

# 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.

Yet much of the time spent 'managing' is not actually management! Doing the books, quoting, ordering, invoicing, etc is not management. And more often than not they are managing with the wrong numbers!

## **One number that gets too much management attention is SALES:**

Maybe because it is the largest number! Yet it is impacted by many variables: pricing & discount policy; billing needs; cost of materials, classification of labour; customer pressure, cash needs, etc.

## **A gross profit target is more stable for managers to focus on:**

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

## **Understanding gross profit as a management tool:**

1. How gross profit is calculated under the **Profit Rescue System**:
  - \* Invoice \$824 less cost of parts \$270 = gross profit \$554
2. You need to establish a gross profit target for the 12 months:
  - \* For example, \$1,040,000 or \$20,000 per week
3. Then monitor actual gross profit performance on a weekly basis:
  - \* This is done by summarizing every job invoice
4. Investigate and manage variances from 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
  - \* Or it may be the reverse happens - weekly is above, year-to-date is below...so what will you do about it?
5. Then you can look into the various strategies to increase gross profit.

**That's the logic in focusing on gross profit.**