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To earn profit

What do you do when a tough competitor enters your space? Many businesses cut their prices, starting a ‘race to the bottom’ as their previously unassailed niche becomes just another commodity product or service. This strategy carries the seeds of its own destruction. In his classic book, *The Competitive Advantage of Nations*, Harvard Business School professor Michael Porter outlines five forces that shape competition: New competitors enter the market Rivalry among existing competitors intensifies Substitute products arrive Buyers use their buying power to squeeze margins Suppliers assert greater bargaining power The classic case of a business re-inventing itself is Nokia, which switched from being a forest products producer to a mobile phone manufacturer as competition from cheaper timber producers eroded its margins. Australian examples of substitute products abound - from generic pharmaceuticals to ‘home brand’ items on supermarket shelves. Porter’s book studies the reasons that some industries are destined to be more profitable than others. This is useful for businesses that can easily exit their original industry and dive into another, more profitable sector - but it doesn’t give much hope to those of us who are locked into a niche from which there is no possible re-invention. After all, a telco is always going to be a telco. But how do you optimise profit for your own firm? Some approaches adopted by businesses going through disruptive change include surveying their customers or their competitors, and changing their method of operation. These are legitimate approaches, but it is unclear why one approach would work and another fail. According to Porter, there are two major strategies used by businesses to make more profit than their competition: Spend less than your competitor on production costs - without losing quality. Charge more for your product or service - without increasing costs significantly. Marketers misuse two of Porter’s key terms The term ‘differentiation’ is used by Porter to describe products for which buyers will readily pay a premium. Marketers often use the word ‘differentiation’ to describe the reason they believe customers should buy their product. Wrong! It’s not about a few differences in features and benefits. Your strategy needs to go deeper than that. Marketers also use the term ‘lowest-cost producer’ to refer to the cheapest price of an item or service. Wrong again! The two key strategies for making your business more profitable than your competitors are very specifically about maximising profit. Spending less, or ‘cost leadership’ in Porter’s words, means bending your unique resources or capabilities until you can sustainably make the same product as your competitor for less than it costs them to make it. Charging more, or ‘differentiation’, means harnessing your abilities to build a product for which buyers will willingly pay more - and without increasing your costs significantly to do so. If you can command a 10 percent premium, your costs must rise by less than 10 percent. But what if neither of these strategies is exactly right for you? Whatever you do, don’t try to do a bit of each. That answer is not to mess with your differentiator and then trim your costs, but to work with an expert to bring into play a strategy that Porter calls ‘focus’. This will involve applying either of these powerful techniques narrowly. If you can’t be a cost leader or offer differentiated product to the whole market, then focus only on the market segment for which you can. An organization that aims to earn profit through its operations and is concerned with its own interests and not those of the public (non-profit) is known as a for-profit corporation. Structure A for-profit cooperation is usually an organization operating in the private sector that sets goals which eventually help the organization itself. This kind of a company often makes shares of ownership available to the general public. The purchasers of those shares then become the company’s shareholders; shareholders have bought a portion of ownership of the corporation by giving away a certain amount of money (differentiating from company to company) or assets of a particular value. Such organizations are usually not aided by the government, as they are working for private financial gains, unlike a non-profit organization, which exists to serve a mission. The nature of a for-profit corporation is such that it is required to pay applicable taxes and register with the state. Any donation they receive will also be subject to the tax policies of the concerned country. As these organizations are all corporations and have a separate identity from their owners the owners are not in their personal capacity required to satisfy any debts which the company might owe to anyone. Aims Unlike non-profit organizations, the policies of these organizations are usually profit oriented. Managers (corporate employees) here have a profit-oriented mindset and aim at maximizing the revenue of the firm, which in turn contributes to the profits of the shareholders/owners. Their aim can be accompanied by a goal of serving the society; however, that usually happens only in cases of specific corporations (B-corporations, which we’ll learn about later). Non-Profit Businesses Some organizations are not established solely for the purpose of making and retaining profit; however, they function in much the same way as a business. They establish goals and work to meet them in an effective, efficient manner. Thus, most of the business principles introduced in this text also apply to non-profits. Let’s take a look at some of the characteristics of the non-profit organization. A non-profit business, often referred to as an NPO (non-profit organization), is an organization that uses its surplus revenues to further achieve its purpose or mission, rather than distributing its surplus income to the organization’s directors (or equivalents) as profit or dividends. This is known as the distribution constraint. The decision to adopt a non-profit legal structure is one that will often have taxation implications, particularly where the non-profit seeks income tax exemption, charitable status and so on. Types of NPOs The non-profit landscape is highly varied, although many people have come to associate NPOs with charitable organizations. Although charities do comprise an often high profile or visible aspect of the sector, there are many other types of non-profits. Overall, they tend to be either member-serving or community-serving. Member-serving organizations include mutual societies, cooperatives, trade unions, credit unions, industry associations, sports