Can you get more from the investment you have in your business?

FINANCIAL MANAGEMENT SKILLS TRACK

Presented
by
Tom Shay

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS™

P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

Let’s try a “what-if?” scenario

Start or purchase a business today

How much of your personal money will you need?
$________

How much money will you need to borrow?
$________

At what interest rate?
_______%

If purchasing an existing business, how much will they finance?
$________

At what interest rate?
_______%

Let’s estimate how much your business needs to earn to repay that money.

Is there anything missing from this calculation?

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What about, “What interest rate are you expecting for your money invested in the business?”

Have you thought about the rate you are currently earning with your business?

What can we do in the next 12 months to greatly affect what your return on investment is?

Utilize the FREE Return-on-Investment Calculator from the Profits Plus website when you get home.

We need this information for a 12-month period:

Total sales
Percentage of credit sales
Cost of goods sold
Operating expenses
Tax rate percentage
Average inventory on hand
Average accounts receivable
Other current term assets (cash)
Long-term assets
Current liabilities (those that will be paid within 12 months)
Long-term liabilities (those that will be paid after 12 months)

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Sample business #1

Sales:
Percentage of credit sales:
Cost of goods sold:
Operating expenses:
Tax rate:
Average inventory on hand:
Average accounts receivable:
Other current term assets:
Long-term assets:
Current liabilities:
Long-term liabilities:

What is their inventory turnover?
What is their return on assets?
What is their financial leverage?
What is their return on investment?

Sample business #2

Sales:
Percentage of credit sales:
Cost of goods sold:
Operating expenses:
Tax rate:
Average inventory on hand:
Average accounts receivable:
Other current term assets:
Long-term assets:
Current liabilities:
Long-term liabilities:

What is their inventory turnover?
What is their return on assets?
What is their financial leverage?
What is their return on investment?

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What is the bottom-line difference between these two businesses?

How have these two businesses differentiated themselves?

What can you do to change your business?

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Business One:

Sales	$875,000	12	Credit Sales %
Cost of goods sold	$460,000		
Gross profit	$415,00	47.43%	Gross Margin %
Operating Expenses	$340,000	38.86%	Operating Expenses %
Net Profit	$75,000		
Taxes	$15,000	20.00	Taxes % of Net profit
Net Profit after Taxes	$50,000	6.86%	Net Profit %
Average Inventory on Hand	$250,000	1.84	Inventory turnover
Average Accounts Receivable	$19,500	42.23	A/R collection days
Other Current Term Assets	$7,000		
Total Current Term Assets	$276,000		
Long Term Assets	$175,000		
Total Assets	$451,500	1.94	Asset Turnover
	13.29%		Return on Assets
Current Liabilities	$23,000		
Long Term Liabilities	$125,000		
Total Debt	$148,000	1.49	Financial Leverage
Net Worth	$148,000	19.77%	Return on Investment

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Business Two:

Sales	$875,000	12	Credit Sales %
Cost of goods sold	$450,000		
Gross profit	$425,000	48.57%	Gross Margin %
Operating Expenses	$320,000	36.57%	Operating Expenses %
Net Profit	$105,000		
Taxes	$21,000	20.00	Taxes % of Net profit
Net Profit after Taxes	$84,000	9.60%	Net Profit %
Average Inventory on Hand	$180,000	2.50	Inventory turnover
Average Accounts Receivable	$11.500	39.43	A/R collection days
Other Current Term Assets	$14,000		
Total Current Term Assets	$205,500		
Long Term Assets	$175,000		
Total Assets	$390,500	2.30	Asset Turnover
		22.08%	Return on Assets
Current Liabilities	$23,000		
Long Term Liabilities	$125,000		
Total Debt	$148,000	1.64	Financial Leverage
Net Worth	$232,000	36.13%	Return on Investment

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BONUS ARTICLE

Measuring Up to Financials

By Tom Shay

SOUND ADVICE FOR BUSINESS

See a business within the industry that has closed its doors permanently and you will undoubtedly have people commenting, "I guess they just couldn't make a go of it." Or, "Obviously they couldn't make a profit at what they were doing, so they went out of business."

