Supporting Strategies Croyle Financial Academy

Improving Company Profitability

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Why Am I Here?

"Cancer didn't kill my friend. His business did."

Bio

- Marty Croyle, CPA, CGMA
- St. Lawrence University, BS in Economics
- Northeastern University, Masters in Accounting
- Bentley University, Masters in Taxation
- Deloitte & Touche, Senior Manager
- Yoshida, Croyle & Sokolski, Partner
- Croyle & Associates, President
- Stowe & Degon, Partner
- Croyle Financial Consulting, President

Alarming Statistics

- **Dun & Bradstreet & Inc. Magazine**
  - 33% fail in year 1
  - 50% fail in year 2
  - 75% fail in year 3
- **Forbes Magazine**
  - 80% fail by year 3

Alarming Statistics

- Running a business is hard work
- 4 characteristics of struggling businesses:
  - Poor financial results
  - Poor financial reporting
  - Owners not understanding numbers
  - Owners ignoring numbers

SBA Survey

75%
of small
businesses
prepare financial
for only one reason

SBA Survey

Tax returns

Does that mean only

25%

prepare financials to better run their businesses?

Today's Theme

- Increase profitability
  - Topic 1: Overview of income statement & calculating profitability
  - Topic 2: Conditions which improve/destroy profitability
  - Topic 3: What one number to focus on

"Your competitors don't want you to run a more profitable business."

Topic One

Overview of Income Statement and Calculating Profitability

Income Statement

- Report owners best understand
- Sales - expenses = net income
- Aka:
  - Statement of Income
  - Profit & Loss
  - P&L
  - Statement of Operations
- We'll call it "Income Statement"

Income Statement

Sales	5,000,000
Cost of goods sold	3,750,000
Gross profit $'s	1,250,000
Gross profit %	25%
Selling, general & administrative (SGA)	920,000
Net income	330,000

Income Statement

Sales	Product/services sold	5,000,000
Cost of goods sold	$ paid to create what's sold	3,750,000
Gross profit $'s	**$ earned from what's sold**	**1,250,000**
Gross profit %	**% gross profit/sales**	**25%**
Selling, General &	Other $ paid to run business	920,000
Admin (SGA)		
Net income	What's left	330,000

Gross Profit

- Gross Profit (aka):
  - Gross Margin
  - Margin
  - GP
- Listed in dollars
- Helpful to show %

How to Calculate Gross Profit

Sales	$100	$100
(CGS)	(75)	(80)
Gross Profit	$25	$20
$GP\% = \frac{GP}{Sales}$	$\frac{\$25}{\$100} = 25\%$	$\frac{\$20}{\$100} = 20\%$

Group Exercise: Calculate GP%

Sales	$100	$100
CGS	(85)	(90)
Gross Profit	$15	$10
$GP\% = \frac{GP}{Sales}$	$\frac{?}{?} = ?\%$	$\frac{?}{?} = ?\%$

How to Calculate Gross Profit

Sales	$100	$100
(CGS)	(85)	(90)
Gross Profit	$15	$10
$GP\% = \frac{GP}{Sales}$	$\frac{\$15}{\$100} = 15\%$	$\frac{\$10}{\$100} = 10\%$

Correcting Drop in Gross Profit

Sales	$100	$106.67
(CGS)	(75)	(80)
Gross Profit	$25	$26.67
$GP\% = \frac{GP}{Sales}$	$\frac{\$25}{\$100} = 25\%$	$\frac{\$26.67}{\$106.67} = 25\%$

Impact of Falling GP%

Gross Profit	25%	20%	15%	10%
Sales	5,000,000	5,000,000	5,000,000	5,000,000
Cost of sales	3,725,000	4,000,000	4,250,000	4,500,000
Gross profit	1,275,000	1,000,000	750,000	500,000
SG&A	920,000	920,000	920,000	920,000
Net income(loss)	**355,000**	**80,000**	**(170,000)**	**(420,000)**

The GP Goal

- Increase GP$:
  - Grow revenue
  - Reduce costs

  Simple but hard

Topic Two

Conditions which improve/destroy profitability

Group Exercise Why GP% Increases

List conditions which increase GP%

List conditions which decrease GP%

Why GP% Increases:

- Price increases
- Pass on higher costs
- Efficient work
- Trained employees
- Right tools
- Product mix

Why GP% Decreases:

- Absorb higher costs
- Reluctant to increase pricing
- Lower pricing to win work
- Product mix
- Inefficient delivery of product/service
  - Rework, rejects, overruns, punch lists

- “All revenue is not created equally.”

The Fastest Ways to Grow GP$

- Increase sales
  - Add customers
  - Prevent defections
  - Increase pricing

- **Reduce cost of goods sold**
  - Create systems and process
  - Training
  - Eliminate rework and wasted time

How To Reduce CGS?

- Create systems & procedures for everything you do
- Improves quality
- Improves consistency
- Improves efficiency
- Competitively price raw materials

How To Reduce CGS?

- Eliminate the cost of wasted labor

- “I can’t afford to buy employees a second monitor.”

High Cost of Wasted Time

- Adding a second monitor improves productivity by 30%.
- Adding a third monitor improve another 30%.

High Cost of Wasted Time

- Assume a $50k/year employee wastes:
- 10 minutes/hour
- Times 5 days/week
- Times 48 weeks/year
- = 320 wasted hours * $24/hour = $8k/year
- If 5 employees = $40k/year
- If 10 employees = $80k/year

- Vs. the cost of $100 monitors

High Cost of Wasted Time

- Not planning a job
- Having inadequate tools
- Lack of training
- Poor communication
- Lack of technology

Topic Three

The most important line on the Income Statement

Everyone tells you to focus 100% on increasing sales

I believe that most owners are thinking about profitability all wrong.

They think they need to maximize revenues

Instead of focusing on maximizing revenue, I think they should focus on maximizing gross profit $ & % first.

Impact of Falling GP%

Gross Profit	20%	15%		
Sales	5,000,000	5,000,000		
Cost of sales	4,000,000	4,250,000		
Gross profit	1,000,000	750,000		
SG&A	920,000	920,000		
Net Income (loss)	80,000	(170,000)		

Impact of Falling GP%

Gross Profit	20%	15%	Increase sales 20%	
Sales	5,000,000	5,000,000	6,000,000	
Cost of sales	4,000,000	4,250,000	5,100,000	
Gross profit	1,000,000	750,000	900,000	
SG&A	920,000	920,000	920,000	
Net Income (loss)	80,000	(170,000)	20,000	
Improvement			190,000	

Impact of Falling GP%

Gross Profit	20%	15%	Increase sales 20%	Increase GP 5%
Sales	5,000,000	5,000,000	6,000,000	5,000,000
Cost of sales	4,000,000	4,250,000	5,100,000	4,000,000
Gross profit	1,000,000	750,000	900,000	1,000,000
SG&A	920,000	920,000	920,000	920,000
Net Income (loss)	80,000	(170,000)	20,000	80,000
Improvement			190,000	250,000

Fix your gross profit issues before you focus on increasing sales

ANY FINAL QUESTIONS?

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