

How to Double Your Profits Without Increasing Your Sales

The 5% solution.

Recent studies analyzing the tax returns of over 1 million businesses have shown that the majority of companies in this country make a pretax profit, as a percentage of sales, of 5% or less. I am not just referring to small companies.

If your company made a pretax profit last year of 5% or less, you can at least double, and most likely much more than double, your pretax profits simply by reducing costs 5% while merely holding sales level.

If you currently enjoy a profit ratio, as a percentage of sales, that exceeds 5%, congratulations! You are in the minority. You are exceeding the average and excelling where others are not. But you can do better. Much better. In fact, unless your profit ratio is extremely high, the concepts I will show you here should prove to be nearly as effective for your company as they are for those companies making a profit ratio of 5% or less.

The way to double your profits is to reduce your costs by an amount equal to your pretax profits as a % of sales while doing nothing more than holding sales level!

If your profit ratio, as a percentage of sales, is less than 5%, you can use it to replace the 5% example I am using with your % and read as though I am talking to you directly. Of course, this will also work with 1%, 2%, 3%, or 4%.

So, while I have called this the 5% solution it could just as easily have been called the 1% solution or the 4% solution or whatever percentage that is equal to your pretax profit as a percentage of sales from your last fiscal year. The concept is the same. Take your pretax profit ratio and decrease costs by this percentage, while holding sales level and you will come very close to doubling your profits.

Let me demonstrate this using a larger company as an example. If you have \$100,000,000 in sales and a 5% pretax profit your costs are \$95,000,000. This means 95% of the income from your sales goes to cover your costs. Your pretax profit is \$5,000,000. If you can lower your costs by only 5% you will increase your profit to \$9,750,000.

Your original \$95,000,000 of costs times .05 (a 5% reduction) = \$4,750,000. This is how much you will have added to your bottom line. Your profits have risen 95% from \$5,000,000 to \$9,750,000 without a single dollar increase in sales!

You have nearly doubled your profits. Let me put these numbers in perspective for you; with an average of 249 business days a year excluding holidays, this company just added \$19,076 per

day to the bottom line. This was accomplished simply by lowering costs by 5%! How much per day would you add to your bottom line by doubling your profits?

To realize the same increase in profits at the existing 95% cost ratio, this company would have to increase sales to nearly \$200,000,000. Which would you think would be the best way to go? Could they even increase sales from \$100,000,000 to \$200,000,000? If so, how? At what cost?

Remember, we are talking about nearly doubling your sales to achieve the same bottom line result that can be accomplished by merely holding sales level and reducing costs by 5%. Doubling this company's sales would be an almost impossible task to accomplish in any reasonable length of time. However, cutting their costs by an amount that will allow them to double, or even triple, their pretax profits can be done in a very short time and quite easily.

The concept is the same no matter what your sales are. For example, if your sales are \$5,000,000 and you have the same 5% pretax profit ratio your pretax profits are \$250,000, leaving your costs at \$4,750,000. If you can lower your costs by 5% they will drop by \$237,500. This was arrived at by taking 5% or .05 of your costs which were \$4,750,000. Your new pretax profit level is \$487,500. You have nearly doubled your profits without increasing your sales a penny.

To realize this same profit increase by increasing sales, you would have had to increase sales by \$4,750,000 or, in other words, you would have nearly had to double sales. The way to determine how much of a sales increase you would need to match the added profits realized by cutting your costs is to simply take the added profit realized by your cost cutting efforts and divide it by your pretax profit ratio.

There you have it. You would need to nearly double your sales from \$5,000,000 to \$9,750,000 to realize the same profit increase that you can obtain by merely cutting your costs by 5%.

Imagine that. You can nearly double your profits by simply cutting costs an amount equal to your pretax profit ratio. Compare the effort required to cut costs by a mere 5% to the cost and effort required to double your sales; one can be done very easily and the other can't. It is just that simple!

It doesn't matter if your sales are \$100,000 or \$100,000,000,000, it works the same way.

Double your sales or reduce costs by 5%? Think of the effort and expense that would be required to try and double your sales. Think of the risk. Think of the personnel costs. Think of the marketing costs. Think of the facility and operational changes that would be needed.

Even if you could double your sales, how many years would it take? Just think about our example of the \$5 million dollar company. Think about this. Which do you think is more easily achieved, turning this company into a \$10 million dollar company or cutting costs by 5%?

Reducing your costs by 5% is not very difficult, can be done in a very short time, involves no growth, and improves your cash flow. In fact, you should be easily able to decrease costs by

much more than this. Trying to increase sales by 100% will take a bit more doing. The choice would appear to be a very simple one.

Of course, you can save 5% and a great deal more. There are hundreds of ways, large and small, in which you can save 5% and much more. Yes, I know that in some cases you will be unable to reduce a cost by 5% and, in fact, you will do well just by being able to control them.

But there are many places in which you can easily reduce actual dollar costs by 10%, 20%, even 50% or more. Think overall and not just individual costs. Think of the areas in which you can reduce costs by 1% or 2%, think of the areas in which you can easily reduce costs by 25%, 50% or more.

Think about what I have shown you. Plug your pretax profit percentages into these formulas and see the impact cost control and expense reduction can have on your company.

This edition of The Welch Report has been provided by Derrick Welch the author of **‘In Pursuit of Profits: How to at Least Double your Profits Without Increasing Your Sales’. Including 1,000 Cost Control, Expense Reduction, and Income Producing Strategies You Can Start Using Today To Dramatically Increase Your Bottom Line.**

And **‘Defy Mediocrity. Choose to be Uncommon. Think of the Alternative’.**

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