



Session 3:

How to Use Gross Margins by Revenue Centre to
Optimize your P&L

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**BASIN
BUSINESS
ADVISORS**

Session 3 Outline

- **Structure** your TTM (Trailing 12 months) for success
- **Stabilize** your TTM/Profit and Loss
- Key Calculations on TTM
- Gross Margin by Revenue Centre Analysis
- **Optimize** your Gross Margins:
Levers you can pull



TTM – Structured for Success!





Chart of Accounts and General Ledger (GL) Codes

- Review the COA
- What are GL Codes?
- Discuss with Bookkeeper

Chart of Accounts & GL Codes

A chart of accounts (COA): is a structured list (or directory) of all the financial accounts.

In accounting, **a GL code, or General Ledger code**, is the number assigned to each account within your COA.



Example: Chart of Accounts and GL Codes



	A	B	P	R	S	T	U	V	W	X
	BASIN BUSINESS ADVISORS									
2	GL Code	Chart of Accounts	TOTAL (YTD) Current Year							
3		Sales Income (Revenue Centres)								
5	4100	Retail Hot Tub	\$ 786,499	65.0%						
6	4200	Part & Accessories	\$ 145,200	12.0%						
7	4300	Repairs	\$ 108,900	9.0%						
8	4400	Water Care/Maintenance Club	\$ 169,403	14.0%						
9		Total Sales	\$ 1,210,002	100.0%						
11										
12		COGS Retail Hot Tub Sales								
13	5110	Wholesale Cost of Hot Tub	\$ 401,300							
14	5120	Hot Tub Starter Kits	\$ 46,670							
15	5130	Freight and Delivery	\$ 17,500							
16	5140	Retail Staff Wages	\$ 72,000							
17	5150	Sales Commissions	\$ 10,000							
18		Total COG Hot Tub Sales	\$ 547,470							
19		Gross Profit	\$239,029							
20		Gross Margin	30.39%							
21										
22		COGS Accessories								
23	5210	Parts/Materials	\$ 85,000							
24	5220	Freight and Delivery	\$ 9,500							
25		Total COG Accessories	\$ 94,500							
26		Gross Profit	\$50,700							
27		Gross Margin	34.92%							

Example: Chart of Accounts & GL Codes

Note:
Each Line on your P&L has a unique number assigned to it.
This is the **GL Code**.
The names associated to those numbers is the **Chart of Accounts**



Questions?



Stabilize the TTM/Profit and Loss Statement



WHY do you want to stabilize this data?

To measure the impact of changes you make in your business



HOW to Stabilize TTM:

1) Invoicing and the Importance of Timing



Invoice in the same month the product/service was delivered



Establish consistent end-of-month procedures



Align client contracts & expectations with your billing cycles



Bill for Work in Progress (WIP) when appropriate



Avoid revenue leakage

HOW to Stabilize TTM:

2) Inventory and COGS

- Inventory lives on the Balance Sheet until sold
- COGS hits the P&L at the time of sale
- Leverage POS or Operating System to track inventory
- Create a month-end SOP with your bookkeeper
- Ensure clean handoff:
 - POS → Bookkeeper → Financials



HOW to Stabilize TTM:

3) Wage Allocations



Wages tied directly to products or services delivered - in COGS (direct vs indirect)



COGS wages should track directly against revenues; COGS go up and down with Revenues



For employees that work generating revenue (direct) AND on the business (indirect), use **attribution (%)**



All **direct wages are allocated** to the CORRECT revenue centre



HOW to Stabilize TTM:

4) Even Out Expenses

- Year-end (annual) items **spread out monthly**
 - Insurance, Professional fees, Taxes
- Look for opportunities to **spread out big items**
 - Leases, Rentals, Owner Salaries
- Amortization shown monthly, not annually
- **Use Pre-Paid Expense accounts** on your balance sheet
 - Professional Fees (Accountant)
 - Insurance
 - Taxes
 - Owner's Salary

How far back should you go?

- Going back to do this retroactively is onerous
- Might produce inaccurate data if your systems weren't set up properly
- Can go back 1 to 3 months if it's not too much trouble
- What's **more** important is getting your systems and processes accurate now



Example: Stabilizing your TTM/Profit & Loss





Questions?



