

Take
Action
Series

Making More Money

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Overview

The objective of this manual is to teach you four distinct ways you can make more money in your business. It will outline your options for making more money and give you the tools to decide which approach or a combination of approaches best fit your business model. In addition, it will demonstrate how you can use the profit planning thought process to evaluate the ramifications of contemplated business decisions like; changing your price, altering your sales volume and/or changing your cost structure.

MAKING MONEY! Sounds easy when you say it fast, does it not? Well, making money is really not all that difficult if you understand what drives profitability in your business model. Every business is different, yet the practice of making money is universally the same for all businesses around the globe. What makes it different for every business is how the concepts are applied in each business situation. As we often tell business owners in financial management training sessions, and bankers who attend our commercial lending schools, “before you can make money, you must first STOP losing money.” To gain a better understanding of how any business model works you must first understand the inter-relationship in your business of the following factors; Price, Volume and Cost Structure.

Race to the Bottom Line

When making money or, as we often refer to it as the race to bottom line profitability, every business owner needs to become familiar with two different income statement formats. They are the Accounting Format, used for presentation purposes where the structure is controlled by Generally Accepted Accounting Principles (GAAP). And, the Cost Format, which is controlled by whether the benefits outweigh the cost thought process, and should be used for making managerial decisions. The two racetrack formats are illustrated below:

INCOME STATEMENT RACETRACKS

ACCOUNTING FORMAT

	SALES
MINUS	Cost of Goods Sold
EQUALS	Gross Profit
MINUS	Operating Expenses
EQUALS	Pretax Profit

COST FORMAT

	SALES
MINUS	Variable Costs
EQUALS	Contribution Margin
MINUS	Fixed Costs
EQUALS	Pretax Profit

Making Money Worksheet — Reduce Fixed Cost Strategy

This strategy establishes what your company can afford to spend for fixed costs and generate your desired level of profits. When implementing this strategy you are making a couple basic assumptions about your business model; 1) you cannot increase your sales, and 2) you cannot improve your operating efficiency; cannot cut your VC%.

STEP 1. FROM COMPANY INCOME STATEMENT CLASSIFY / RECORD ALL YOUR COSTS AS FIXED OR VARIABLE:

Desired Profit	\$ _____	Sales Volume	\$ _____
Total Fixed Costs	\$ _____	Total Variable Costs	\$ _____

Hint: Total Variable and Fixed Costs must = Total Cost of doing business.

STEP 2. CALCULATE COMPANY VARIABLE COST % BASED ON YOUR ALLOCATION:

$$\text{VC\%} = \frac{\text{Your Variable Costs}}{\text{Your Sales Volume}} = \frac{\$ \quad}{\$ \quad} = \quad \%$$

STEP 3. MULTIPLY SALES (EXISTING OR PLANNED) BY THE VARIABLE COST %:

VC \$	=	Sales \$	X	VC %	=	?
VC \$		\$ _____	X	_____ %	=	\$ _____

STEP 4. SUBTRACT VARIABLE COSTS FROM SALES TO ESTABLISH COMPANY CONTRIBUTION DOLLARS (CM \$):

CM \$	=	Sales \$	–	VC \$	=	?
CM \$		\$ _____	–	\$ _____	=	\$ _____

STEP 5. SUBTRACT PROFIT OBJECTIVE FROM CONTRIBUTION DOLLARS TO ESTABLISH FIXED COST LEVEL:

FC \$	=	CM \$	–	Desired Profit \$	=	?
FC \$		\$ _____	–	\$ _____	=	\$ _____

STEP 6. SUBTRACT FIXED COST IN STEP 5 FROM ACTUAL FIXED COST TO DETERMINE CUT IN EXPENSES:

FC cut \$	\$ _____	–	\$ _____	=	?
	Actual FC \$		Step 5 FC \$		

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Printed in the United States of America