

“Top 10 Tips”

To build your business sales and profitability safely:

1. **Cash: get control of it.** You will need two things first:
 - **A cash flow plan** - week by week layout of when you are collecting money and when you are paying it
 - **A simple daily cash situation report** - your running balance and the number of days of trading you have before you run out of money
2. **Cash: manage it!** Get to grips with the places where the cash is getting stuck in your business, i.e. Sales receivables; Supplier payables; Overheads; Capital expenditure; Stock; Works in progress
3. **Calculate your Key Performance indicators:**
 - **Gross Value Added per Employee** = (pre-tax profits,+ depreciation + wages)/Full Time employees [or full time equivalents]
 - **Breakeven point:** = (Overheads / Gross Margin % [from your P&L])
 - **Safety Margin %:** = (Breakeven / Turnover) [The lower this %age the better >90%: is very dangerous]
4. **Improve profitability** (do this first because it is easiest and helps everything)
5. **Improve sales** (do this next because if your profitability is right it makes sense to grow)
6. **Reduce expenditure on overheads** (do this whenever you can to keep things under control)
7. **Work out how to get to a Safety Margin of 75%** (or less) - if you increase sales by 5% (for safe expansion) what does your Gross Margin % need to be?
8. **Understand what will hold your business back: the Critical Resource Constraint.** This is the ONE thing that will put a brake on your growth because you will find it very difficult to expand or increase it as demand increases.
9. **Calculate the ‘One Number’ that will transform your business.** This is the key to improving profitability. And it is Target Gross Profit by the units of the Critical Resource (whatever they are). This is called the Value Added for the Critical Resource (VA/CR).
10. **Ruthlessly use your VA/CR number** to evaluate which customers you should keep or take on; which products you should sell and in which proportions and how far you can flex your pricing for different products and customers.



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