



FLP Session 5:

- TTM Review & Analysis
 - How and why to get Gross Margin and Profit Margin Consistent
- How to use Break-even formula to help your business
- Three ways to affect profitability in your company
- Putting it all together in monthly routines



Financial Foundation Learning Group



Last Session! – Process NOT Event

- We cover this in 5 sessions
- Just the beginning; don't expect it to be finished in 5 weeks!
- Can take months or even a year to fix all internal processes to get the data you want
- Want you to understand the WHY
- Take your partners (bookkeeper and/or accountant)

TTM vs Pro Forma P&L's (recap)

- TTM (Trailing Twelve Months) - this is what happened
 - Financial hygiene
 - Monthly routines
 - Analyzing trends
- Pro Forma: hypothetical scenarios for financial projections – this is what you want to happen
 - Used to project the impact of financial decisions on your business
 - Can help you decide between two potential strategies
 - Will help predict how the business is likely to perform in the future, etc



Service Co TTM: Mountainside Cleaning

- Work out Volatility (equalize each month)
- Look at Sales target, Look at GM, hold expenses. That's what impacts bottom line (Profit Margin). The three dovetail together
- Profit Margin is the RESULT
 - ↑ Revenue (= # units sold)
 - ↑ GM (increase prices or reduce COGS - volume discounts with suppliers)
 - ↓ Fixed Expenses
 - NOTE: **Not useful to set PM target**



