

Profit leakage investigation

Edition 2024



thexton
armstrong

Table of contents

3	At 9 out of 10 SMEs, profits leak away
4	What is profit leakage?
5	Consequences of profit leakage
6	Overall conclusions
7	Conclusions by focus area
8	Conclusions by sector
9	Conclusions by turnover size
11	Tips to reduce profit leakage
12	About thexton armstrong
13	About the study
14	Our services
15	Want to know more? Contact details



The 2024 ongoing profit leakage survey report is a
edition of thexton armstrong netherlands B.V.

At 9 out of 10 SMEs, profits leak away

When talking to business owners, thexton armstrong has reported that profit leakage is a major cause of slow growth and less success. Since 2012, we have been conducting ongoing research into profit leakage in SMEs. To date, more than 1,000 companies in the Netherlands and Belgium have participated.

The sixth analysis (2015-2024) shows profit leakage at nine out of 10 companies. On average, this is over 9% of turnover, varying between 8% and 10% in recent years. SME entrepreneurs are therefore leaving money on the table. This can easily be addressed by improving organisation and management, often without too much effort. This report shows where profits leak away within companies, what the causes are and what the consequences are. Entrepreneurs often focus too much on operational tasks such as managing staff, marketing and finance. This leaves working on business operations behind.

Our research highlights that profits are disappearing because too much is being done in the business and too little on the business. By paying more attention to this, entrepreneurs can increase their profits without major changes.



What is profit leakage?

What exactly is profit leakage and where is money leaking out?

Profit leakage = profit from existing business activities now leaking out of the company, expressed in euros

what about profit leakage in your business?

click and do the test

thexton armstrong's study looked at seven focus areas of the entrepreneur and the profit leakage occurring in them. These seven focus areas are briefly summarised below. All survey results are linked to these topics. The figures in this report provide insight into the distribution of these focus areas by sector and turnover size.

1. Pricing & Margin Policy

A lack of a well thought-out pricing and margin policy causes underpricing and gross margins.

2. Cost management

Insufficient attention to costs leads to excessive procurement and other operating costs.

3. Productivity

Poor management of employees and inefficient processes cause loss of productivity and non-declared work.

4. Staffing

A staffing level that is too generous or too tight incurs additional costs.

5. Debtors

When customers pay late, it can have a big impact on your cash flow.

6. Inventory

Inadequate management of inventory ensures that money is tied up and cannot be used.

7. Marketing & Sales

An unclear market proposition, too many failed bids and missed sales opportunities due to ineffective marketing and sales efforts.

Consequences of profit leakage

Profit leakage is often not at the top of entrepreneurs' list of concerns because it is less visible. The focus is more often on financing growth, finding customers and attracting good staff.

Nevertheless, good profitability contributes to continuity and a responsible financing policy. Less profit leakage means less need for external financing, as more of your own money is available.

Better business also strengthens the narrative towards financiers. It makes financing for innovation and sustainable growth more attractive. It also improves continuity and makes the company more attractive to new talent, who enjoy working in a successful team.

In general, customers and suppliers prefer to work with stable, growing companies rather than those struggling to make ends meet.

Profit leakage affects your company's stability and makes it harder to be attractive to investors and new employees. It hinders economies of scale and makes it harder to respond quickly to market changes.



Overall conclusions

First, the overall conclusion of the recent survey. The September 2024 profit leakage survey shows that 90% of the companies surveyed are again experiencing more profit leakage than during the previous survey period. While it was 8% then, this year an average of 9% of revenue is lost due to profit leakage. On page 16 is a diagram showing the distribution across the seven focus areas surveyed.

Analysis over the years shows that pricing & margin policy, productivity and sales & marketing are the biggest causes of profit leakage. This year, we particularly name productivity and sales & marketing as the areas where most profit leakage occurs.

Compared to last year, there is a slight decrease in cost management. This has declined over the past three years. Few major changes can be seen in the other areas.

Results from September 2023 to August 2024 were compared with previous surveys from September 2018 to August 2023. Each survey year runs from September to August of the following year. On the next page of this report, you will find the conclusions for each focus area



Conclusions by focus area

Pricing & Margin Policy:

The share of total profit leakage from the price & margin policy focus area has increased significantly, returning to 2019 levels. This is a clear focus area.

Cost management:

Cost management seems to be getting well under control, despite sharply higher wage and energy costs.

Productivity:

Within the productivity focus area, we see a decrease in leakage. While a sharp increase was still visible here last year, it now seems to be recovering and even comes out below the levels of 2021 and 2022.

Staffing:

Profit leakage in staffing has fluctuated around the same point for years. There is certainly still profit to be made here, but apparently a constant factor of around 7 per cent profit leakage is present in this focus area. Obviously, there is still profit to be made here too.

Debtors:

This is where the least profit leakage occurs, but the share of Debtors in total profit leakage did increase by 5% compared to last year. It would be wise if this trend does not continue.

Inventory:

Inventory is well under control, as every year this focus area delivers a constant profit leakage of around 4%. If this can drop a little more this will obviously give improvement.

