



# How to Plug Slow Profit Leaks

An E-Book



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Mid-market companies are the main driver of our economy and the number one contributor to the gross domestic product (GDP). At the outset of creating a business, the owner(s) and/or employees that are in place create paper-based processes, which allow the company to start up and grow. As the company grows, one of two things usually happens. The company owner(s) stays involved and deeply analyzes every process, which can sometimes create analysis paralysis and slow down growth. The better option is for the owner(s) to connect with trusted industry partners to focus on change management elements so they themselves can focus on their core business.

When cash flow is tight and margins are slim, many business owners and leaders look for quick ways to increase sales in the hopes of increasing their margins. Things that are just beyond your peripheral vision, however, can cause poor cash flow – things that we refer to as profit leaks.

**Three to seven percent of gross margin gets wasted away as slow profit leak, which is a direct result of inefficiencies.** Imagine if you dealt with those inefficiencies and reclaimed that three to seven percent gross margin straight to your bottom line. For a ten-million-dollar company, that translates to reclaiming \$300,000 to \$700,000 a year of previously wasted profit.

The inevitable questions are: “How do we reclaim these funds?” and “Where are these slow profit leaks?” Our definition of ERP is “Earn Revenue Profitably” - because all companies are in the business of generating revenue. How much of that revenue your company can retain as profit depends on how efficiently you provide valuable products and services. The purpose of provisioning the value – how efficient you are – determines what your business can keep as profit and what creates shareholder value.



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The following six areas – also known as leaks – must be addressed.

## 1. Poor Costing

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- How much do imported goods cost after currency conversion, freight, duty, and the internal carrying cost of inventory?
- Do you know what each product or component you manufacture truly costs?
- Do you know which of your products are “winners” and which are “losers” so you can make informed decisions about what to keep and what to get rid of?

If you can't answer these questions, it's difficult to make decisions about what to do more of and what to do less of. You need to find the answers so that you can focus your energy on your more profitable products.

## 2. Productivity Hits

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Does your company have a limp? Commonly, limps occur in companies that have been in business 15 years or more. In these organizations, certain processes are done simply because “that's the way they've always been done”.

A question to consider: does a process that made sense when a company was generating two million dollars in revenue still make sense now that they are generating twenty million dollars in revenue? Ask yourself if the processes your company has in place are there because you **HAVE** functionality or because you **LACK** functionality.

When companies go from legacy software to newer technologies, it's common for them to lack the consideration of how they can reclaim efficiencies with the new, added functionalities. Putting old processes on a new system guarantees a wasted investment.

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## 3. Chargebacks

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Are you leaking profits due to distribution and shipping errors? Mistakes in the distribution industry are extremely expensive and can result in fines when working with large retailers. Even if you are not dealing with large retailers, having to back-order items due to poor inventory control also increases your shipping costs.

Are you using the most efficient and cost effective shipping methods? Are you shipping incorrect items when dealing with a high volume of orders? If your pick/pack/ship process is not fully vetted and efficient, employees can accidentally select incorrect items if, for example, the product numbers are very similar. The wrong item then goes to the customer, which incurs the additional cost of handling a returned item and shipping the correct item. If you double-ship an order, some customers won't tell you they received the product twice, which is an error you won't discover until you do a physical inventory count. The result is a direct hit to your bottom line.

Finally, are you still using paper processes? Paper processes have many failure points and become a significant risk if a long-tenured employee is no longer around, due to lack of documentation. Without the experienced staff, the knowledge of the process becomes something imbedded in the minds of a few (tribal understanding) instead of a documented and codified process.



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## 4. Management by Using Dead Reports

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Are you micromanaging your tasks? With old systems, micromanaging processes was necessary for a company to ensure that they were delivering a high level of customer service.

One of the slow profit leak control techniques we find useful is setting alerts for control violations. For example, if an order doesn't ship by the promised date, you might not catch the error until the customer calls to find out where their order is. If you have management by exception set up correctly, however, the appropriate person will receive an email saying that, for whatever reason, this order did not or will not ship on time. A customer service representative can then proactively call the customer to manage expectations. This improves your customer experience and will improve overall profitability.

Exception reporting can also solve the inefficiency of printed reports. A printed report is "dead" the minute it comes off the printer because the business keeps moving forward, rendering the information in the report obsolete. Printed reports also require an inordinate amount of time for someone to sit, flip through, highlight the ten things they need to act on, and go act on them. By turning that paradigm around and managing by exception, those ten highlighted items are made obvious so that your team can proactively act on them.

Managing by exception, rather than with dead reports, frees up everyone's time to focus on growing the business.



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## 5. Repetitive Data Entry

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Do you know how much it costs to put information in more than one place? As companies grow, they inevitably end up with islands of technology. You may have a program just to manage quotes, a program just to manage orders, and a program just to manage shipping and manifesting.

Having all of those separate programs creates an excessive amount of data that has to be manually re-keyed again and again and again, and re-keying creates the opportunity for data entry errors. Simple things, like transposing the numbers in an address, can result in lost goods, putting you in the costly position of having to ship the same item(s) twice. Therefore, bridging those islands of technology becomes an important – albeit challenging – task that will go a long way toward plugging this slow profit leak.

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## 6. Reporting in Excel

Your reports or lack thereof, are costing you money due to elongated decision timeframes. A common joke goes, “What does ERP stand for? Excel Replacement Program!” Many companies have data scattered all over spreadsheets with broken links, old formulas, and partial information.

Solving this leak requires the creation of a centralized database – a core system. When you accomplish this, you can remove Excel from mission critical tasks and use it only for its strengths, which are ad-hoc reporting and analysis. With a centralized data repository, Excel can be fed fresh data by the core central system on demand.

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## Conclusion

The bad news is that there are many opportunities for slow profit leaks in a business. The good news is that there are many ways to plug those slow profit leaks. Poor costing, productivity hits, chargebacks, management by using dead reports, repetitive data entry, and reporting through just Excel are all slow profit leaks that translate into hundreds of thousands of dollars.

Are you ready to reclaim the three to seven percent of gross margin that is wasting away and use it to your advantage? We can help you identify the slow profit leaks and, through the implementation of more efficient processes and tools, turn that waste into the profit it should be.



## Invite us for a Leak-Detection Walk-through

On our website, you can sign up for a complimentary Leak-Detection Walk-through. This gives us 30 minutes to walk through your facility and systems and help you identify the profit leaks that impact your bottom line.

### About MANTRALOGIX

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Mantralogix is a trusted technology partner providing IT services, ERP and enterprise software solutions to Canadian and U.S. businesses since 1996. The company's core values help clients create change and leverage their business strengths. Partnering with the Sage family of ERP/ CRM solutions as well as business technology infrastructure vendors enables Mantralogix to build, support, and maintain successful IT solutions that improve their clients' ventures from sales to operations.

To find out more about Mantralogix, Inc. please visit [www.mantralogix.com](http://www.mantralogix.com) or call 866.320.8922