

The SBO Program @lert

Focus on Gross Profit, Not Sales

Not surprisingly, most business owners are so busy in the trenches trying to stay afloat they don't have time to manage things properly.

Indeed, much of the time they spend managing is not actually management, including doing the books, quoting, ordering parts, invoicing, chasing money.

And more often than not they are managing with the wrong numbers!

One number that gets too much management attention is SALES

This may be because it is the largest number! Yet it is impacted by so many variables: pricing and discount policy; cost of materials; subcontractors hired on a job; the classification of labour; customer pressure; cash needs, etc.

GROSS PROFIT is a more useful and stable figure for managers to focus on

Every job makes a contribution to gross profit; some types of jobs provide a greater contribution than others, as do some types of customers.

How to use GROSS PROFIT in management

First, how is gross profit is calculated? Using a simple example...

- * Invoice \$824 less cost of parts \$270 = gross profit \$554

Second, establish a gross profit target for the next 12 months...

- * For example, \$520,000 per year or \$10,000 per week

Third, monitor actual gross profit performance week by week...

- * This is done by summarizing the job invoices every week

Fourth, investigate and manage variances from the GP target...

- * In the example if actual gross profit is below \$20,000 - why?
- * It may be that the weekly result is below target but the year-to-date result is on track or ahead; fine, no action
- * Or the reverse may happen - weekly above, year-to-date below.

Fifth, look into the various strategies to increase gross profit.

Gross profit is the basis of the SBO Program which deals with all the above management issues.