Key Calculations on your TTM



Ensure You Have These Calculations on Your TTM

1. Revenue as a % of sales
2. Overall Gross Margin
3. Gross Margin by Revenue Centre
4. Net Profit Margin





How to Read GP and GM on a P&L

- Gross Profit = Shown as a dollar figure (sometimes automatically)
- Gross Margin = Often not shown; you may need to **calculate it manually**
- Both are critical:
 - Gross Profit shows *scale*
 - Gross Margin shows *efficiency and profitability*

Gross Margin by Revenue Centre Analysis



Gross Margin: Where does the data come from?

Revenues:

- Invoicing
- POS/OS systems (Lightspeed, Jobber, Jane, Shopify)

COGS (or COS – Cost of Sales):


- POS sometimes does this
- Purchase orders
- Tracking time (T-Sheets, other Apps)
- Reporting (Plumbers in the field)
- Attributions and Allocations
 - Work with bookkeeper or accountant
 - Sometimes close is good enough
- Research industry best practices



The Power of GM by Revenue Centre Analysis:

- **Focus on what you can control**
- **Track performance over time**
- **Measure impact:** changes show up in your P&L
- **Compare apples to apples:** margin % makes centres comparable
- **Account for seasonality**





How to Calculate GM by Revenue Centre

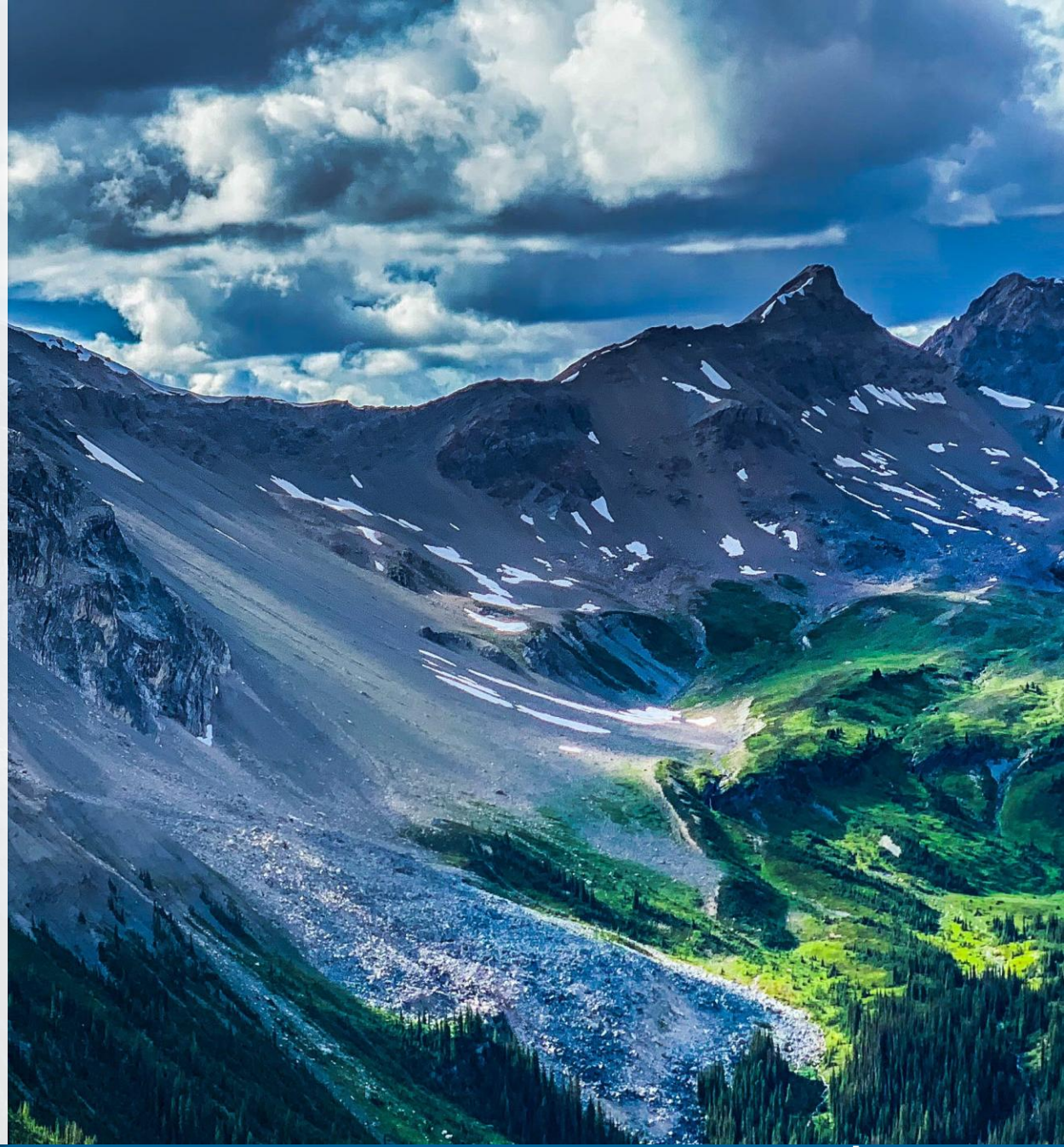
- Now that Revenue and COGS are aligned, calculate GM for each channel
- **Gross Margin =**
 $(\text{Revenue} - \text{COGS}) \div \text{Revenue}$
- Calculate Overall GM and compare each Revenue Centre to overall number

