

Profit Holes

It was serious business, my brothers and I were neck deep in it. We were digging to China when we were interrupted by the call by our mother for dinner. Digging holes is something that boys do! As boys, we would dig holes for forts, holes for adventures, and holes in search of gold. My son at the age of 3 dug a hole to trap bears.

In business however, when we dig holes, unless we are in the construction business, they are usually not good. I have dug myself some holes as a businessman over the years. The biggest hole that I dug was several hundred of thousands of dollars deep. These types of holes don't happen overnight, they take lots of planning and many hours of making mistakes, and sometimes years to get out of.

The most common holes in business are profit holes. Profit holes are those costs that build up over time and eat away at the owner's profits. According to the National Federation of Independent business in the USA, 60% of small businesses are either not profitable or are only marginally profitable. To be clear, the profit in a business is what is left over after paying all of your expenses. In a small business there are many expenses, the cost of goods, labor, insurance, supplies, utilities, computer equipment, and the list is almost endless it seems. Unless we are careful operators of our business, we end up in the 60% of businesses where the owners end up with very little to speak of in terms of money at the end of the day.

One of my clients, we will call him Paul for the sake of this story, owned a business that he ran for several decades. Now that he was thinking of selling the business he realized that new owners would like a business that was probably a little more profitable. Paul started looking at his income and expense statement with a fine-tooth comb. What he found was that there were several areas where he noticed that some of his costs had crept up over the year. In one case, he found that he had a cleaning company that had originally contracted out to him for \$50 per week for a small job, had over time raised their prices to \$100/week. After talking with his employees about the job, they told him that they thought that they had time to do that job as the contractor was only spending 15 minutes a week in the building. Profit Hole filled = \$5200!!!

Paul kept digging, one day he got a call from a service provider for debit machines. They told him that he would save \$400 per month if he switched over. Paul didn't switch but he used that call to ask his current provider to match their rates. They did and Paul saved an additional \$4800 a month that he was losing through a profit hole.

When Paul plugged these two profit holes, he saved himself \$10,000 per year. For a small business owner, \$10,000 a year can be very significant. Not only would Paul enjoy that money immediately, but he is increasing the value of his business at the same time, as potential buyers always want profitable business.

When we are looking for ways to reduce our expenses and plug profit holes, we need to look through each and every area of the business expenses and ask ourselves how we can reduce our costs in this area. In my book Profit Yourself Healthy, I identified 107 different ways that small business owners can reduce their expenses. These include reducing costs in areas such as labor, energy, consulting fees, insurance, travel expenses, maintenance, and more. Sometimes we can eliminate an expense, often times by putting the product or service out for tender again we can lower our costs. The trick is to look at the largest expense areas first, and figure out ways that we can create efficiencies.

The longer we have been in business, the more profit holes we can find. Like Paul, we let little expenses build up over time and the result is an erosion of our profits. Its easy to dig holes but sometimes its much easier to fill them.

Dave Fuller is the author of the book Profit Yourself Healthy and a professional business coach. Email Dave with your profit question dave@profityourselfhealthy.com