

How can you ensure profits go up up when sales are down?



Office Location

First Floor
Cnr Jessica Boulevard
and Nicklin Way
MINYAMA QLD 4575

Phone

07 5444 7094

Fax

07 5444 8205

Website

www.hbaencompass.com.au

Email

admin@hbaencompass.com.au

Mailing Address

PO Box 1074
BUDDINA QLD 4575

In uncertain times or slowing sales, you need to **move quickly to protect your bottom line**. Ignoring or delaying a decision to 'cut' the fat from your business will significantly impact your business' performance, cash flow and future survival. Examining and restructuring your costs will ensure your business not only survives but thrives when sales slow down. Consider these 3 simple cost saving strategies.

1. Income > expenses

Do you know your business' break even point? **Break Even Analysis** identifies the minimum sales you require to cover your "necessary" business expenses. It requires you to calculate your total fixed costs (i.e. rent, interest etc), gross profit margin and then 'sensitise' your sales to produce a break even result (\$0 profit).

Once you have determined your break even point, be realistic in assessing your likely sales and recalculate your result as your gross profit margin fluctuates.

2. Reduce your fixed costs

Successful businesses have their cost structure weighted to variable costs (i.e. low fixed costs). **Activity Based Costing** is a process that enables you to analyse and change your cost structure. For example, using contractors to provide non-core services to your business or outsourcing the distribution of your products (i.e. freight) are examples of variable cost strategies.

3. Identify your business' comparative strengths and weaknesses

Benchmarking is a process that allows you to compare your business performance to 'like' businesses. Consider the example below.

Key Performance Indicator (extract)	Subject Business	Industry Benchmark	Result
Gross Profit Margin	38.5%	35%	Good
Wages	17.25%	13%	Improvement Required

Changing your sales mix by focusing on high margin product or service lines and offering incentive rewards to staff are examples of **benchmarking strategies** to increase gross profit and reduce wages costs as a % of sales. **HBA Encompass** has access to Benchmarking data which has been compiled by the Bstar alliance network of professional accountants across Australia from real businesses like yours.

Independent and Objective Advice

Implementing cost savings measures can be a difficult and emotional process. The **HBA Encompass** team is experienced and are best positioned to provide you with professional advice.

Seek advice from **HBA Encompass** and ask their assistance to help you to implement these strategies in your business.

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