Maximising your profits

Business advisor Andy McDougall highlights how tough times can actually be good for business

Yes, the current economic climate is gloomy and yes, it would appear that just about everything associated with a recession is bad for business. Despite that, I would like to highlight how tough times can force you to pay more attention to your cost base, which in turn can actually be good for business. There is no such thing as recession proofing your business; if there was there would be no such thing as recession! However, there are actions you can take to sandbag your business performance that despite a flat sales line, can lead to enhanced bottom line profits of up to 20 per cent.

Managing your costs

What is one of the first things business owners think of when they hear the word ‘recession’? Cost cutting! And while cutting costs is not a bad thing per se, approaching it in a reactive way can put your business in greater jeopardy than it otherwise would have been.

Cutting costs is a challenging activity that if executed badly can significantly expose your practice’s service integrity, its ability to achieve strategic goals and even its long-term viability. It is crucial that any cost reduction programme aligns with your business strategy and unless there is an immediate urgency linked with survival, any cuts must be sustainable.

That’s why I have called it cost management. This isn’t about slashing as much cost as possible. This is about undertaking a cost efficiency audit that encompasses every aspect of your business to determine potential savings without detrimentally affecting the integrity of your service and the satisfaction of your patients.

‘‘This isn’t about slashing as much cost as possible – this is about undertaking a cost efficiency audit’’

Quarters and halves

The mistake many business owners make when analysing their P&L in search of cost reduction opportunities is to either search for a significant cost to take out or to suggest that there are no costs to remove. The trick though is to think small. There may not be one major line of cost to cut. Likewise, it is highly unlikely that no efficiencies could be identified. So putting all preconceived ideas aside, my advice is to start thinking in quarters and halves.

Quarters and halves mean shaving small amounts of cost from across your P&L. There will inevitably be places where your lack of focus has led to the proliferation of non-value-added activity through inefficient processes and the acceptance of a spend culture. By implementing a culture for managing the quarters and halves you could literally add tens of thousands of pounds to your bottom line profits without increasing your sales. In my experience of working with practices, I have yet to discover anyone who could not add at least £20,000 to their bottom line, off the same sales, by managing their quarters and halves. Cumulatively, the quarters and halves make a significant difference!

Efficiency and effectiveness

Good business management is all about taking the time to plan to do the right things and then spending the rest of the time ensuring those things are done right. Each task in the business should be considered from the perspective of the two Es: am I doing the right thing – which is essentially about being effective; and am I doing those things well – which is all about efficiency.

Generating additional business in difficult economic times makes focusing on efficiencies even more important. There are tens of thousands of pounds of additional profits just waiting to be generated off the back of flat sales through better management of the cost base, and with the right focus and the correct financial management tools, they are available to everyone. So let’s look at a few of the hiding places.

Purchasing and stock control

Managing your purchases can literally save thousands. That doesn’t mean you have to buy the cheapest products and jeopardise the integrity of your treatments but it does mean you should be negotiating the best possible deals with your suppliers. These are tough times and the same market conditions prevail for everyone so your suppliers will be keen to continue to do business with you. How often do you price check your commodities? How many quotes do you get for bigger purchases and do you haggle, for instance by offering cash payments for an early settlement discount? This is a buyer’s market, which puts you firmly in the driving seat so take the opportunity to ensure you are getting the best deal possible.

How robust are your stock control systems? You’d be surprised at how badly managed this side of the business is and how effective controls can lead to massive savings. Keeping lower stocks, managing stock turn to reduce wastage, putting in security measures to eliminate pilferage, and regularly counting stock to avoid unnecessary expenditure can all generate additional profits.

Managing the stock also helps to focus the team culturally on the importance of cost controls. One practice I know that introduced a perpetual stock management system kicked off the new process with a stock check and in the process of having to count and organise the stock, the team commented that they hadn’t realised how costly many of the items were and how their attitude had been wasteful. Because of the new process, they become advocates of saving costs, which then spread from stocks through all aspects of the practice.

Monitoring performance

It is the little savings here and there that make the difference and in any drive for efficiency, you should get the whole team involved. They will have ideas for how to cut costs and by asking for their input, you get their support. After all, they also have a stake in the success of the practice. If you do things a certain way because that’s the way you have always done them, then that is a sure sign that inefficiencies will prevail.

When you have undertaken this exercise and discovered a whole host of small savings that when added up, make your annual performance look much better, you will be much healthier, don’t stop there. Put performance measurement in place so that each month you can check to ensure the good work continues.

Remember, it is all about the quarters and the halves.

About the author

Andy McDougall has over 25 years experience of business planning and brings technical expertise from a wide range of commercial and competitive business sectors. Andy now delivers business planning services to help members of the dental community to respond to the dynamics of an increasingly commercial and competitive environment. Join Andy’s session at the British Dental Conference & Exhibition in Glasgow on Saturday June 6 to hear his presentation entitled, ‘Planning for profit – driving your business to success. For further details visit http://www.bda.org/events/annual-conference/. To find out more about his business planning services contact Andy McDougall at spoton-businessplanning.co.uk or calling 01909 853 725.

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