

REPORT: MONEY IN THE BANK

6

WAYS TO RUN A MORE PROFITABLE BUSINESS

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Here are six money-making techniques that all companies can use to ensure profitability while making operations more efficient and tapping into new market opportunities.

Introduction

When revenues exceed expenses, you're profitable. Sounds simple enough, but as any business leader knows, the current economy has many finance pros carefully watching their financials to see if revenues really are exceeding expenses.

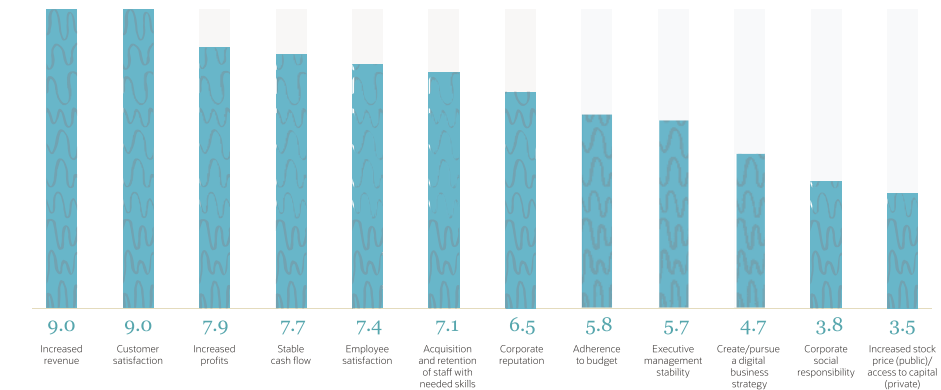
Long-term, unprofitable organizations tend to get caught in a vicious cycle: Lenders and investors shy away. Talented employees leave for greener pastures. Stock value diminishes, credit dries up, officer profit sharing goes away and vendors aren't paid according to terms. With

limited resources, these companies can't pursue ambitious new business opportunities or make investments to sustain development and drive profitability. For companies without outside funding or credit, no profit means no capital and the cycle worsens.

That scenario keeps business leaders awake at night, our 2020 Brainyard survey of 361 business leaders shows. Increased profits are both a top success factor, and, along with achieving revenue goals, understandably a major source of anxiety for 2020.

Measure of Success

Order the following factors in assessing your company's success from most important to least important.



Rank (Ranked in order from most to least important)

Data: NetSuite Brainyard Winter 2020 Executive Outlook Survey Respondents: 361



This spring, the pandemic led many business leaders to worry more about cash flow than profits. By summer, a follow up survey of 130 business leaders found cash flow, current accounts receivable and working capital were still the KPIs in leaders' minds, with gross profit margin not far behind.

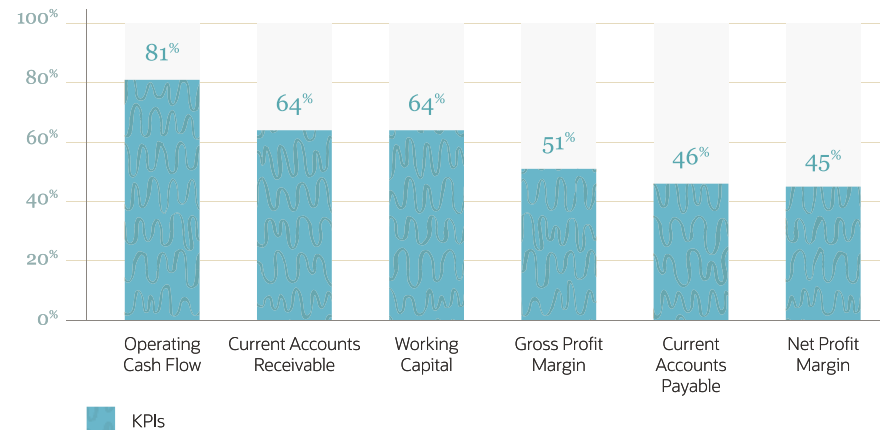
Experts say it's reasonable for startups to take anywhere from one to three years to achieve profitability, subsisting in the meantime on outside funding. While VCs have historically looked for rapid development, that's now just one factor.

