

# Create A Profit Plan for a Successful 2011

presented by



Advisors On Target

# What we will cover today...

# On the road to becoming an ON TARGET Contractor...

## Finance

- Accounting system is fully & accurately functioning
- Controls are in place to ensure accuracy
- A Realistic Workable Profit Plan (aka Budget) is in place
- Financial Monitoring is being used effectively as a business tool
- Key Metrics are being used to keep your finger on the financial pulse of your business
- Owner reviews Financial Data and Metrics at least monthly
- An adequate credit line is in place
- Company is profitable, solvent and able to finance its growth and reward stakeholders

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## Profit Improvement Strategies:

## or How to Make More Money

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## Key Profit Drivers

*Work with these Key Profit Drivers to improve profitability and to focus on the areas where most potential increase in profit is possible*

- Price
- Volume of sales
- Variable costs
- Fixed costs

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## 1: Working On Price

- You can increase profit by **increasing** price provided that any resulting reduction in volume does not offset the effect of the price increase on the profit margin

OR

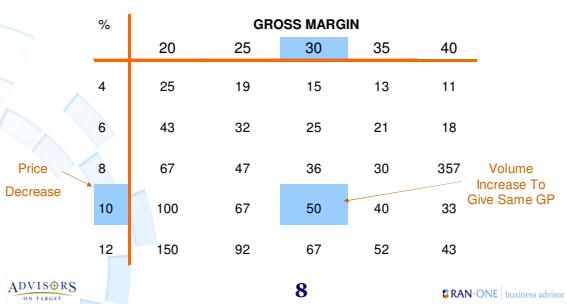
- You can increase profit by **decreasing** price provided that the increase in volume is sufficient to offset the reduction in profit margin caused by the reduction in price

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## How Much Additional Volume Do I Need If I Cut My Price?

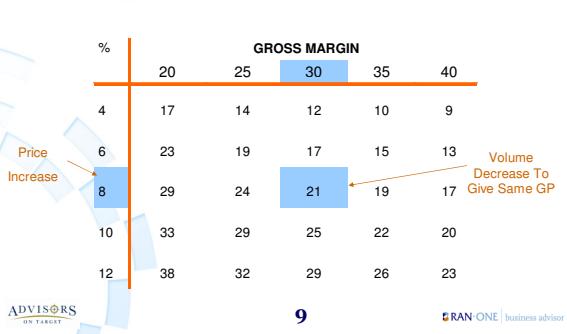


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## What Volume Can I Afford To Lose If I Increase My Price?



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## 2: Working On Volume Of Transactions

- You can increase profit by **increasing** volume of sales
  - provided that price remains constant so that the increase in volume translates in higher gross profit
- OR
- You can increase profit by **decreasing** volume of sales
  - provided that the resulting cost savings outweigh the reduction in gross profit from the decrease in volume

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### 3: Working On Costs

## Working Definitions

- **Variable Costs:** These costs can vary directly with sales revenue, in other words when sales rise or fall, they rise and fall.
- **Fixed Costs:** These are those costs that are incurred irrespective of whether or not any sales are made. They are usually associated with the physical capacity of the business to provide its service to customers.

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## Working On Fixed Costs

- You can increase profit by **reducing** fixed expenses
  - provided that sales revenue does not decline or if it does, the reduction in revenue is less than the saving in fixed expenses.
- OR
- You can increase profit by **increasing** fixed expenses
  - provided that there is a resulting increase in gross profit from greater market share or higher gross margin.

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## Working On Variable Costs

- You can increase profit by **decreasing** variable or activity related expenses
  - provided that there is no change in product or service quality that could have a consequential effect on sales volume
- OR
- You can increase profit by **increasing** variable or activity related expenses
  - provided that the improvement in product or service quality allows you to win greater market share or premium price

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## Profit Improvement Strategies Summarized

1. Increase sales revenue by increasing price and/or volume
2. Keep variable costs at least equal to or below the rate of increase in sales revenue
3. Achieve greater productivity from the resources available

The key is to understand the likely outcomes of each strategy. Proper planning allows you to work through each potential scenario and reduce business and financial risk.

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## Drilling Down Into Profit Improvement Planning: Understand The Components Of Sales Revenue

**TOTAL REVENUE = Total Customers x Number of Transactions x Average Sale Value**

**TOTAL CUSTOMERS** = Number of customers at start - customers lost + new customers

**NUMBER OF TRANSACTIONS** = The number of times each customer deals with you

**AVERAGE SALE VALUE** = The average value of each sale

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# How To Increase Total Sales Revenue

# Mapping The Options

## Summary



# Creating a Budget to achieve your Profit Plan

## Get to know your numbers

# The Budgeting/Profit Plan Process

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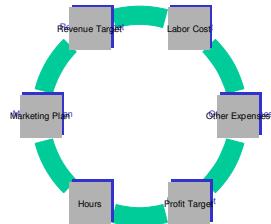
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## Use Design Spiral Thinking

- What is revenue target?
- What is projected cost of direct labor?
- What other expenses need adjustment?
- Does budget achieve profit target?
- Do hours support revenue target?
- Should revenue target be adjusted?
- Does marketing plan support revenue target?



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## Let's look at an example...



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## Benchmarking Stats



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## Benchmarking Averages

- Direct Costs
  - Materials
  - Labor (without burden)
  - Subcontractor
- Gross Profit Margin
- Variable Costs
- Overhead Costs
- Net Operating Profit

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## Monitor your Progress

- Incorporate Budget into QuickBooks
- Monitor Monthly & YTD Progress
- Make management decisions to achieve plan
- Identify Action Steps for upcoming month

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## Key Metrics

## Other Important Financial Data to Watch

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## Days Sales Outstanding

### Accts Receivable x 365

(previous 12 months rolling revenue)

Should be 30 days or less

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## Break-even Sales

## Overhead Expenses

Break-even Sales =

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## Gross Profit Margin

Calculate by week, month, or year

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## Cash in Bank – Ideal

### Overhead Expenses (next month)

#### Plus: Fixed expenses for months 2 & 3

Or – just think 3 months fixed expenses for a quicker calculation

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## Benchmarking Averages

- Current Ratio
- Debt Ratio
- Days Sales Outstanding

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If you need more help with budget/profit plan for your business just give me a call at 619.291.3700

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