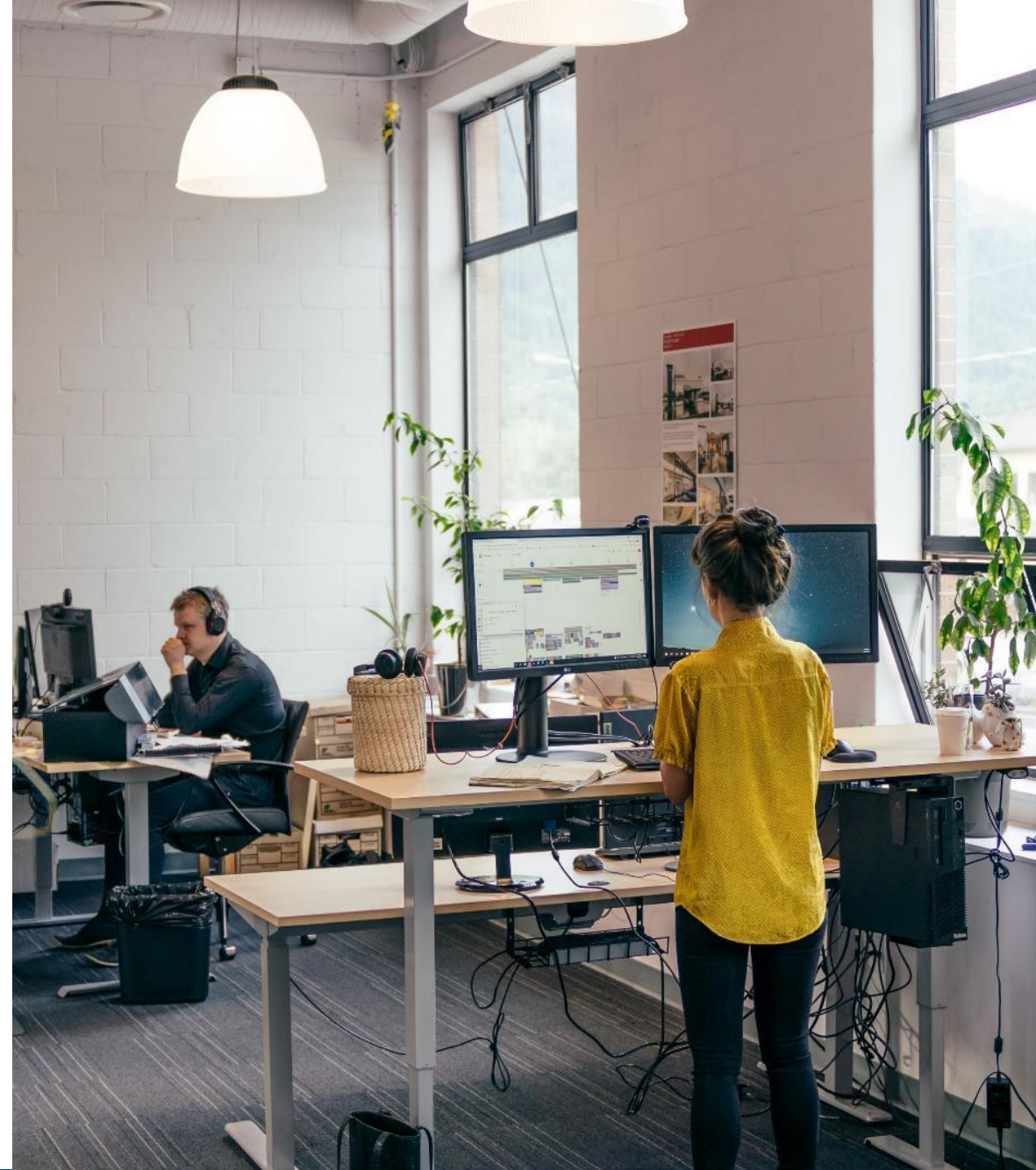
Break-Even formula as a tool

- It's called a BE Analysis but it goes well beyond that. It CAN help you make very relevant decisions
 - Shows how much money you have to A) Hire B) Buy Equipment C) Pay yourself etc.