They now also want to see a clear and short path to profitability. That's been punctuated by the IPO failures of some high-flying venture-backed superstars.

WeWork, which lost \$1.25 billion in Q3 2019 yet was valued at \$47 billion, had to shift its corporate governance model to appease investors after a failed attempt at an initial public offering. Uber was forced to make its own set of sweeping changes. Often celebrated for its focus on advancement and capturing market share, as

Top 5 KPIs

What are the top 5 KPIs your management team currently wants to see regularly updated?



Data: Brainyard Summer 2020 Finance Priorities Survey – Respondents: 130



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losses pile up, including \$5 billion in the second quarter of 2019, Uber investors are clamoring for a turn toward profits. That pressure has Uber seeking to sell off its food-delivery business in India and reduce other money-losing ventures.

While rapid development was enough for VC investors, that's never been so for bankers, as companies that had to look to banks and SBA

loans or self-fund know. Now, VCs have joined bankers, and the market is officially over for high-flyers that are heavy on flashy business models and promises of market dominance without a clear path to positive earnings to back it all up.

Good old-fashioned profitability is in style, and the good news is that with modern strategies, tools and techniques, companies at any level of the maturation scale can achieve their earnings goals.

It's a two-part process: Run smart and lean, and retain and build the customer base.

Technology is one key to stoking innovation, reducing costs, enhancing employee productivity and winning new customers. Individually, each of these can help profitability. Collectively, they have a profound impact on a company's ability to achieve profitable development.



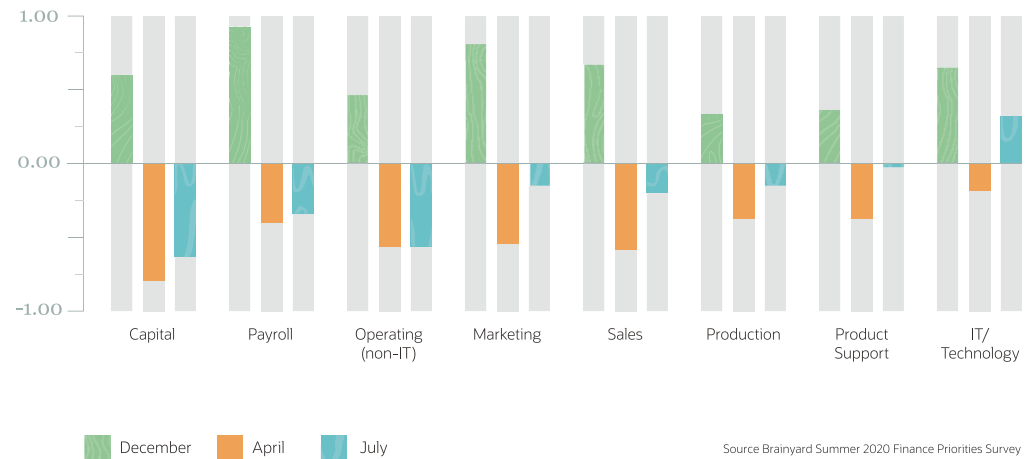
For smaller or newer companies, technology often means cloud computing. With cloud, even the smallest firm can leverage advanced compute capacity and software without the high upfront costs of on-premises hardware and internal IT resources that would otherwise keep such systems out of reach. Add business applications that can automate manual processes, and you can begin to standardize on best practices, reduce errors, integrate disparate systems/ departments, improve collaboration, speed up business cycles and decrease costs—all of

which will drive profitability while providing better visibility to key business metrics.

So far in 2020, smart business leaders have looked to maintain their tech spending. Many are now looking to increase it, even as they seek savings elsewhere in their budgets.

