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the Strategic Planning
Guide.pdf

Practically Speaking

Profitability Guide

Profitability is at the forefront of business owners' minds in 2023. High interest rates have significantly increased the cost of borrowing, while inflation has simultaneously increased input costs. These factors coupled with an uncertain economic outlook have led to a decline in customer demand across many industries — chipping away at bottom lines.

The profitability of your business may have decreased dramatically, leaving you to wonder how your organization can adapt to remain competitive and achieve success.

You're not alone — Canadian business owners are widely expecting profitability to decline in the current economic environment, and many are searching for new ways to remain competitive. Results from Statistics Canada's first quarter 2023 Canadian Survey on Business Conditions revealed that:

- One in three businesses expect profitability to decrease
- Nearly three in five businesses expect rising inflation to be an obstacle
- Nearly half of businesses expect to raise prices to combat high inflation and interest rates

Our advisors have noticed similar patterns in our conversations with clients. Profitability is a key concern — and many have cited increasing productivity, improving business processes, and creating effective strategies to raise profit margins as top priorities.

This guide was developed to provide you with some practical steps to help you create or build upon all areas of your organization's profitability strategy. From improving business processes to increasing productivity, to taking a 360-degree approach to the future of your business, we understand the obstacles you're facing in today's challenging economic environment.

There is no single solution to improve your profitability. However, asking yourself the right questions can help reveal new opportunities, enable you to tackle challenges, and maximize your chances of success in an uncertain marketplace.



Business productivity improvement

Many businesses experienced a drop in productivity during the pandemic. Lockdowns disrupted longstanding processes and best practices that help organizations run smoothly. Adapting to this new reality required many employees to change the way they work. Failing to optimize these new procedures may have created bad habits that impact the productivity of your business today.

According to [Harvard Business Review](#), some companies remained productive during the pandemic — but most were less productive than they were 12 months prior. Business owners may not have initially noticed the decline in productivity due to financial supports provided by the government or may have attributed decreases in productivity to the COVID-19 pandemic.

Now that lockdowns are over, many business owners are finding that the bad habits inhibiting productivity remain within their organizations. [Data](#) from Statistics Canada indicates that the labour productivity of Canadian business declined by 1.5 percent in 2022 — following a historic 6.2 percent decrease in 2021.

You need to create a business productivity improvement strategy to optimize the use of resources, increase efficiency, and eliminate the bad habits that may have developed within your organization during the pandemic. Productivity improvement is about working smarter, not harder, enabling your business to achieve greater output relative to the level of input — improving overall profitability.

As you develop a strategy for your business, you should ask yourself the following questions:

- **What processes and systems are currently in place in my business?** Processes are formalized activities that employees need to follow to work efficiently. Systems are tools that allow management to understand how every aspect of the organization is running and provide metrics to measure productivity.
- **What is limiting productivity?** There are many factors that may be limiting productivity in your business, including inefficient processes, inadequate training, or technology challenges.
- **What obstacles am I facing?** Potential challenges include resistance to change, a lack of resources, or lack of expertise.
- **What steps can I take to improve productivity?** Streamlining processes, investing in technology, and providing training and support to employees to adopt necessary behavioral changes may all help improve productivity.
- **How can I measure my success?** Implement systems to monitor productivity, analyze key performance indicators (KPIs), and adjust course as needed to ensure continuous progress.

