Piling up Profits
Five Best Practices to Increase your Business’s Profitability

Most business owners view strong, consistent profitability as a key measure of success after they move out of the startup phase. SunTrust Research of 397 small businesses across the U.S shows that increasing profitability is the top goal of business owners, beating other goals like controlling cash flow and generating growth, by a factor of two. Profitability affects companies in several, fundamental ways, such as the ability to expand and grow, attract investors or even get approval for a loan.

Running a business and increasing profitability is easier said than done — 54 percent of business owners report feeling stressed. Only half say they feel better about the business’s financial well-being now than they did a year ago. However, the fastest growing companies, the top 20 percent of companies surveyed experiencing the greatest revenue growth, meet overall business and profitability challenges differently. Fast-growth businesses report experiencing 21 percent less stress than everyone else. Seventy-two percent of the fast-growth companies have improved their feelings about their financial well-being over the past year, 50 percent more than all other companies surveyed.

What can we learn from these high-growth companies? How do they increase profitability while driving revenue growth? SunTrust has used these fast-growth companies to identify best practices that every business owner can use for ideas, reinforcement and guidance on increasing profitability.

Growing Profitability by the Numbers  Key SunTrust Research Findings

Top Strategies to Increase Profitability
% Using this Strategy to Improve Profits This Year (ranked 1, 2 or 3)

- Grow sales: 67
- Control administration and overhead expenses: 54
- Sell more efficiently: 52
- Increase prices: 42
- Lower production/service delivery labor costs: 37
- Lower costs of materials and services bought from vendors: 34
- Cut R&D and training investments: 17

Top Business Priorities: All are Related to Increasing Profitability

- Grow/Increase profitability: 48%
- Improve the financial well-being of the business: 34%
- Reduce expenses: 32%

[Strategies favored by high-growth companies at a significantly higher rate than other companies]
Pulling the Levers: Increasing profitability

When it comes to growing profits, small business owners, particularly the high-growth companies, reflexively turn to sales growth as the top strategy. As shown in the infographic on page 1, a host of cost cutting, efficiency and productivity measures combine with sales growth and increasing prices as the top profitability growth strategies.

While this list of strategies could emerge from any company, a small business goes about these strategies very differently than its Fortune 500 counterparts. At their stage of development, small businesses are still exploring market niches, building products, scaling growth strategies and refining service delivery or product production. Growing sales means using competitive intelligence and positioning products; increasing prices means probing higher price models and charging for value; cost cutting means building systems to budget and manage expenses.

To support small businesses as they work to increase profits, SunTrust has outlined five action steps:

- Position and price competitively to grow sales
- Target better and sell more, more efficiently
- Cut the right costs
- Manage your most valuable resource: owner time
- Seek counsel from advisors

#1 Position and price competitively to grow sales

Growing sales — a strategy that 67 percent of high-growth companies pursue to increase profits — starts with positioning and pricing. Delivering your best product to market at a fair price is a good first step on the road to bringing in revenue. But, many market factors, such as industry trends, economic cycles, seasonal cycles and customer behavior changes can affect your sales and thus your profitability. And, don’t forget that the competition is rarely static.

The foundation of sales growth is product positioning to address the available market. It’s no accident that the high-growth businesses measure Number of Potential Customers in Their Immediate Market as their top sales/marketing metric. After addressing market potential, it is vitally important to your business to keep abreast of the strategies competitors are implementing and the behaviors they are displaying. Regularly gathering and reviewing data such as pricing, product development, sales tactics and current competitive product offerings keeps you abreast of your market position vis-a-vis your competitors. Understanding where your product(s) stand in the marketplace points you to competitive strategy elements that need to be refined.

High-growth companies regularly evaluate opportunities to increase prices. It’s not surprising that product/service pricing occupies a large position in competitive strategy, not to mention in driving profitability. Reviewing your pricing strategy regularly, both internally (be careful not to cannibalize other products and offerings you are selling) and against your competitors, ensures you are capturing the full value of your products and services. Sixty percent of owners surveyed review their prices against the competition at least quarterly. Thirty-eight percent of business owners surveyed plan to raise prices in the next 12 months. Depending upon market influences, you may want to include added value with your price increase, e.g., faster delivery, delivery/installation at no additional charge, or bundling products, to ensure your price changes make sense to customers.
Crafting market segments based on customer characteristics and buying behaviors sits at the core of marketing strategy. It is especially important for small businesses who often thrive by addressing a product or service offering to the needs of an underserved market niche. Marketing strategy decisions for customer segments are informed by answers to:

- What market segments or customer groups are most profitable?
- Who are your company’s most profitable customers? Least profitable?
- What are the most profitable products/services? Are there loss leaders?
- Which customers, products and services offer the greatest future value?

High-growth companies know the answers to these types of questions. High-growth companies are 25% more likely to measure profits by segment and 31% more likely to measure profits by location.

Customer profitability reports can be produced by accounting and financial reporting systems using standardized reports. Over half the business owners surveyed by SunTrust monitor how much profit comes from their top 10 customers and how many potential customers are in their marketplace. These measures give you a detailed overview of who and what makes your business the most money.

