true that these manual look-ups are boring and repetitive tasks with a tendency to undermine staff morale. This is particularly the case where skilled operatives are involved in these processes.

### Using software to join up data in different systems

Software can transform these manual look-ups: Octelas business reporting software is able to read in stock location information against customer orders to completely remove the need for a manual look-up.

### Software solutions drive efficiencies

Using software to link up and cross reference business data is a powerful driver of efficiency and increased profits. The typical “customer journey” from order to completion involves multiple occasions on which data is manually transcribed from one system to another. Each one of these touch-points should be reviewed. In many cases software solutions can streamline the whole process to save time and increased efficiency and increases profits.



## 9. Inputting errors are costing you money!

In most business systems, data is entered by hand on at least one occasion during the business process. Every manual entry gives rise to potential for error.

### Improve data quality

In many instances it is possible to define rules that can assess the quality of data in the system. Software can use automatic exception reporting to find and fix errors quickly. By contrast, if inputting errors are allowed the accuracy of day to day orders and invoices as well as routine reporting is severely undermined.

### Examples of routine data errors

Some examples of data errors which are easy to find and fix:

- Missing data. Eg, incomplete address entered on a customer record; delivery postcode missing from sales orders; stock items without a warehouse location; VAT number for EU customers
- Data that doesn't match business logic. Eg overseas customers marked as Standard VAT rate instead of zero rated; UK orders with delivery address postcodes that do not match any of the UK postcode areas;
- Data that might indicate other problems. Eg orders placed with very low or negative gross margin on an item

### Automatic email reporting

Once you have identified the areas of risk then it is easy to ensure that the error reports go by automatic email to the right team members who can correct them.

Octelas software helps you to increase profits and save days of time by giving you business reporting customised to your needs. Octelas captures and combines all business data from accounting systems, spreadsheets, CRM, workflow and other sources at least once a day and delivers it automatically to users by phone, PC or other device. Accessing the information from Octelas requires no more skill than using an online shopping trolley and so every manager and employee can always stay on top of the key information needed to run the business without resorting to spreadsheets.



# BONUS POINT- GROSS MARGIN: WHAT IS IT AND HOW TO CALCULATE IT

## What is gross margin?

Gross margin is usually expressed as a percentage and is calculated as the total revenue less the cost of goods sold ("Costs") divided by the total revenue.

In this case, "Costs" means the direct costs that are incurred by making the sale. So costs of manufacture and purchase of raw materials are obviously included but rent and administrative expenses are overheads and not direct costs and so are not counted for purposes of arriving at Gross Margin.

## Why does gross margin matter?

Measuring and tracking gross margin throughout the business will help you set prices at the right level to make a sensible return: if you know the typical gross margins achieved by your competitors, then tracking gross margin is a really good way to keep a check on the overall health of the business when compared to rival businesses.

## How do I decide what my costs are?

Which Costs should be used to calculate gross margin differs greatly depending on your business type and the complexity of the processes that create the goods to be sold. So in a manufacturing business, production staff salaries would usually be treated as Costs but in a distribution business, probably most staff salaries would be overheads.

$$\text{Gross Margin (\%)} = \frac{\text{Revenue} - \text{COGs}}{\text{Revenue}}$$

Here's the basic formula.

At Illuminis, we believe business reports should be self service and need no IT skill to navigate. Our reports can be accessed on any device, any time, any place. As a result, business owners, managers and employees can benefit, at every level of the business. Secure and capable of being shared, with full or restricted access as needed. No IT skills needed. Enabling every user to work to the best of their ability.