In this guide, we'll explain why there's no time like the present to revisit your profitability goals. We'll outline six profit-building techniques and show how to improve operations and build a more effective organization.

Spending Plans: December vs. April vs. July



Money in the Bank: 6 Profit Builders to Put Into Action Now

When profit becomes hard to get, consider whether the challenge is exacerbated by incomplete data, manual and unintegrated processes, poor operational visibility, misaligned product or service offerings, a team unable to perform as needed or some combination of these.

Smaller and younger companies are often better able to address these problems as they can quickly identify and resolve issues without the inertia and institutional resistance that often plague larger companies. But a key part of that flexibility is having the data to understand what's working and an organizational agreement to act on it.

Here are six profit-builders to help bust through barriers and start building a business that meets and exceeds its profitability goals:

Profit Builder #1

Get a complete view of your business.

To make sure you're setting the right goals, you need to know where your company is right now, with up-to-date data presented in a format that constantly and automatically updates so decision-makers always have the latest, most accurate view of the business. That means visibility into all aspects of your operations, not just sales and accounting. By capturing events, activities and outcomes across all departments, you'll create a holistic view of operations that will enable your leadership team to pinpoint patterns and connections behind both successes and setbacks.

Then, you can use that information to come up with fixes and develop new strategies aimed at improving profitability. Ask yourself:

- Which customers provide the most profit? Are there identifiable characteristics that make them profit drivers?
- Which customers drive the least profit? Should we consider deemphasizing the relationship?
- Which customers have potential, and should we be putting more energy into developing them?
- Have current circumstances created a temporary change in what's profitable, or is the change permanent?

You can do the same exercise with your products or services. By focusing on your most profitable customers and products—or, those with the highest potential—you can come up with some clear ways to increase profits, sometimes by simply aligning resources toward the customers or products performing the best.

The big picture should include distinctions between top-line growth (revenues or gross sales) and bottom-line growth (income after expenses have been deducted from revenues).

For example, a retailer or manufacturer may implement supply chain efficiency initiatives, say by switching to a new raw material supplier that saves 20%. Or perhaps it improves its inventory management processes, or establishes and





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...you're leaving money on the table.

monitors key performance indicators such as profitability-by-customer, inventory turnover and customer churn rates. All that effectively enhances bottom-line growth.

Profit Builder #2

Sell more to your existing customer base.

In a world where acquiring a new client costs five times as much as retaining an existing customer, selling more to your “fans” makes good fiscal sense.

The bottom line is that if your company isn't cross-selling and upselling—not to mention simply delighting—existing customers, you're leaving money on the table. This applies to organizations that sell B2B (business-to-business) and B2C (business-to-consumer), both of which are generally ripe for cross-selling products and services related to current buys, like an offer of ink to go with a printer, upselling higher-margin products and services, and developing offers that are timely, contextual and customized to a buyer's needs.

Particularly in the B2B world, a good starting point for cross-selling are account managers who constantly communicate with customers and tease out their unmet needs. For example, your customers may have new departments or subsidiaries that could also use products or services, but that you're not yet working with. You can also maximize customer rapport by getting to know their businesses and then helping them do their jobs better.

Also consider the trend of building annual and monthly recurring revenue streams (ARR and MRR) possibly as part of a services business arm. Many companies, even product-focused ones, are delivering their products using subscription business models, where revenue is recurring over time, or layering on services where customization and specialization are required. That's an especially good idea in B2B environments or where add-on services bring new value to product purchases, like On-Star service to GM cars.

Profit Builder #3

Get your systems connected.

Companies of all sizes are using sophisticated business systems that helps fuel scalability through automation and data-driven decision-making, but many still struggle to manage costs and maximize operational efficiency. When companies use single function products to address these issues individually, they don't get holistic visibility into operations at a higher level.



Adopting multiple solutions leads to disconnected functional systems. The result is that business leaders only easily see data related to individual processes, and they're often forced to manually relate data between silos, a complex and error-prone endeavor.