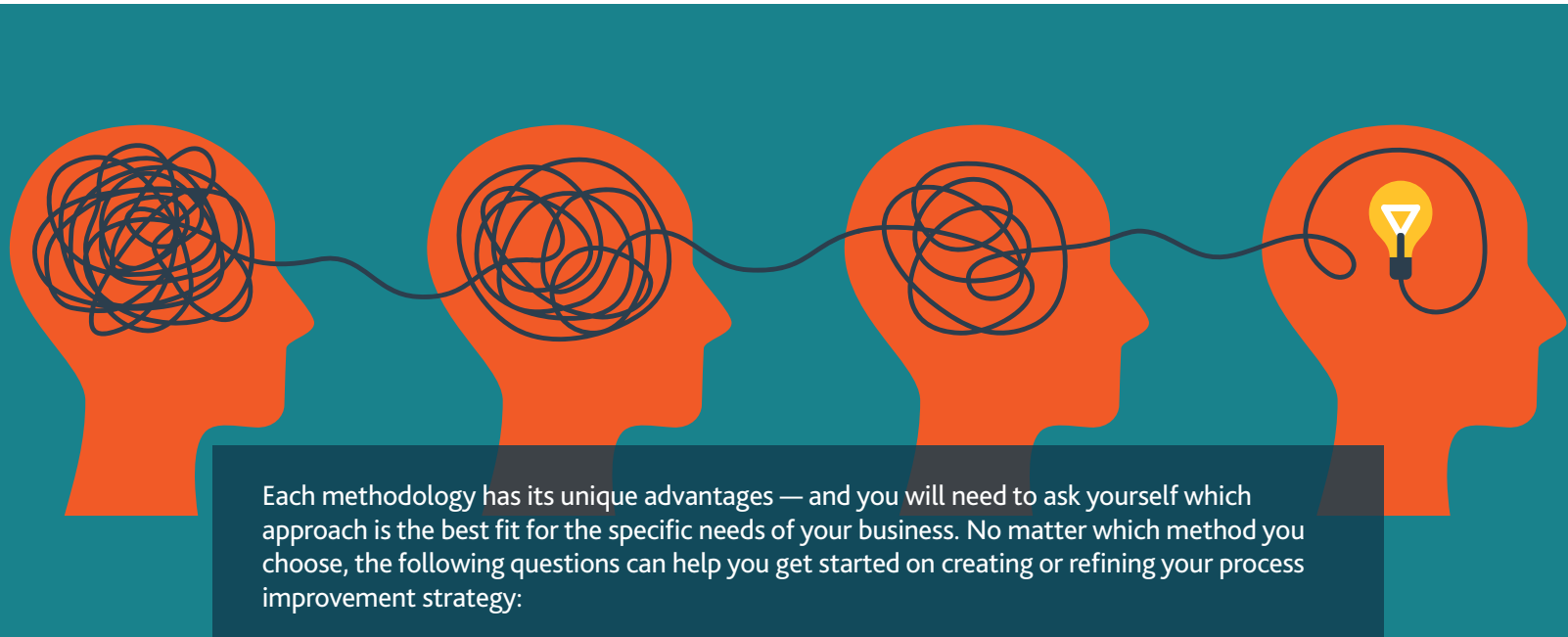
As you answer these questions, try to avoid focusing your efforts solely on improving a single area in your business. Your productivity strategy must be comprehensive and encompass the entire organization to achieve optimal results.

Be mindful as well that the behavioral changes required to increase productivity must start from leadership. Focus on the changes that must be made within yourself as a leader as well as those that must be implemented throughout the organization to maximize your chances of success.

Gaining a solid understanding of the processes, systems, and behaviors in your business will enable you to adjust course as needed to improve productivity and ensure your business remains profitable in an uncertain economic environment.

Business process improvement

Many business owners are exploring new ways to increase profitability and offset rising input costs in today's volatile economic landscape. The Raw Materials Price Index shows an increase of 1.2 percent year over year in January 2023, following a 7.5 percent year over year increase in December 2022. Additionally, 45.7 percent of businesses expect the rising cost of inputs such as labour, capital, energy, and raw materials to be an obstacle according to a recent analysis on business expectations on rising prices in Canada from Statistics Canada.



Each methodology has its unique advantages — and you will need to ask yourself which approach is the best fit for the specific needs of your business. No matter which method you choose, the following questions can help you get started on creating or refining your process improvement strategy:

- **How will I identify processes that need to be improved?** Gather data on the process and analyze it to identify inefficiencies or areas for improvement.
- **What do I need to analyze the process?** Determine the root cause of inefficiencies by mapping out the process, collecting data, or gathering feedback from employees and customers.
- **How can I make the process more efficient?** Identify ways to redesign the process to increase efficiency by making changes to workflows, job responsibilities, or exploring technological solutions.
- **How can I implement process changes?** Provide training to employees on new procedures or technology solutions to ensure the implementation of the redesigned process is successful.
- **How will I monitor or evaluate the process?** Gather data on KPIs or analyze customer feedback to ensure the new process achieves the desired outcomes.

Pairing your chosen methodology with a business process improvement strategy will enable your organization to increase efficiency, improve quality, and make informed decisions to gain a competitive advantage in the marketplace. However, it is important to remember that business process improvement isn't a one-time exercise — instead it's a continuous process and mindset for organizational leaders.

While developing a process improvement strategy is a complex endeavour, the results are worth the effort. Uncovering flaws in your operations will deliver multiple benefits and enable your business to achieve successful outcomes in an environment of rising costs and high interest rates.



