The Top 3 Profitability Killers You Don't Know Are Harming Your Business

No one would willingly harm the profits of their business, but – unconsciously – many bosses and managers are doing just that, every single day. Business owners are consistently taught to reduce costs and to grow sales, but too often their actions are hurting profitability.

To help you and your business avoid these profit-damaging pitfalls, we have compiled a list of the three top profitability killers which are harming your business. Keep reading to learn how to reduce their impact.

Profitability Killer #1: Poor Time Tracking

For modern business owners, the primary cost their organization must bear is that of labor. This was not always the case; in past generations, low wages and less restrictive employment legislation drove labor costs down, and most businesses identified materials as their chief expenditure.

Unfortunately, many accounting departments have not yet made the shift into the modern age. They carefully track the exact materials cost of each individual order, recording it alongside the revenue received from the eventual sale of the product. Labor costs are of course recorded additionally, but they are not attached to the order with the same precision as materials, which is a big mistake.

If profitability is to be protected – or even measured at all – the upper levels of an organization must be able to assess which projects are making money and which projects are losing money. Understanding and keeping track of labor costs is vital if this is to be the case.

Let's take the example of an engineering firm with 150 engineering projects taking place concurrently. One of these projects has two engineers assigned to it; both of the engineers are registered as working on this project and their job hours are logged. During the project, the engineers run into a problem. They call their superior, another engineer assigned to another project, who takes a look at the problem. The working hours of the superior engineers are not logged, and neither is the time he spent away from his originally assigned project.

When reviewing the log for the first project, the executives conclude that the project came in under budget and was a success, while the superior's project was not completed on time.

The above example illustrates how important it is to adopt a more fluid approach to accurate time tracking within your business. The methods by which you track the time of your employees must reflect the way in which you do business. If the above example is applicable to your organization, then it is time to implement a system in which engineers can clock into and out of individual projects.

Profitability Killer #2: Incorrect Billing of Clients

Services are provided to a client, followed by an invoice, which is then paid by the client. This will be a familiar process for a large number of business owners, but even this seemingly basic dynamic is fraught with dangers to your profit margins.

The primary danger is in the invoicing itself. The client is only obliged to pay the amount delineated in the invoice, so if that is incorrect, the received payment will be incorrect too. This may seem like an obvious statement, but startling numbers of organizations are getting this wrong at a systematic level, including companies who have been handed lucrative contracts by the United States' military. Questions surrounding the efficacy of the ways in which the Department of Defense bills its contractors led to the creation of the DCAA – or Defense Contract Audit Agency – which oversees transactions and ensures that accurate payments are made.

Robust protocols and good management are key to eliminating this danger. Implementing a policy of accurate time-keeping and recording work for clients may require an initial capital outlay to cover training and equipment, but it will secure your profits in the long term.

In addition to focusing on accurate invoicing, your organization should be aiming to hone their invoicing process into a slick and well-oiled machine. There are many factors that can cause an invoice to go out late – perhaps the approvals were slower than expected, information was entered incorrectly before being changed, or maybe the invoicing department were snowed under – but all of these can harm your profits.

Good clients pay their invoices quickly, bad clients may take longer, but no clients are going to pay invoices they have not yet received. Late delivery of an invoice means late payment at the very least, and the result is a period of time when the money wasn't in your hands - or bank account. It could even result in further delays if it needs to be resubmitted. Accountants refer to this as float, and it is something you and your team should be working hard to minimize.

Profitability Killer #3: You Aren't Making the Most of Your Team

A good manager recognizes a certain skill-set or a certain aptitude within an individual; a great manager is able to position that individual in a way which brings those skills and ability to the fore and puts them to good use. This is what all business owners want; a well-drilled, keenly-honed team, each member of which has the unique attributes required to succeed.

Unfortunately, this is usually not the case. Instead, projects are often assigned on an impersonal basis, with each new work element delivered to the next available team. This approach does not take into account the unique nature of each project, the skills of each member of staff and team, or the scale of the work required. The result – more often than not – is that some teams get the luck of the draw with a series of shorter projects, and spend the remaining five or ten hours of each week out of action, while other teams are forced into overdrive in order to get their projects completed. The knock-on effect of this imbalance is wasted expenditure on inactive employees, and substandard results from overworked employees.

This can be combated by adopting a more personal and considered approach to workflow management, ensuring that the right projects are matched up with the right teams. This also helps to balance the workload, boosting efficiency and quality across the board.

Management and ownership should be particularly alert to employees clocking in large amounts of overtime and therefore working extremely long weeks. This level of work does not help the organization in the long run, as it is unsustainable for the individual. Instead, the employee simply becomes burned out and disaffected with life in the organization, leading to a reduction in work quality and the potential loss of a highly valued and skilled employee if they decide to leave.

The close management techniques mentioned above enable organizations to keep abreast of the amount of work their employees are taking on. A healthy, safe and sustainable environment must be fostered in the workplace, and this applies as much to the number of hours worked as to the manner in which the work is carried out.

Where Does Your Business Stand?

If you identify with any of these three scenarios, you could be unknowingly leaking profits. By keeping a close eye on expenditure, on hours worked and on accurate invoicing, you are shoring up the profits of your organization and protecting them from harm. Software that enables you to track time and expenses within your organization as accurately as possible and manage your project resources effectively and efficiently is the first step in gaining these valuable insights.

Are you ready to begin? [Talk to us today] for a free custom needs analysis and to learn the return on your investment in Journyx. These additional resources will also help you to evaluate solutions and determine the process for creating a time tracking system:

5 Steps to Creating a Time Management System

Checklist: What to Look for in a Time and Expense Tracking Solution