

Improving Your Small Business Skills

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Information to Increase both the Wealth and Lifestyle of Your Family

How Increasing Your “Productivity” Is a Key to Your Business Success

The Main “Scarce” resource for most businesses is the number of hours. Therefore, two key improvement areas are:-

1. Increasing your Average Rate per hour.
2. Increasing the number of hours spent on producing income (“Productivity”).

Definition of Terms

Productivity: The number of hours spent on producing income. Either hours spent selling your products to customers or time spent on client jobs you can charge for.

Chargeable Hours: Hours billed on Client’s jobs. You may work 50 hours a week, but only 30 “chargeable” hours are billed to the clients. Mainly applies to service businesses such as architects, plumbers, electricians, business consultants, where they charge for their time.

Does it Apply to My Business?

It applies to ALL businesses. Most small business owners work over 50 hours per week, however, only a portion of this relates to productive work. Productive time would mean increasing the hours you spent selling your product, such as computers, instead of attending unproductive staff meetings or doing administrative duties your employees could do.

If you could increase the time you spend producing income by only 15 minutes a day, then your Income Producing hours for the year would increase by:

15 minutes x 5 days x 48 weeks - 60 hours.

If you were a plumber averaging \$70 per hour for chargeable work, this very small increase would improve your income by \$4,200. *If you had 5 employed plumbers, including yourself, your net income would increase by \$21,000.* Every business owner could increase the productive time of themselves and their employees by 15 minutes a day - **It is a powerful profit improvement tool.**

Example:

Fred Tap ran a local plumbing business. He employed three qualified plumbers (including himself). His wife helped out by answering the phone, banking and writing up the Books. **They**

were always busy, but were only just covering their Home Loan and their Living Costs.

He spoke to his Accountant who was always attempting to improve his clients’ profits. The accountant monitored the Quoted Hours on the invoices for a month and found they were only 50% productive. The Potential Hours per week were 120 (3 employees x 40 hours), but were only spending 60 hours on Chargeable Work (20 hours per employee). ***This was the main reason they were financially struggling - Not enough Productive Hours.***

Through analysis over the next month, Fred and his accountant found a number of areas they could improve his “chargeable hours”. The improvements were implemented and their results, six months later were the following:-

	Time Improvement Per Week
* They were quoting (Unchargeable Time) for a lot of domestic work they were not obtaining due to some customers only considering the “cheapest” price.	6 hours
They improved their telephone techniques to “cull” these people before quoting. (3 employees x 2 hrs per week - That is, 24 minutes per day for each employee).	2 hours
* In comparing Actual Hours to Quotable Hours, they found one of the employees was not efficient or well trained in a number of areas. After providing the necessary training, they found his chargeable hours improved by 2 hrs per week. (That is, 24 mins per day).	2 hours
Total Improvement Per Week	<u>8 hours</u>

Total Yearly Increase in Net Income

(8 hrs per week x 48 weeks x \$70) = \$26,880. Fred was ecstatic, his wages and overheads did not increase. Now, his family had excess money that he used to pay off some of his mortgage.

This information is for the benefit of our clients and interested parties. The commentary contained does not purport to be comprehensive advice. Please contact David Chambers if specific assistance is required in this area.