clubs, retired serviceman’s clubs and peak bodies—organizations that benefit a particular group of people—the members of the organization. Typically, community-serving organizations are focused on providing services to the community in general, either globally or locally: organizations delivering human services programs or projects, aid and development programs, medical research, education and health services, and so on. It could be argued many non-profits sit across both camps, at least in terms of the impact they make. For example, the grassroots support group that provides a lifeline to those with a particular condition or disease could be deemed to be serving both its members (by directly supporting them) and the broader community (through the provision of a helping service for fellow citizens). Although NPOs are permitted to generate surplus revenues, they must be retained by the organization for its self-preservation, expansion, or plans. NPOs have controlling members or a board of directors. Many have paid staff including management, whereas others employ unpaid volunteers and even executives who work with or without compensation (occasionally nominal). In some countries, where there is a token fee, in general it is used to meet legal requirements for establishing a contract between the executive and the organization. Designation as a non-profit does not mean that the organization does not intend to make a profit, but rather that the organization has no “owners” and that the funds realized in the operation of the organization will not be used to benefit any owners. The extent to which an NPO can generate surplus revenues may be constrained or use of surplus revenues may be restricted. Check Your Understanding Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does not count toward your grade in the class, and you can retake it an unlimited number of times. Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section. The group has had an uneven record in recent years, swinging back and forth between profits and losses, make/realize/turn a profit The company said it had made a profit of about £1.4bn on the deal, after-tax/pre-tax profit Pre-tax profits rose 22.3% to £13.7m. The expectation is that both turnover and trading profit will have increased during last year.sell sth at a profit A realized gain occurs when we sell an investment at a profit.profit on sth He will make a \$431m profit on the sale.for profit Banks made new loans, then swiftly sold them off for profit, using the proceeds to extend still more.report profits in the year to March the company reported profits after tax of €900,000.profits fall/increase/rise Sales and profits rose last year. Concerns have been raised that a stagnating economy is hampering corporate profit growth. boost/increase profits an increase/jump/rise in profit a drop/fall in profit big/record/strong profits future/short-term/small profits annual/corporate/taxable profits ASSOCIATED PRESS Airlines Get Creative With Revenue | Continental Airlines, which merged with United last year, has been selling options on ticket prices, as the industry as a whole looks for new ways to earn profit. The New York Times reports. Small businesses can struggle with profitability for a number of different reasons. They keep prices too low. They focus more on big picture ideas than real consumers. They have way, way too many expenses. The list goes on and on.But even if your business doesn't make a lot of money early on, the goal should eventually be to sustain operations and earn a profit. In order to accomplish this, you need to follow a specific set of do's and don'ts.To learn more about some effective methods for improving profitability, Small Business Trends recently spoke with Sam Pillar, CEO of scheduling software provider Jobber. Here are some top tips to help you earn more and cut out excess expenses.How to Make More Profit in Your Small BusinessDo Calculate the Exact Costs for Your BusinessBefore you focus on increasing profits, you have to know when you're starting from. That means you need to know all of your costs. And don't just calculate general expenses either. You also need to know how much your regular activities are worth to your business.Pillar explained in an email interview with Small Business Trends, "Profitability isn't rocket science — it's about the relationship between revenue and expense. Getting a very accurate view of what's referred to as "unit economics" — what the entire revenue and cost chain looks like at a micro level (e.g., how much a minute of drive time costs, the revenue yield on a specific piece of machinery, etc.) — is essential to supporting the business. Getting clear, accurate and real-time visibility to your unit economics is key. When owners can find the bandwidth to focus and spend their time on the things that matter, they tend to be able to make good decisions." Don't Spend Too Much Time on Low Value ActivitiesOnce you know what your time is worth, you can focus more of your time on the things that actually drive results to your business. That means cutting out the things that don't add much in the way of value.Pillar adds, "Running a small business is an all-encompassing world — once the company starts to grow, the biggest mistake people make is spending too much time on essential, but low-value activities. A great example is things like payroll, accounting, invoicing, scheduling — all activities that are essential, but can often consume way too much time for a business owner, the employees, and their office staff." Do Automate Where PossibleSince some of the low value or mundane activities you want to cut out are essential functions, you need to find ways to accomplish them without spending tons of time on them. That's where automation software and online solutions come into play.Pillar says, "Automating those out frees up much needed time to work on the business, instead of in the business. A key development over the past number of years for small businesses has been the emergence of mobile solutions to these essential, but low value activities, enabling businesses to manage their team, their clients and their billings from nearly anywhere, and often in a single platform solution." Don't Rely on PaperIt's also a good idea to eliminate waste where possible, both in terms of expenses and time. Using paper in your systems and processes can be extremely inefficient, as it can get lost and be more costly than using online tools or automation.Do Track Your TimeYou also need to know exactly how you spend your time if you want to eliminate other types of waste in your business. Use a time tracking software or keep track manually so you can get a good picture of what's