Example: Gross Margins by Revenue Centres





Questions?



Optimize Your Gross Margins: Levers You Can Pull to Increase Your GM



Levers You Can Pull to Increase Your Gross Margins

- Pricing – Increase pricing
- Decide whether to keep or drop
- Input Costs
 - Suppliers, Inventory Control
 - Find efficiencies – Equipment vs Labour
- Sales and Marketing
 - Marketing higher margin line items
- Make a COGS a Revenue Centre





Levers You Can Pull

1) Pricing

- Begins with GM target/goal
- Know your competition and differentiate
 - People buy value
- Protect margins in time of change (Inflation, supply issues)
- Ensure pricing aligns with changes in COGs
- If you're not losing customers, you aren't priced high enough
- Be a leader, not a follower

Levers You Can Pull

2) Expand or Drop Revenue Centres

- Gross Margins relative to overall performance
- Can you change or consider dropping
- Put more focus on what's working, less focus on what's not working
- Can't be everything to everyone
- The power of "NO"
- Increase sales and marketing efforts for higher margin centres
 - Look at new markets
 - Scaling





Levers You Can Pull

3) Take Control of COGs

- **Leverage supplier relationships**
 - Ask for discounts or ways to lower costs
 - Demand better payment terms
 - If you want to have a SALE, ask suppliers to partner
- **Improve productivity**
 - Create SOPs for employees
 - Provide training on SOPs
 - Use KPIs to align the team (more billable time)
- **Look for Automation**
 - Technology
 - Machines

Levers You Can Pull

4) Sales and Marketing

- Market and promote higher margin revenue streams
- Target new markets (geography)
- Do competitive analysis and determine key differentiators; sharpen your positioning
- Define your avatar (core customer) and market ONLY to them
- Develop a clear, repeatable sales process and funnel
- Track sales metrics tied to profitability (not just volume)