Increasing profitability margins

Rising costs are lowering profit margins small business owners. What may have worked for your business in the past may no longer be appropriate in the current high-inflation environment — and you need to explore solutions beyond raising prices or increasing sales to improve your profitability and remain competitive in your industry.

According to a recent Bank of Canada [survey](#), most businesses roundly anticipate that inflation will remain above two percent until at least 2025. Most owners expect input and output price increases will be larger and more frequent than usual over the next year and anticipate slow sales growth partly due to high inflation.

As a leader, one of your responsibilities is to take an active approach to improving profitability. While the strategy you choose will be informed by the specific needs of your business, offering value-added services, focusing on selling more high-margin products, and managing your inventory to avoid excess costs are all viable solutions to increase your profit margin.

Ask yourself the following questions as you begin to develop or refine a profitability strategy to help identify the best path forward:

- **Where can I add value to my services?** Value-added services such as customized products can complement your core offerings and generate additional revenue.
- **How can I differentiate my business from its competitors?** Investigate opportunities to offer unique packaging or branding to stand out in a competitive marketplace.
- **What are my high-margin products or services?** Identifying your high-margin products and focusing on selling more of those products can increase your profitability.
- **Where am I losing profitability in my inventory?** Track inventory levels to avoid lost sales or excess inventory costs caused by overstocking or understocking.

Answering these questions will help you determine the best option to improve the profitability of your business in a way that suits its unique needs.

Many business owners are opting to raise prices or increase sales to withstand the impact of high inflation. However, identifying opportunities to differentiate your products from competitors, optimize the sales of high-margin products, or improve inventory management are all worthwhile options to increase your profitability.

A focused strategy to increase your profit margin will help your organization stand out in today's marketplace, improve its profitability, and gain a competitive edge in an ever-changing business landscape.

A 360-degree approach to your business' future



It may be difficult to look ahead at the future with so many changes happening in the marketplace today. According to recent [data](#) from the Bank of Canada, high inflation and interest rates have caused many Canadians to cut spending on products and services. Additionally, most Canadians see a recession as the most likely scenario for the economy in the next 12 months and many others are uncertain about where the economy is headed.

You might be focused on reacting to rising inflation, high interest rates, and reduced customer demand to preserve the profitability of your business. However, planning ahead is essential to secure the success of your business, no matter what the future holds.

Many leaders either look inward at the organization or outward at the market when creating a plan for the future — but this approach is limiting and does not fully account for all the unique factors that may impact your business.

A better solution is to take a comprehensive or 360-degree approach to business planning to increase its profitability and secure the future of your company. This involves assessing both the internal and external influences on your business and planning to address each of these factors to achieve long-term success.

Here are some examples of questions you should be asking yourself to gain a comprehensive view of your business and begin planning a 360-degree approach to its future:

- **What are the internal influences on my business?** Internal influences may include data such as performance metrics or levers to achieve business outcomes.
- **What data do I need and where can I find it?** Data that will help you understand internal business activities such as sales may be hidden within silos or only accessed by key information holders in your business.
- **What external factors may have an impact on my business?** External factors include evolving market trends, regulatory changes, competitor activities, and other influences.
- **Where are market trends heading?** Evaluate the current marketplace to predict where trends may be heading in the future and identify where your business can adapt its products or services to remain competitive.

Your answers to these questions should expose potential risks and opportunities to your business — both internally and externally. Predicting future trends will enable your organization to take the necessary steps to respond effectively to any scenario and remain successful in any circumstance.

Taking the steps to address risks such as shifting customer demand and capitalize on opportunities such as implementing new technology will enable your business to increase its profitability and allow it to remain competitive both now and in the future.

What comes next

Many business owners anticipate inflation will decrease in 2023 and over two thirds reported feeling optimistic about the future over the next 12 months. However, the current economic environment will continue to impact your profitability, and you need to take the right steps to set yourself up for success.

Developing or refining your profitability strategy today will empower your business to overcome future economic challenges and remain competitive in a turbulent business landscape. Companies that invest in business process improvement, create a strategy to increase profit margins, and explore a 360-degree approach to the future are best positioned to make informed decisions that ensure their business thrives — both in times of economic uncertainty and prosperity.

To learn more, sign up for our weekly Real Talk Tuesdays newsletter at mnp.ca/practicallyspeaking or view individual insights written by our top profitability advisors:

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