For most businesses, it costs more to acquire new customers than it does to create deeper relationships with your existing client base. Once you know who your best customers are, spend time creating a marketing and sales strategy that will focus on those targets. Then, move on to acquisition by targeting similar customer demographics in your marketplace. Consider all types of media for both targets — traditional, online, social — as well as word of mouth/referral programs and on-the-ground marketing events. Creating tracking for each media vehicle will help you refine your marketing, as you will learn in short order how many sales dollars are generated for each dollar invested in marketing. Keeping your marketing strategy updated and fluid, as you mine your data and keep a close eye on market conditions and fluctuations, enhances your chances of sales success.

High-growth businesses place control administration and overhead expenses and lower production/service delivery labor costs in their top five list of strategies to increase profitability. One-third of business owners surveyed also indicated that controlling expenses is a top priority in their effort to increase their profitability. While sometimes hard to stomach, strategic cost cutting is effective in driving expense reductions straight to your bottom line and improving your profitability. The challenge is to identify major types of expenses and evaluate ways to track and cut costs. Start with basic overhead expenses (rent, utilities, supplies, advertising/marketing) and employee travel and entertainment costs — which are easiest to identify and evaluate. Then, move on to a deeper dive into your overall business structure and processes:

- Look for functions and processes that will benefit from improved technology or updated equipment. While an outlay to invest in upgrades may sound counter-intuitive, the improvement in productivity may outweigh any initial costs.
- Look at staffing levels. While cutting personnel is never easy, outsourcing certain business functions such as human resources (HR) or payroll can greatly lower your employee costs and add efficiency to those roles.
- Look at vendor relationships. Work with your vendors to renegotiate their contracts for more favorable discounts and payment terms to lower costs.

When embarking on a cost cutting campaign, it is important to understand which expenses are strategically necessary to grow your business profits and which can be reduced or eliminated to increase profitability.

Once you have expenses under control, you need mechanisms to keep them under control. To sustain profitability, create a budget and regularly track your progress to keep you on target with your finances and alert you to any potential issues.
#4 Manage your most valuable resource: owner time

Business owner time is an incredibly valuable commodity and the engine of success for many businesses. However, if you find yourself spread too thin, you become less and less effective, which can negatively impact your business’s performance. The more you can leverage and actively manage the time you put into your business, the more successful and profitable it will be.

SunTrust found that business owners directly generate over 40 percent of the sales for their business — more than any other source. If your business is similar, then you should be spending a large portion of your time developing sales, while taking other tasks off your plate.

Complete the simple table below for your business, asking yourself how much of your time is spent on the tasks listed and profile each activity. Use the information gathered to help you identify and focus your time and energy on the most profitable business activities, and delegate the rest.

Delegation is the key to leveraging your time: your most valuable asset. For items that have a low impact on the profitability of the business and can be delegated, look at training existing employees or hiring contractors to relieve you of that duty. (Customer service, training and development and administrative tasks should be high on the delegation list.) You should concentrate on Sales and New Client/Market Development as tasks with a high impact on profitability that are more difficult to delegate.

<table>
<thead>
<tr>
<th>Task</th>
<th>How much of your time?</th>
<th>Impact on Profits</th>
<th>Harder or simpler to Delegate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>25%</td>
<td>High</td>
<td>Harder</td>
</tr>
<tr>
<td>Customer Service</td>
<td>20%</td>
<td>Low - Medium</td>
<td>Simpler</td>
</tr>
<tr>
<td>Training and Development</td>
<td>5%</td>
<td>Low - Medium</td>
<td>Simpler</td>
</tr>
<tr>
<td>Administrative Tasks (accounting, paperwork, collections, business housekeeping, etc.)</td>
<td>20%</td>
<td>Low</td>
<td>Simpler</td>
</tr>
<tr>
<td>Management Duties</td>
<td>15%</td>
<td>Low - Medium</td>
<td>Harder</td>
</tr>
<tr>
<td>New Client/Market Development</td>
<td>10%</td>
<td>High</td>
<td>Harder</td>
</tr>
<tr>
<td>Networking</td>
<td>5%</td>
<td>Medium</td>
<td>Harder</td>
</tr>
</tbody>
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Take steps to improve your business profitability

How ready are you to make profitability the cornerstone of your ongoing success? Drop by your SunTrust branch or call us at 800.752.2515 to talk about how SunTrust can help your business. Visit suntrust.com/bizbestpractices to learn about best practices.

#5 Seek counsel from advisors

Advisors can be a fundamental part of your business. In a perfect world, you would know everything there is to know about running your business and making it profitable. But, the world is full of unknowns, and you should never be afraid to ask for help. High-growth businesses report that they seek advice and guidance from peers and professionals at a much higher rate than other businesses.

When you are working in the trenches every day, it can be difficult to view your overall business picture objectively, making outside perspectives particularly enlightening. That is why many business owners turn to coaches, mentors or advisors, including bankers and CPAs, to help tackle business issues and develop effective solutions.

Top 3 professionals to ask for business advice*

1. Business Consultant
2. Banker
3. CPA

*High-Growth Companies