happening Don't Forget About Your TeamHowever, there can also be tons of waste when it comes to how your employees spend their time. So you need to also find ways to keep track of this and hold people accountable.Pillar says, "For many small businesses, the single biggest expense is people. Salaries and related compensation is only one factor employees need to consider; the time and effort those employees consume can spell lost revenue and profitability for business owners if it's not spent efficiently. In service-driven companies, especially those that do work outside of their own offices, factors like drive time and fuel costs are fairly well understood today. As a technology company, we know that things like lost productivity due to inefficient communication between employees, leadership and/or clients, the costs that come with running the business without the benefits of technology, and spending too much valuable time on essential, but low-value tasks all contribute to eroding your profitability." Do Analyze Your Finances RegularlyOnce you have systems in place for tracking things like time, expenses and earnings, you need to keep an eye on those things regularly. Analyzing any changes can help you determine what's working for your business and what isn't.Don't Undercharge CustomersOne of the major mistakes businesses make that leads to low profits is undercharging. If your prices are so low that you can barely cover expenses, you might want to re-think your offerings to make everything more sustainable.Do Make Buying as Easy as PossibleAnother potential roadblock is a difficult buying process. If customers have to jump through 10 different hoops in order to complete a purchase, they're more likely to go with a competitor instead.Don't Focus Too Much on Bringing in New CustomersWhile it's always good to be open to bringing on new customers, you shouldn't focus on them so much that you neglect your current ones. You can potentially make more profits by focusing on increasing sales to existing customers.Do Prevent Theft and WastageYou might not be able to prevent all waste in your business, but that doesn't mean you shouldn't try. Put systems in place to detect and alert you of any issues or abnormalities so you can address them as quickly as possible.Don't Rely on Constant DiscountingEven if your regular prices are sustainable for your business, you might sometimes offer discounts to attract new customers or move inventory. While this can be a decent strategy at times, it can definitely be overused and devalue your products or services.Do Look for Ways to Increase Minimum Order PricesInstead of providing basic discounts, you can try to increase sales by offering bulk discounts, bundling or similar offers aimed at increasing the size of orders so the company makes more money overall.Don't Keep Excess Inventory on HandIt can also be somewhat wasteful to keep tons of inventory on hand, since you need to store and manage it. So it can be beneficial to provide some discounts or incentives to move any excess if you're getting new products delivered.Do Give More Opportunities to Top SellersWhen it comes to actually selling products, it makes sense to put more stock in what's been proven to work. So when you have new prospects or big new opportunities, make sure your top sellers are on it so you have the best chance of closing.Don't Overlook Supplier Price HikesPaying suppliers and vendors is often part of running a business. While you can't control the prices those suppliers charge, it is important to always track those charges and note any changes so you can constantly get the best prices.Do Negotiate ConstantlyIt's also a good idea to negotiate with vendors so you can get better prices rather than just paying the full cost, which can sometimes be excessive.Don't Pay for Costly Services and ActivitiesIn some case, you might even want to cut out certain vendors or service providers altogether if what they provide isn't worth the cost.Do Confirm Service CallsFor service businesses, a major source of waste can be showing up for service calls if the customer isn't actually there. So for this reason, it's a good idea to quickly confirm before wasting time driving and doing the administration work involved for each call. Pillar even suggests automating this part of the process.Don't Undervalue Your TimeJust as product businesses sometimes undervalue their physical goods, service businesses can sometimes minimize profits by not valuing their time as they should. So you need to set prices taking all parts of the process into account, including any administration work involved in providing a specific type of service.Do Focus on Providing Great ServiceNo matter what type of product or service you offer, providing a great experience to customers should always be a top priority. Doing so can help you build repeat business and even gain referrals, which essentially serve as free marketing.Pillar says, "Do everything in your power to absolutely delight your customer. Going above and beyond to deliver an amazing customer experience increases the chance of repeat bookings, and might inspire your customer to recommend your business. These are both positive levers on the unit economic model of a business." Don't Continue Marketing Activities That Show Minimal ResultsMarketing can be another major expense for a business. It can certainly be worth it in some cases. But if you've tried a certain tactic and seen minimal results, it's probably best to cut ties.Do Track the Performance of EverythingFor everything from marketing to suppliers, it's a good idea to constantly track performance and re-evaluate what costs are really worth it for your business. Then cut the rest out.Don't Go After Every New Opportunity That Sounds ExcitingNew opportunities can really help to grow a business. But that doesn't mean you should always chase after the next big thing. Carefully research and consider the risks involved with new opportunities before pursuing them so you don't end up wasting tons of time and resources.Do Focus on the Big PictureOnce you make your business more efficient in terms of the day-to-day operations, you can then focus more on the important, big-picture things that go into running a successful business." Many customers believe that the most difficult parts of the business involve working on the tough stuff — finding good people, retaining them, acquiring more customers and managing their brand. These are the important, rather than the urgent, things for a business owner to be working on — automating out the menial stuff can be very liberating, and impactful to the business overall."Photo via Shutterstock

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