

# How SMEs can be leaner and more profitable in 2021

By [Anton Oosthuizen](#)

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As 2021 gets into full swing, business owners are doing whatever they can to make this year's profit line tracks upwards.



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As an entrepreneur and business owner myself, I understand the full meaning of the statement, "minding your own business." For your business to grow, you need to be deliberate about how you manage it if you hope to generate the profits that you seek.

Here are several strategies I encourage you to follow as you look to make your small business more leaner, and more profitable in 2021.

## How to be leaner in 2021

### 1. Be smart about where you spend and where you don't

In the late 90's James Womack and Dan Jones wrote the revolutionary book, *Lean Thinking: Banish Waste and Create Wealth in your Corporation*, in which they laid out the principles of running a lean company. Consider implementing lean principles when you review overhead costs.

Invest on the essential items that add real value, like your company's website, or your production planning system, or

employee training and motivation programs that will make them more efficient and effective. In the same way, ensure you plug the holes in your business where value is leaking out, such as inefficient billing, bloated inventory levels, old equipment, or outdated systems.

## **2. Stay hungry for efficiency gains**

Successful business owners are always looking for efficiency gains. This is key to maximising profit potential in SMEs. Look for ways to save R1,000 per month, or whatever amount you have in mind. Check your debit orders - are you still using that app or membership? Is there a more profitable way to allocate your team?

Many SMEs are embracing digital technology to take care of their admin-heavy back office tasks. The deployment of cloud-based ERP systems means much of the quoting, estimating, finance and accounting is automated. This allows these expensive team members to be allocated towards more profitable tasks.

Efficiency isn't always purely about cost reduction, but about finding ways to get the same or greater value with a lower investment. Which leads us into the next point.

## **3. Use good resources**

To operate a profitable small to medium enterprise, you need to constantly evaluate the productivity gains from people and resources. When you hire someone, ensure you have first determined the potential return on investment for your business. Do the same before buying equipment, inventory, supplies, or technology; be mindful of the direct or indirect impact the investment has on your bottom line.

By the same token, trust your good resources. Ask your team how they would increase sales by R1,000 per month, or how they would lower costs by that amount. They probably have a few great ideas that you can implement and test along the way. This will also encourage them to continue bringing great business-improving ideas. This leads to the next point.

## **4. Clamp down on waste**

Start with the low hanging fruit. There are issues that you know are causing waste in your business that you can quickly address. This could be office space that is standing empty, a slow website, excessive paperwork, or delayed delivery times. Anything a customer would not be willing to pay for if they saw it on your itemised invoice is ripe for removal.

For manufacturers, their inventory is typically their biggest expense. Go after those big areas first. You can invest in inventory management software like BOS to better align inventory with demand, and will also accurately predict seasonal demand. Reduce employee turnover by investing in your team through skills development, or cross-train and redeploy your employees to add more value.

## **5. Savvy up on finances - get disciplined in saving and reviewing**

It is time to start your emergency cash account now. You do this by saving 1% of every rand that comes in the door. For every payment you receive, immediately move 1% of that into a savings account. You still have 99% to use, but that 1% will be there when you need money to pay your team in quiet months, to cover SARS, or for other emergencies.

Similarly, start reviewing your financial statements every month. Either ask your accountant for them, or check your ERP systems automated financial statements. They are accurate and immediate. Be vigilant about reviewing these statements. It takes less than 30 minutes per month and will allow you to quickly identify minor issues and tackle them before they become major crises. You will also empower yourself with greater insight into your business's financial health, and can make better business decisions based on accurate financials.

## **How to be more profitable in 2021**

### **1. Stick to your monthly sales goals**

Committing pen to paper and plotting the year's sales targets takes very little effort. However, getting your hands dirty everyday to execute your weekly and monthly sales goals is something you need to get the ball rolling early on if you hope to succeed this year.

It is not often that you find profits apart from hard work. If you are vigilant about your monthly sales targets it will influence your weekly sales goals, marketing activities, and daily sales tasks. All too often business owners only focus on the job at hand and neglect their pipeline.

### **2. Go through old customer files and mine for gold**

Many businesses have hefty customer databases. There are typically considerably more old customers on your database than active clients. If you don't have a database, invest in a CRM or integrated ERP system for SMEs that allows you to store all your customer data in one place.

Send them a follow-up email. Pick up the phone. Go through your list and see if you can reignite a conversation that will lead further. They engaged with you before, they are more likely to engage with you again.

### **3. Ask for referrals**

This point closely follows the previous one. Asking for referrals has long been considered one of the best ways to grow your company. Consider adding a statement at the bottom of your invoices, on proposals, and the back of your business cards.

Something like this, "Our company grows through referrals from satisfied customers. If you're happy with our products and service, please let us know if there is anyone else who might benefit from what we offer. If we did something wrong, please tell us and we will fix it. Our goal is 100% customer satisfaction."

### **4. Review your pricing strategy**

How do you set your prices? Are you gauging your prices purely by comparing what your competitors are charging? Are you sharing what you feel is right?

In order to set accurate, profitable prices, you need to understand your true hourly rate. If you don't start with this calculation, you stand the risk of underselling or overpricing your products and services. This could be the reason why you are losing quotes. If you don't know how to do this, I have written previously about [how to determine your actual hourly rate](#).

Review your pricing strategy this month.

## **5. Even your workload**

SMEs struggle to keep their workload level. Business seems to come in waves. Brainstorm with your team how you can smooth out your demand. This could include variable pricing for off-peak times, or by diversifying work or products. Steady demand will ensure the year is not rocked by peaks and troughs.

## **6. Know your net profit per hour**

Net profit per hour can be calculated as total net profit before taxes divided by billable hours or revenue producing hours. Include the hours of every employee involved in delivering your products and services.

Exclude training hours, leave hours, etc. Alternatively, use an automated, dashboard-driven ERP system that gives you real-time feedback about your profits.

This way you will understand how much bottom line profit you generate for every hour you produce revenue. If the number is lower than you'd like, then do what you need to increase it. This could be increasing prices, increasing employee productivity, or lowering overhead costs.

I believe that by applying these practical, tyre-meet-the-tar tips, you will be able to run a more profitable, more efficient, leaner organisation in 2021.

## **ABOUT THE AUTHOR**

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