Disjointed software environments create headaches that range from workflow bottlenecks to employee productivity issues to customer service breakdowns and more. It's a common problem for smaller firms that lack the IT resources to integrate disparate systems.

An integrated platform will help companies of all sizes connect the data dots and avoid these issues. These platforms are catalysts for profitable development because they improve employee productivity, often by reducing the need for complex and costly integrations or manual reconciliation processes. They provide visibility across the business, allowing sales, marketing, human resources (HR) and

Profitable businesses invest in the automation needed to reduce cycle times, close their books faster and simplify the quote-to-cash process.

accounting departments to work from the same playbook and use a single set of data.

When companies lack such a complete, unified view, they either make critical decisions too slowly or they make hasty and risky decisions from gut instinct. And, with so many disparate applications to manage, IT teams waste an inordinate amount of time and money integrating, maintaining and acquiring new versions of these applications.

Profitable businesses invest in the automation needed to reduce cycle times, close their books faster and simplify the quote-to-cash process.

Profit Builder #4 **Exploit new markets and revenue streams.**

Now especially, markets are changing, and customer needs are changing with them. Perhaps your company started with a single product that appealed to a specific, target customer. Over time, it may have added more features or services as customers requested them, or as the market presented those opportunities. Now it's time to drive new profit by adding even more selection to your product or service base, or by identifying and targeting adjacent or look-alike customer segments.

You can also increase your company's exposure and visibility to a wider swath of customers by exploiting more offline, online, direct and wholesale channels, or even working with sales channel partners that can diversify revenue quickly, without adding headcount in your own team.



Expanding globally takes time, effort and the right approach for each country.

This can be key to helping your company scale. An indirect sales channel can bring about new use cases that your own sales team might not even know exist. Channel partners, with their wide reach and deep customer relationships, also help open new markets while enhancing client loyalty in an era where the nearest competitor is just a click away.

Exploring new markets for your existing products will also help you diversify your revenue streams. An electrical distributor that has traditionally worked only with electrical contractors on job sites, for example, can expand its online presence and begin selling components directly to do-it-yourselfers who need both the products and the expertise that independent distributors are well-known for. A series of short video tutorials that walk users through the installation process for simple jobs is marketing gold.

Another crucial aspect of any multi-channel strategy: unified tools that deliver a consistent experience at each stage of the buying journey, no matter how the customer or partner is interacting with your company. As customers move from one channel to the next, product

offerings, pricing, brand messaging, customer support and fulfillment should “feel” the same. When companies treat channels as a sum total versus distinct operating units that could compete with one another, customers get what they want from the channel that’s most convenient to them. This, in turn, ensures a predictable, consistent experience and ultimately leads to customer loyalty.

Profit builder #5 **Expand globally.**

With 95% of the world’s consumers located outside of the United States, exporting is a profit-builder that no company can afford to ignore. Thriving companies have a vast, untapped global potential lying in front of them. Consider this: Small businesses account for [97% of all U.S. exporters](#). Despite the obvious benefits of trading internationally, less than 1% of American companies (30 million total) export.

This leaves the door open for companies to use global expansion to extend the sales life of existing products, reduce dependency on the domestic market and increase profits due to seasonal changes or demand cycles that differ around the globe. Consider launching new products that may not have been applicable for U.S. customers. And, as remote working becomes standard, a global focus offers a huge pool of talent as the economy recovers.

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HR and payroll are employee-centric entities, but these departments too can help boost profitability by protecting your organization from losses.

By switching to a unified global ERP system, your firm can expand and increase revenue—both domestically and abroad—with much of the regional complexity such as taxes, regulations and currency conversions automated into the system, saving time, effort and, therefore, money. The key is to start planning for international expansion sooner rather than later and to implement the technology that will scale with your business.

