

Umesh Modi

How to increase your profit



In business your profits are your reward for your endeavours. In fact, profitability is one of the essential measures of a business's success as Umesh Modi explains...



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Profits are the very lifeblood of a business. They fuel growth, support the owners, provide for the well-being of the staff and ultimately determine the success or failure of the business. So how can you increase your profits?

Gross profit

The objective is either to expand sales income while controlling direct costs, or reduce direct costs to increase gross profit.

You should ensure that:

- You know your market and your competitors.
- Your product knowledge is complete and you are technically able in all aspects of the business.

- Your service is of high quality, delivered on time and according to specification.
- You take advantage of cost-effective means to increase sales - consider recommendations, promotions, leaflets, press releases, and adverts.

Warning - Be wary of dropping prices to boost sales (for OTC products). The increased volume may not be sufficient to cover the reduced gross profit margin.

- Your direct costs are kept to an absolute minimum. Look carefully at your drugs costs - shop round for good deals. Be flexible and innovative in seeking more cost-effective solutions.

Warning - Before changing

your supplier, consider the level of service you are receiving as well as the cost.

Overheads

You should aim to keep costs under your control:

- Expenses - Keep your business expenses to an absolute minimum, and ensure that any additional overheads you assume result in increased profitability/efficiency.
- Increasing your overheads - Are you satisfied that for all new overheads you have reviewed the market to establish where to place your orders? Reliability and backup service are important factors to take into account. The cheapest may not be the best for your business.
- Where assets are acquired on finance - Be sure to obtain quotations for your finance from the leasing company, your bank, and a finance company. Check with your accountant to make sure you are getting the best deal overall.
- Reviews - Many businesses could benefit from a regular review of their telephone and insurance costs. Even bank

charges can often be reduced.

- Credit - Control your credit account customers (if there is large wholesaling) closely to avoid bad debts.

Summary

You must be aware of your income and expenditure. Proper books and records are essential for monitoring the trends and patterns in your business.

It is not necessary to produce a full profit and loss account every month, rather select the key factors that will best help you understand how you are doing, e.g. sales volume, direct drugs costs and other overhead costs. Compare these figures with previous months, and with your targets.

Source: Practice Track

This article is based on current legislation and practice and is for guidance only. Specific professional advice should be taken before acting on matters mentioned here. Umesh Modi BA ACA is a chartered accountant, tax adviser and a partner at Silver Levene LLP. He can be contacted on 020 7383 3200 or umesh.modi@silverlevene.co.uk