Sales & Marketing:

Most of this year's profits are leaking away from Sales & Marketing. A sharp increase from last year by a whopping 6 per cent. Time for action!

Conclusions by sector

Three types of companies are distinguished in this part of the study: manufacturing (manufacturing companies), trade (mainly wholesalers) and services (such as business service providers, contractors and installation companies).

The nature of business activities affects profit leakage. The differences are significant. In manufacturing, profit leakage is 7.5%, mainly caused by productivity problems. In trade, the percentage is lower (6.1%), with sales & marketing being the biggest cause of profit leakage. In services, we see as much as 9.8% profit leakage, mainly due to problems in the focus areas of pricing & margin policy, productivity and sales & marketing.

Industry

Profit leakage on price & margin policy decreased in 2023 but has now risen again. On productivity, we actually see a decline in profit leakage after an earlier increase in 2023. Leakage on occupancy decreased, possibly due to better use of employees in the tight labour market. Profit leakage on accounts receivable, inventory and sales & marketing has remained fairly stable.

Trade

In 2023, we saw a notable increase in profit leakage in the cost management focus area. In 2024, we see a strong improvement in this. However, profit leakage in the sales & marketing focus area increased significantly.

Services

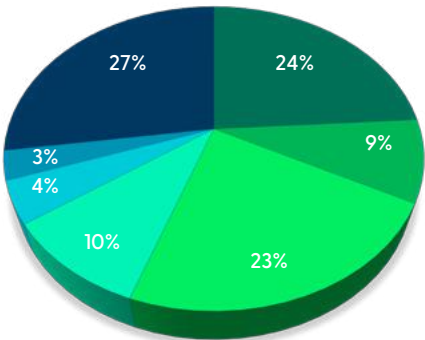
In services, profit leakage is traditionally higher than in industry and trade. This year, the profit leakage rate is 9.8%, mainly due to productivity and sales & marketing. Although a small improvement is visible in productivity compared to 2023, improvement remains necessary. After all, this is an important part of service delivery.

Conclusions by turnover size

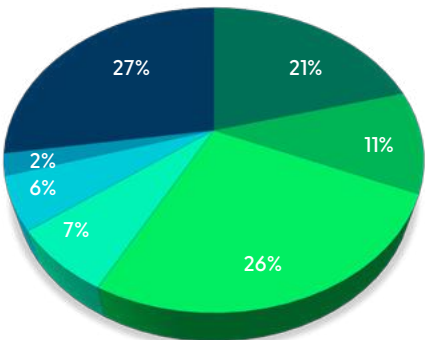
For the analysis of the results, the companies were classified according to annual turnover. The first group has a turnover between €500,000 and €1,000,000. The second group is between €1,000,000 and €2,500,000. The third group consists of companies with a turnover of more than €2,500,000 but not more than €35,000,000. In the 2019-2024 study group, the breakdown is 26%, 34% and 40% respectively.

Company size affects the level of profit leakage. We see that the percentage of profit leakage decreases as turnover increases. For companies with a turnover between €500,000 and €1,000,000, the average profit leakage rate is over 9%. For companies with a turnover between €1,000,000 and €2,500,000, this drops to 8%. At companies with a turnover of more than €2,500,000, profit leakage is below 6% on average.

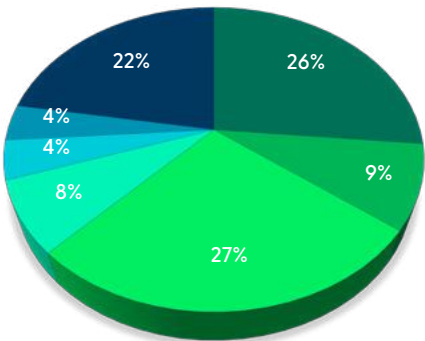
Turnover between €500,000 and €1,000,000



Turnover between €1,000,000 and €2,500,000



Turnover greater than €2,500,000



- Pricing & Margin Policy
- Cost management
- Productivity
- Staffing
- Debtors
- Inventory
- Sales & Marketing

Conclusions by turnover size

Conclusion 1:

Company size has no significant impact on the percentage distribution across focus areas: across all categories, most profits leak away in pricing & margin, productivity and sales & marketing.

Conclusion 2:

Among medium-sized companies (€1.0 - €2.5 million turnover), the trend of previous years continues: productivity and sales & marketing account for the largest share of profit leakage.

Conclusion 3:

Among small companies (up to €1.0 million in turnover), profit leakage in the focus area price & margin policy has decreased significantly. In contrast, profit leakage in cost management and sales & marketing shows a significant increase.

Conclusion 4:

We now see profit leakage on pricing & margins increasing again at large companies (more than €2.5 million turnover) after a decline in the past year. This is also true for sales & marketing, while cost management, productivity and utilisation have improved.



what about profit
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Tips to reduce profit leakage

What can you do yourself to reduce profit leakage?