Profit-Builder #6 **Fine-tune your tax, regulatory and compliance activities.**

HR and payroll are employee-centric entities, but these departments too can help boost profitability by protecting your organization from losses. For example, if federal, state or industry-specific laws and regulations aren't followed carefully, your company can rack up costly fines, fees and penalties.

The same goes for a payroll department that doesn't file the appropriate forms on time, assigns the wrong worker classification or fails to maintain proper employee records. The problem is that the tax and regulatory environment is constantly in flux, with new rules and regulations being passed into law every year. According to [Vertex Inc.'s biannual Tax Rate Report](#), there were 335 standard sales tax rate changes in the first half of 2019 alone. This represented a 5% increase over the same period in 2018, and it adds up to a lot of headaches for tax, accounting and payroll departments—particularly if they try to navigate the rules manually.

Along with the fines, fees and penalties associated with noncompliance, there's also the time and labor involved with redoing paperwork, correcting errors and filling out additional forms, especially when financial, HR and legal expertise is in high demand.

Using technology, companies can streamline tedious financial and HR tasks and ensure better overall compliance. What's more, cloud-based software that is updated automatically can stay on top of tax and regulatory changes, sparing thriving businesses the hassle and expense of updating their own systems and processes.



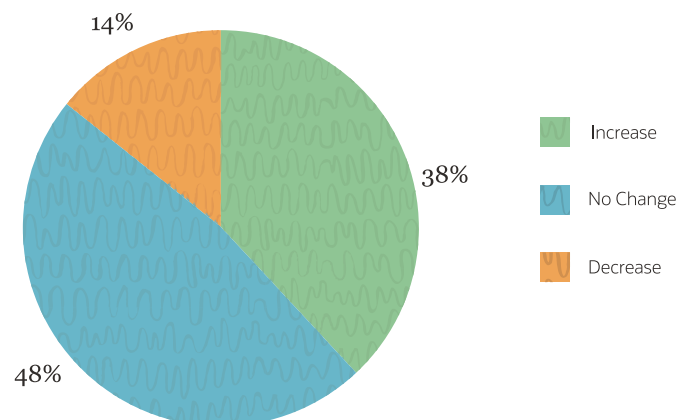
The Path to Greater Profitability

Now is a good time to invest in these profit builders. The current times require unprecedented visibility into costs and revenues. Implementing an ERP system provides the visibility you need and lays the groundwork for, or directly provides, the benefits we've discussed.

Brainyard data shows that while most companies are watching cash flow and cutting costs where it makes sense, many are also expanding their product offerings and investing in marketing and technology to navigate the downturn and position themselves for success in the recovery.

If your company isn't already getting the operational efficiencies and business insights provided by an ERP system, now is the time to consider it. Finance teams with cloud-based, automated systems in place had an easier time meeting the demands of their businesses while managing work-from-home requirements. They also had easier access to data on real-time business performance and changing product demand and margins as conditions changed through the first half of 2020.

Number of Products or Services





Ultimately, if you don't increase revenue or realize efficiencies, you'll feel it in your bottom line.

Whether you're a new entrepreneur or veteran business owner, there's always room for operational improvement. By fine-tuning your processes now, you can help your business run more smoothly while boosting its profitability over the next 12 months. By achieving a holistic view of your business, working to drive down costs, fine-tuning your tax and compliance activities, and selling more to current customers, you can maintain a loyal customer base and explore new revenue-boosting opportunities.

However, these profit builders are out of reach for companies that run their operations on QuickBooks, Excel spreadsheets and/or manual systems. That's because standalone financial systems are designed to automate a limited set of core accounting functions. They can't handle full audit trails, automated processes or detailed business planning. Nor can they manage demands for stronger financial controls and sophisticated SKUs or support more complex financial processes like recurring billing and invoicing.

Ultimately, if you don't increase revenue or realize efficiencies, you'll feel it in your bottom line. If your business can't leverage the opportunities outlined in this guide, it's time to switch to a modern, cloud-based business management suite.

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