Not Making A Profit?

A frustrated small business CEO asked for help and admitted that “the business was not "making it" and I know this cannot continue, what do I do?” I know this feeling and as a SCORE mentor, I have heard it so many times.

I decided to pass on some wisdom that James Beckham wrote in an article on the SCORE website just a few weeks ago. He said, “Call or email me and say, “I’m not making a profit.” I don’t have to hear your tale of woe to know the reason the bottom line of your profit & loss statement is printed in red – your overhead is too high.”

“But,” you say, continued Beckham, “I increased my markup, and I’m still not profitable.” I could have guessed that. When your overhead is too high, it doesn’t matter how much you mark up your product, your company will still not be profitable.”

James Beckham is a seasoned small business owner from Amarillo, Texas. His business interests range from A-V I Corp, a corrections electronics firm, to ranching and real estate. James is also an angel investor, an author, columnist and a speaker on sales and marketing. Although there may be other reasons, he makes a good point.

Cutting overhead does solve a myriad of problems. As a starter, here are some specific places to reduce overhead:

1. Instruct your warehouse employees to turn off the lights every time they leave the warehouse. When they exit for the night, they must also lower the thermostat on the heater. As you are leaving each night, check the warehouse - I’ll bet the lights are still on and the heater is set at 78 degrees. The back door is probably unlocked, too. . .

2. Teach your employees to turn off their computer monitors and local printers before they leave each day. Any electronics that are on standby are still drawing power and raising your electricity bills.

3. Do you really need the local newspaper delivered to the office daily? My guess is that your receptionist takes the paper home each evening because no one else is reading it.

4. The single-serving coffee maker your employees pressured you into buying is the most expensive way to brew coffee. Tell your employees you will pay for coffee for a
conventional coffee pot, but not their single-serving coffee pods. If Bob thinks he can’t live without his decaf caramel mocha frappachino twice a day, he can bring his own single-serve pods.

5. You used to ship a lot of boxes from your store to customers. Now, you have most products drop-shipped directly to clients from your suppliers. You are probably still paying UPS and FedEx a weekly pickup fee even though you are not using the service. Eliminate freight pickup at your office, and take your occasional shipments to the UPS store in the next block.

**So, how do you figure out what overhead to cut?**

✔ Ask your CPA (or your in-house bookkeeper) for a detail of what items are in each category of your latest P&L (Profit and Loss) Statement. For example, what expenses are under the “Utilities” category? Electricity, water, gas, sewer, trash removal and internet are typical bills under utilities. Analyze each provider bill looking for ways to lower expenses from that vendor.

✔ At least quarterly, go through the analysis again. Each time you look for places to cut expenses, you will probably find new ways to lower costs.

✔ Look for expenses that you incurred months or years ago that you may not now need. For example, if you took out additional contents insurance for a large customer order last year, are you still paying that increased insurance premium? Do you have enough inventory to justify the premium? Talk to your insurance agent about other ways to lower insurance costs when you cancel that unnecessary contents coverage.

✔ As you look at each expense item, ask yourself, “Do we need that? Why do we have that expense?” For example, do you know who ordered cable TV for the break room?

✔ Sign up for a vehicle fuel service. Fuel cards will save you money and let you track vehicle expenses more accurately. A fuel card will also stop employees from charging snacks to your credit card.

✔ Give employees a per diem instead of paying for out of pocket expenses when they are traveling. When employees receive a per diem, they will stay at more moderately-priced hotels and eat meals that are reasonably-priced (instead of steak dinners twice a day.)
These are just of a few examples of the dozens of places you will find to cut overhead expenses. Now, go look for other places to cut expenses to make your company more profitable. Start that regular process of reviewing all company expenses, and put your firm “in the black” instead of “in the red.”

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