

absolutely business



Improving profitability in your business

By Denise Walker FREC

It always amazes me when otherwise intelligent business owners put such a great emphasis on turnover and less on profit. Profitability, it seems, doesn't always figure in the opinion of how well the business is doing, whereas, in my experience, the well-worn phrase still holds true today: turnover is vanity; profit is sanity; cash is reality.

In the last recession during the late 80s/early 90s, a high percentage of recruitment businesses, despite being profitable, went bust, simply because they ran out of cash. So cash really is king; and cash is driven by profits; profits are driven by efficient performance; efficient performance is driven by employees doing the right things at the right times – and this is driven strategically by business owners.

There is an obvious link here, clearly. So, if you were to take a long hard look at these elements of your business, how would you fare? Are you delivering good or planned profitability? And how much profit do you squander, without even realising it?

When working with my clients, I am constantly advocating high standards of service as a key aspect of running recruitment businesses. But I also focus on a number of additional key factors, including profit. Why profit? Because it is a measurement of success and because anything worth doing in business must be profitable, otherwise it is simply not viable.

Take control of discounting: In my experience, if you give people the ability to give discounts up to a maximum level, they will meet this level without fail. How much profit are your staff giving away every day through discounting? Who in your business can discount and why? Most importantly, how much control do your managers currently have over this on a day-to-day basis?

If you were to examine all your placements in the last 6 months, how many would be discounted? Of these, were the discounts traded for anything in return (such as exclusivity, volume business, cancellation of your guarantee facility or early payment)? If not, you are well advised to identify where the control needs to be put in place, and introduce methods of achieving this - perhaps, for example, by making it policy to confirm every negotiation in writing, introducing written guidelines for your staff and even linking bonuses to the policy.

Sell on quality of service, rather than price: If your service is second to none, why should you discount on price? An alternative is to invest in training your staff to understand your differentiators and how to sell the benefit of these to potential clients – who, in a candidate-led market, are highly likely to pay a fair price for a decent service. And, if you can add value by helping clients with issues such as writing job descriptions or interviewing techniques, their perception of you as a quality operator will be even stronger.

Collect your cash promptly: It's great to make money but until it comes in, it's not completely yours. Consider building credit control into the initial stages of the sales process and reward your staff for doing so. This, in my experience, is key to ensuring that consultants consider the quality of the client before dealing with them.

It is also common sense to ensure your credit controller is proactive in building great rapport with your clients' accounts departments, so that you are top of the list for payment. In my last recruitment business, we made it policy for our credit controller to "make friends" with the bought ledger contact following the initial sales meeting and before we had even had any business. This, together with a strict credit control policy, resulted in aged debtors being an average of no more than 30 days and only 4 bad debts in 12 years (each of which was less than £1,000 in value).

And always use your terms of business to protect you from lost revenue that is rightfully yours; for example, placement fees if a client transfers your temporary workers to another supplier.

Review your commission system: Is it rewarding sales or profit? I suggest it should be the latter, so ensure this important system is offering reward for quality sales and is in line with the strategic needs of your business.

Cut out revenue deflating costs: Have you ever lived through a recession and been forced to look at spend, because the very survival of your business depends on it? Believe me, when you are in this position, you will find a way to cut costs! In the last recession, I found savings of £20K per month – and I could have kicked myself for not finding this sooner. It is easy to get into lazy habits, despite the best intentions – and I found areas of my business, where we were paying for things out of habit, rather than need.

More recently, when working with my clients, I have found thousands of pounds on their behalf, mostly in refunds from suppliers who have overcharged or where they had not shopped around for the best deals. In most cases, they could have picked this up sooner, simply through scrutinising invoices and contracts or by asking for preferential rates.

This does not require an accountant qualification to do this (finance is not my strong point, so I should know!); all it needs is an eye for detail and a good helping of common sense.

In summary: I suggest the care we give our businesses when we first set up should be an ongoing part of our strategy for growth. If we: restrict discounting and contain negotiation; implement the appropriate actions to increase profit and decrease costs; and have the right processes in place to ensure the right things are done at the right times, we will be best placed to protect our businesses from bad debt and maximise profit at every level.

About Denise Walker FREC

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