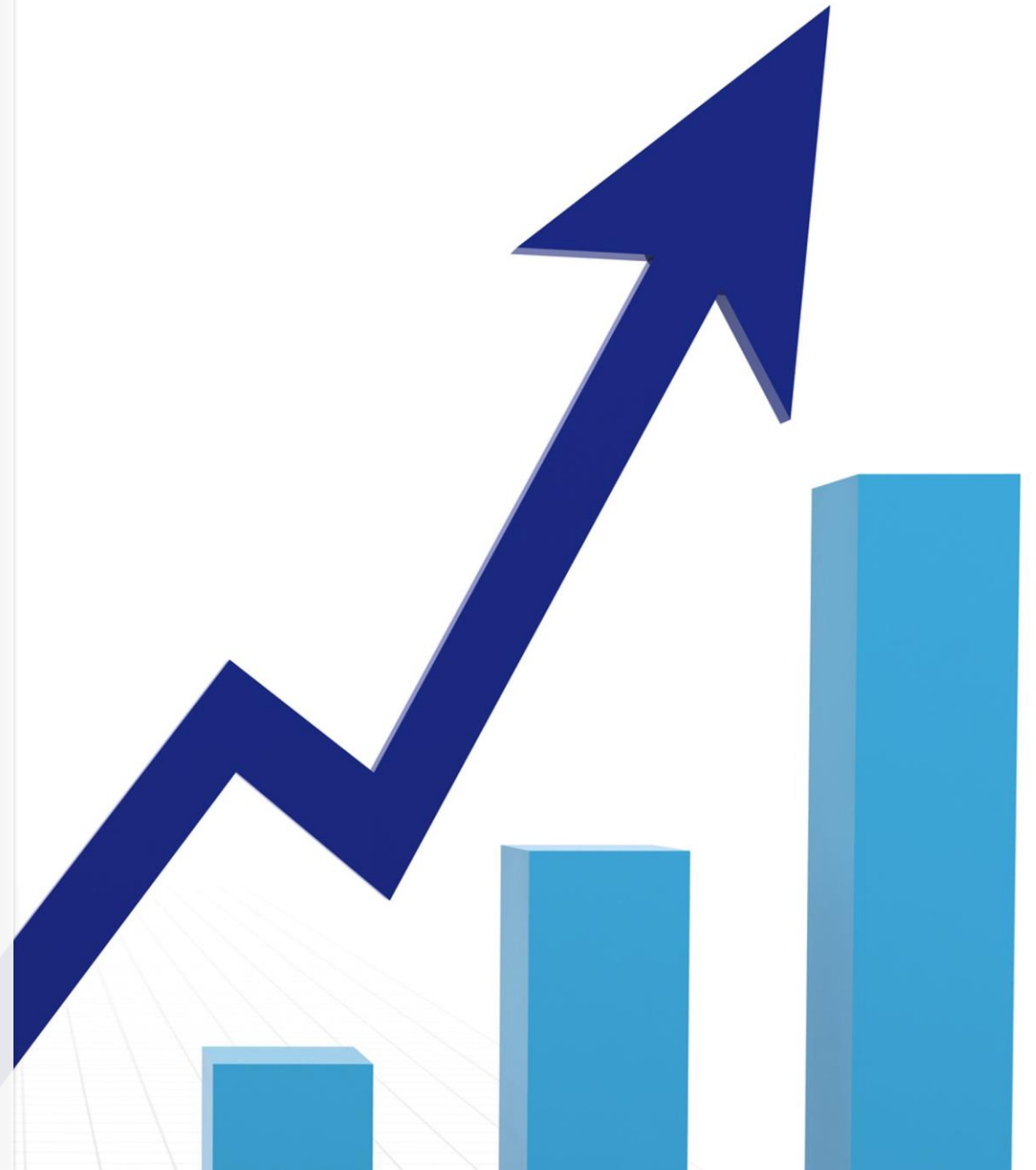


Levers You Can Pull

5) Make COG a Revenue generator

From visibility to monetization:

- Bill for project mgt fees or design fees
 - Builders, Landscapers, Cabinet Makers
- Track time and usage and price accordingly
- Mark up Sub-Contractor work
- Add line items on invoices for equipment, vehicles or tools
- Charge (a lot) for your time



Example: Optimized
Gross Margins on the
TTM!





Questions?



Measure Your Progress!!

What gets measured, gets managed

- What gets measured, gets managed
- Set clear Gross Margin (GM) targets
- Structure and stability create visibility
- Visibility allows you to measure the impact of each change
- Set and track KPIs to stay aligned with your margin goals



In Summary: From Change to Impact

- Analyze and **strategize**
- **Make one change**
- **Monitor** your results over a few months
- **Reassess** based on what the numbers are telling you
- **Adjust** as needed to stay on target
- **Repeat** the cycle to continuously improve margins



Homework for Session 3

- Calculate Gross Margin by Revenue Centre
- What did you learn? Any surprises?
- What decisions could you be making? Form a hypothesis on levers you can pull to optimize your business



Thank You



Q & A



Notes

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