

NewsFlash

by Linda Swerling

November 1, 2013 – Even without the current economic uncertainty, it's always a good idea to take time to analyze how to improve your bottom line. Here's what one company did. *Happy holidays to all!*

ANALYSIS OF NET PROFIT DECLINE

Situation

A \$20 million distribution business needed to understand why its net profit was declining even though sales were steady. The president engaged Level II Solutions to analyze the problem and present options for improvement.

Problem

Net profit had become stagnant over the last fifteen months while sales revenue stayed relatively steady. The president wanted to identify and improve the bottom line before further decline. We decided to look back over the previous five years to determine annual averages and trends. We analyzed quarterly figures for the most recent five quarters.

- Employee ratios and staffing levels
 - Headcount by department
 - Sales by employee
- Technology usage
 - Network hardware
 - Software licenses
 - Cost per employee
- Facility expenses
 - Rent
 - Utilities
 - Square footage by employee

Solution

The analysis pinpointed the possible causes resulting in lower net profit. We presented several options.

Employee ratios and staffing levels

- The sales to employee ratio was too low, indicating that they had held onto employees when they should have laid them off.
- Reviewed staff roles and responsibilities.

- Redefined workflow with less staff.
- Reduced work force.

Technology

- From the technology cost per employee ratio, it appeared that the IT staff could be reorganized to be more efficient with fewer people.
- In addition, expenses for the server room were at a high cost per square foot and required higher utility costs because of the need for air conditioning.
- Recommended that we explore using remote servers along with outsourced maintenance.
- Reconfigured software licensing based on needs of reduced staff.

Facility expenses

- The office was much bigger than needed once the reduction in force took place.
- Several employees were on the road and did not need dedicated desk space.
- Recommended either
 - Renegotiating the lease
 - Subletting space
 - Buying out lease and moving
- Recommended creating hotel-like approach for desk space.

Results

Not only did we uncover several areas that would save on expenses, we also developed key metrics for the president to review on a monthly basis to help keep the bottom line robust.

- Monthly numbers reported in an easy-to-use dashboard of five key metrics.
- Sublet of office space that resulted in significantly reducing rental costs.
- Cut IT staff, refocused remaining employees on better assignments, outsourced servers and network maintenance, and reduced software licenses.

If you want help analyzing your bottom line with an eye toward improvement, please contact us at 617-277-0222 or linda@level2solutions.com.