There is a certain degree of validity to what is being said. But at the same time, there is an inference that the business being discussed was not profitable. Surprisingly, statistics do not agree with this statement, as over half of the businesses in North America that have closed were actually profitable at the time they closed. If they were making money, why did they close? This concept does not seem to make sense.

Financial understanding has always been one of the courses offered to owners and upper level management, for the lack of financial understanding is one of the two major faults we see in businesses. (The other major fault is lack of a commitment to continual staff education.)

Within each business there should be four financial tools in place. They are a budget, a cashflow chart, an inventory-control system, and financial statements (balance sheet and profit-and-loss statement). Each of these items plays a major part in assisting a business in increasing profits, quickly resolving problems, and taking advantage of opportunities.

Let's take a quick look at each of them—and their contents—so you can confirm that you are getting the most opportunities to profit from your financial information.

Most businesses receive a financial statement every month. It traditionally consists of two documents. One is a profit and-loss statement (also referred to as income statement). This tells the business how much profit (or loss) has occurred in the last accounting period, which is traditionally the last calendar month.

The related document is the balance sheet that reflects the overall health of the business. It changes monthly as a result of the income statement as well as when the business has purchased or sold assets, and when there are changes to the accounts payable and accounts receivable. If the section of the balance sheet that reflects the ownership position (often the "stockholder's equity") increases from month to month, then the business is most likely becoming stronger.

The two fatal mistakes that frequently occur with these two documents is a failure to produce the information in a timely manner after the conclusion of each month and the failure to read, understand, and make decisions for changes within the business.

The second document we mentioned was a budget. Just as a person might create a budget for his or her family, he or she should have a budget that does much the same task for the business.

Imagine a person who makes a commitment to lose 25 pounds beginning on New Year's Day.

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Measuring Up to Financials

(continued)

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SOUND ADVICE FOR BUSINESS

If this person waits until November 1 to check his weight and finds that he has lost only 5 pounds, he faces the sizable challenge of losing 20 more pounds in only 60 days—and they are 60 days of the most challenging opportunities to eat.

Instead, if this person were to check his weight on February 1 and find that he had gained 2 pounds, he would have an advantage. One is that he has quickly found that his strategy for weight loss is not working and that he needs to make changes. Two is that he now has over 330 days to get rid of 27 pounds. The person in the second scenario is probably more likely to obtain the goal.

The budget for a business is much like the weight situation. Created and printed, the budget tells you each and every month how you are doing with regard to your goal. Failure to create, understand, and manage with the balance sheet is a serious mistake for most businesses.

The cashflow chart works very well with the budget. In creating a cashflow chart, the numbers utilized would most likely come from a budget. The advantage of the cashflow chart over the budget is that the cashflow chart tells a person if there will be sufficient cash on hand to fuel the business plans for the coming months. Created properly, a cashflow chart will tell you how much inventory and cash will be in the business for each of the next 12 months! Imagine knowing today what your inventory levels and cash position will be a year from now!

Businesses that utilize a cashflow chart are able to accurately see well in advance the opportunities as well as the challenges and take the necessary steps to be proactive to them.

The fourth, and an often-underutilized tool, is a method of inventory control. Too often, someone in management or ownership looks at the financial statements; and upon seeing the amount of inventory in the business, exclaims with a degree of shock that he or she now knows where all of the money is for the business.

An "open-to-buy" system is very good with regard to the numbers and inventory levels being correct. Eliminating surprises when inventory counts are verified is crucial to the success of a business in today's competitive atmosphere.

Any of these four tools that becomes overlooked or underutilized can seriously damage, or even be fatal, to a business—regardless of who your customers are or what area of the industry you work within.

If you have concerns about any of these four, one solution is to visit the public library to locate books on these tools. You can also enroll in an entry-level accounting class that places an emphasis on these topics.

You—and your business—will be glad you did.

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