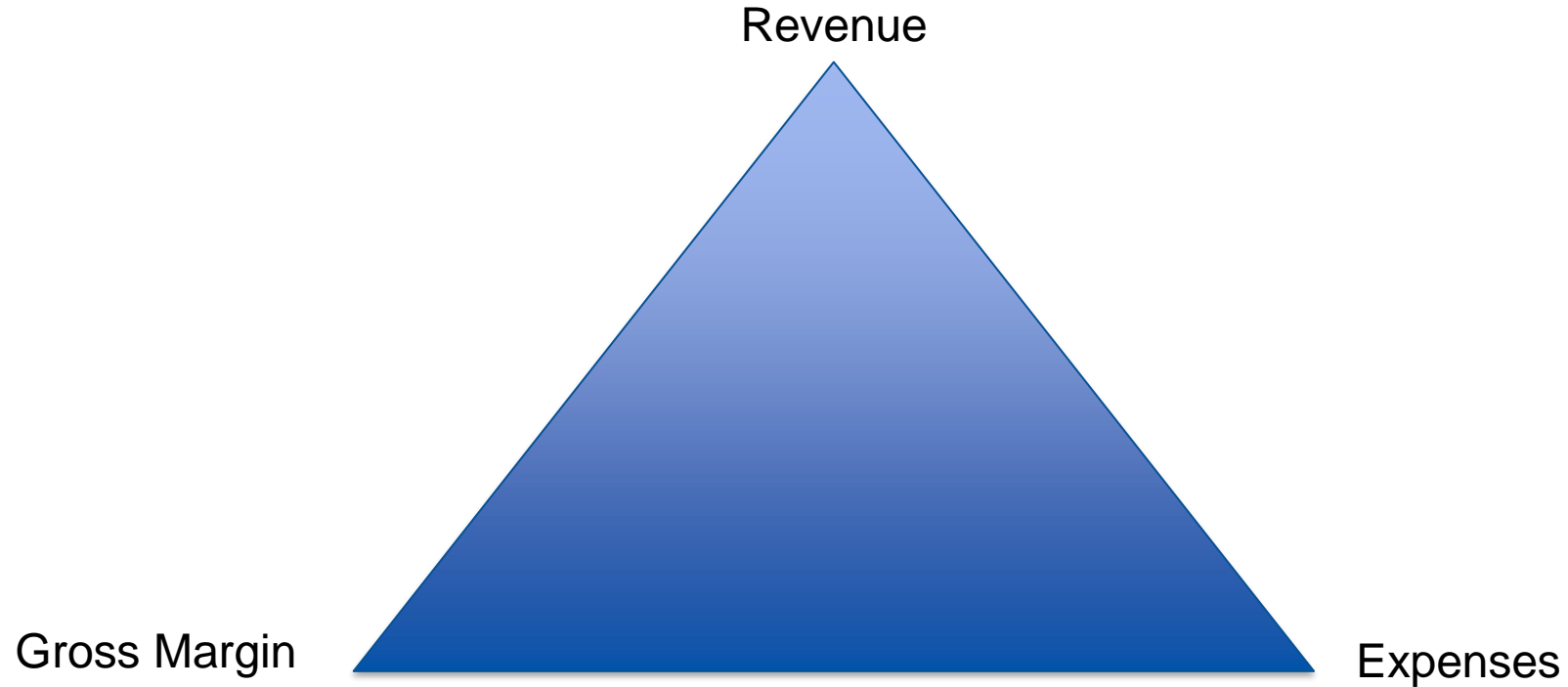
Break Even Point =

Fixed (Indirect) Expenses

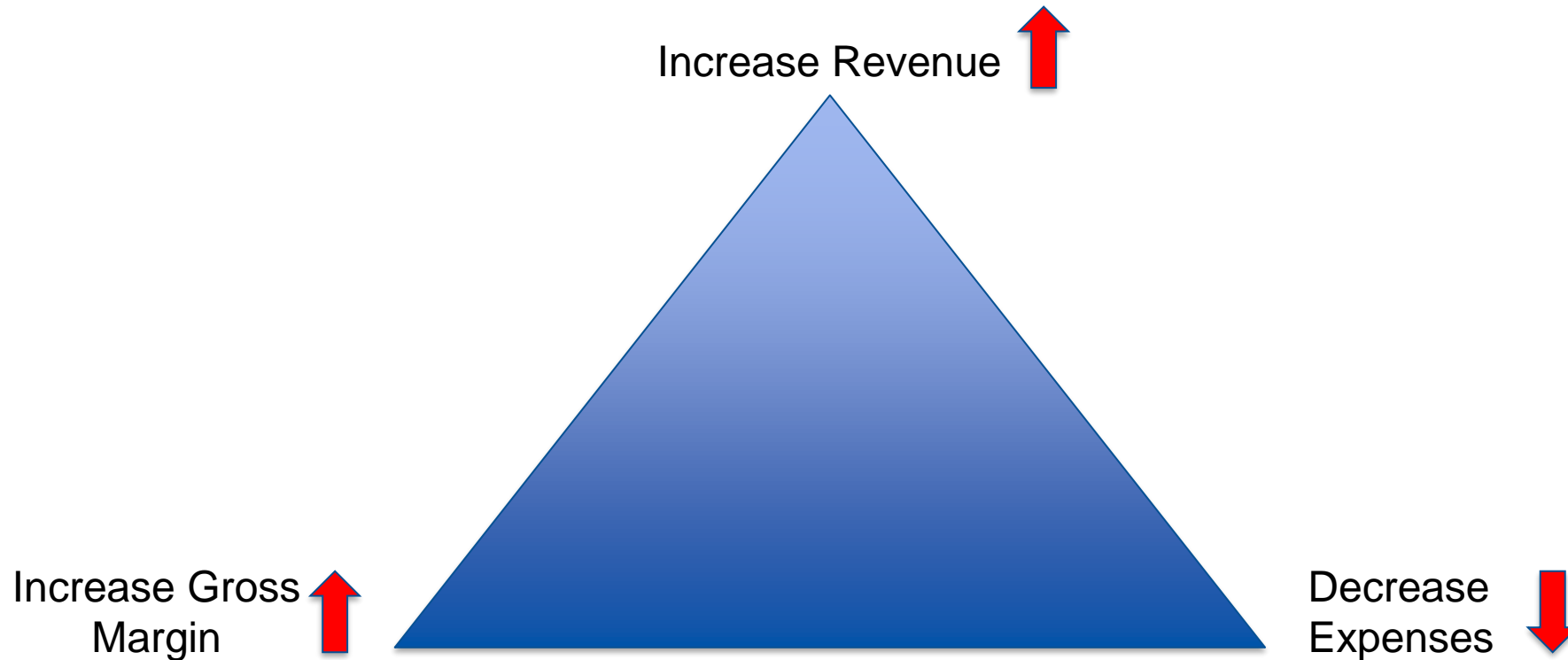
Gross Margin %



Break-Even Analysis



Three ways to make more profit



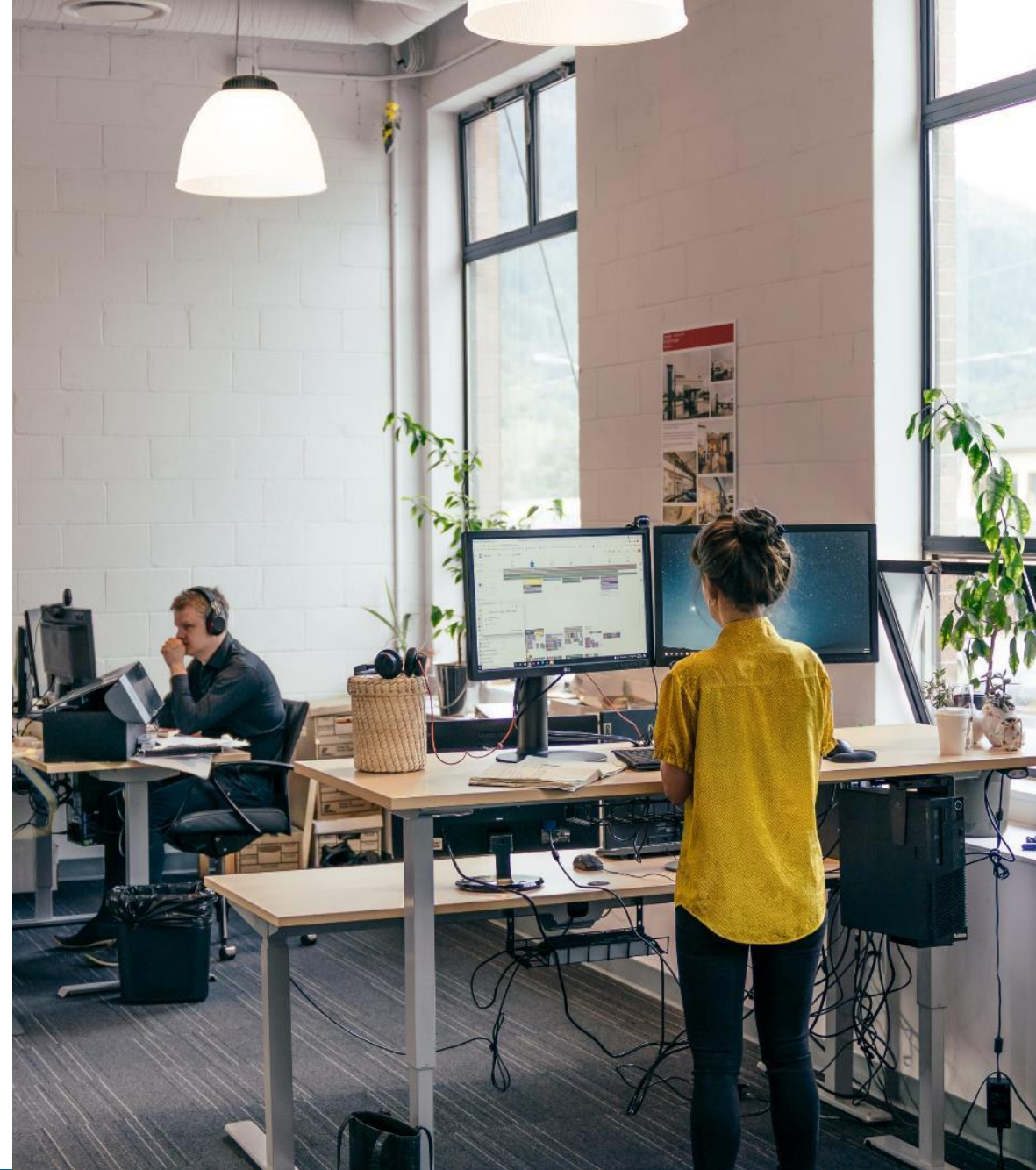


Break-Even – as a tool

- If you know GM, and monthly expenses (burn rate), you can calculate everything else – How much you need to sell, how much you have left over
- It's WHY you want your GM and monthly expenses consistent
- It all comes from figuring out GM first; the rest is like dominos
- Focus on the income section first, then GM, Then expenses
- Now that you have Income broken down, and COGS set up to have a good grasp on GM, you look at the expenses
- They dove-tail together, and that's where real profit can be made

Monthly Financial Review

- Look at revenues – how to drive higher.
- Look at margins – look for trends.
- Look for anomalies - why?
 - Margins unexpected?
 - Big expense you're unsure of?
 - If you don't know, ask your Bookkeeper
- Make adjustments in your business if necessary.



What we hope you learned

- WHY knowing your financials is important
- Inventory vs COGS
- Mark-up vs Margin
- Where you are most profitable
- Margin analysis to know what to market
- The importance of your Gross Margin!!
- Break even analysis and how it helps you run the business
- When you'll have enough money to buy x
- How many units to sell to pay yourself
 - Take \$50, 80K, 100K?





Homework

- Know your average monthly revenues
- Know your average GM
- Know average monthly expenses
- How can you take the lumpiness out of your expenses? (Important to note WHY?)

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