Tip 1. Pricing & margin policy

An effective price & margin policy prevents Profit Leakage by constantly keeping an eye on market prices and margins per sale. This helps to adjust sales prices in time or improve operations. It also ensures that you can pass on cost increases, such as procurement and operational costs, to your customers. Do you know exactly what the true cost of your products or services is? Is your current pricing & margin policy profitable enough? And what is the effect of giving discounts?

Tip 2. Productivity

Profit leakage also arises from a lack of grip on team productivity. Are all employees' billable hours actually billed?

If not, where do things go wrong? Are there clear guidelines to increase productivity?

Tip 3. Marketing & Sales

Entrepreneurs without a good understanding of their target audience, customers' buying decisions, or their own unique value, risk profit leakage. They find it difficult to retain customers and find new ones.

A strong sales & marketing plan helps avoid this problem.



About thexton armstrong

thexton armstrong, founded in 2011 in the Netherlands, is an SME consultancy that helps professionals get the most out of their entrepreneurship. We do this by realising personal goals and improving business results.

We want to help entrepreneurs add value, both professionally and personally. We do this based on our own experience and using thexton armstrong's proven methodology. Together with you and your team, we work to prevent profit leakage and achieve growth.

Entrepreneurs always come first with us.

As an experienced mentor, we offer a listening ear and unconditional support. We help companies grow and support entrepreneurs in that process, including the moments of trial and error. We believe that with the right support and willingness to learn, every entrepreneur can achieve success. Success in entrepreneurship increases self-confidence and improves performance. Our mentorship contributes to both your business and personal development.

In our conversations with entrepreneurs, we often notice a gap between original motivations and day-to-day reality. This often leads to long working weeks, financial pressures and tensions both privately and in the workplace. Profit leakage is often a consequence of those pressures and can go unnoticed.

We see that financial challenges often stem from the fact that entrepreneurs started their business from professionalism, but then enter uncharted territory in running it. Profit leakage often occurs because they lose focus on running the business and become more operational than strategic.

We understand that entrepreneurship is complex. Not every professional is an entrepreneur by nature. The expectations around entrepreneurship can be overwhelming, with high, sometimes self-imposed standards. Asking for help can feel like failure. That is why we support professionals to strengthen their entrepreneurship and prevent profit leakage.

About the study

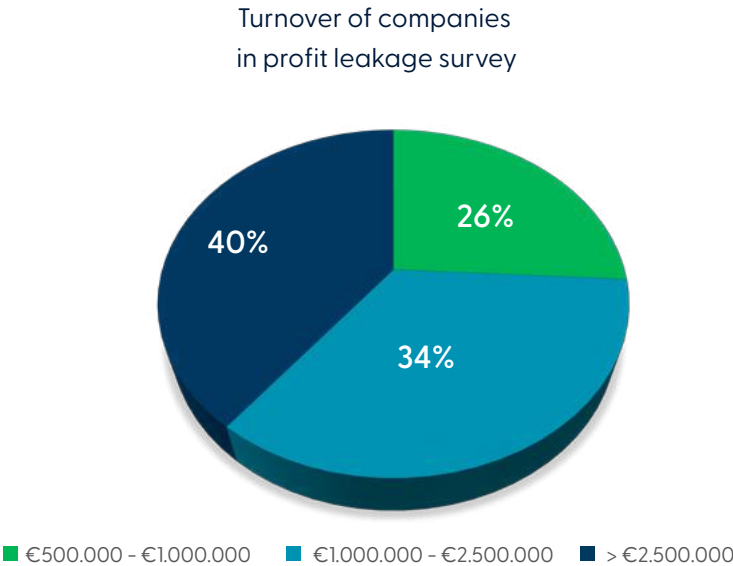
This publication is based on the ongoing Profit Leakage survey, conducted among 278 Dutch and Belgian companies with annual sales of €500,000 to €35,000,000 in the period September 2018 to August 2024.

We are very grateful to these companies for their participation.

The 2024 survey year ran from September 2023 to August 2024. The 2024 data were compared with the previous five years. Since 2012, about 1,000 entrepreneurs have participated in our survey.

During the survey, entrepreneurs were presented with 63 statements on areas for improvement in seven sub-areas: price & margin policy, cost management, productivity, occupancy, accounts receivable, inventory and marketing & sales.

The results for each sub-area were compared with the xton armstrong benchmark, based on data from comparable SMEs. The percentage of profit leakage identified was translated into the entrepreneur's financial figures, giving an indication of the potential profit leakage for each company.



Services

What can a business mentor do for you? More than you think, for example:

Business acceleration:

How can you profitably(er) further grow your business? With our method, we give you quick insight into your company's areas for improvement.

Business mentoring:

At regular intervals, scheduled together to discuss or review the development of your business, such as the figures, marketing, etc. and your personal goals. Not looking back, but looking forward.

Business divestiture:

Which business owner has (a lot of) experience with a business divestiture and knows how to properly shape this important event? thextan armstrong is ready to help and has an army of specialists at its disposal where necessary.



Want to know more?

Would you like to know more about this study? Or would you like to talk to a thexton armstrong business mentor?

Then contact us to arrange a no-obligation introductory meeting:



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