



The Gross Margin Lever to Increase Cash Flow in Your Business

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Continuing our series on the Eight Levers to Increase Cash Flow in Your Small Business, we tackle gross margin. Gross margin is what's left over after the costs of delivering the service or goods. Usually this is cost of good sold and direct labor, but can also include other costs (e.g. allocated overhead).

Target

As with all of our levers, the first thing to do is compare yourself to your competitors. You do this with industry benchmarking. This will tell you how similar businesses of similar size are performing, and give you a great initial target.

There are only two ways to increase gross margin. Pricing (covered in this article) and efficiency. These strategies focus on efficiency.

Strategy

Technology: Technology is changing virtually every industry. If you're not implementing tech into your business, you're behind the curve.

What software is out there that can make you more efficient in delivering your goods or service? Task automation and data integration are the most common.

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Standardized Workflow: Create processes for your delivery of goods and services. Simply by putting a process in place will guaranty increased efficiency, by standardizing how things are done. An added benefit is more consistent customer satisfaction.

Standardizing workflows also allows you to set goals around performance and costs. If there is no standard, there is nothing to measure against. Once you've established the standard, you can work on improvement!

Standardized Offerings: Even if you deliver a 100% custom product or service, you can still standardize the parameters. You can't be all things to all people, and the more you standardize your goods/service the more you can standardize the workflows around them. Let's say you design custom websites. Can you develop packages that details the specific deliverables? Just because it's custom, doesn't mean that it is open ended!

This goes into the psychology of pricing, but ideally you should offer your customer 3 different options. This allows you enough flexibility in giving the customer options, but doesn't overwhelm them with choices.