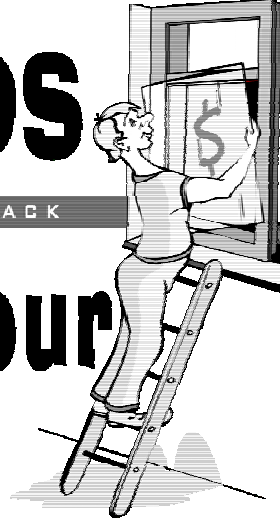


# Three Steps

FINANCIAL MANAGEMENT SKILLS TRACK

## To Increasing Your Profit Margin!



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Presented

by

Tom Shay, CSP

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**PROFITS+PLUS**  
**Solution\$**  
FOR SMALL BUSINESS

P.O. Box 1577  
St. Petersburg, FL 33731  
[www.profitsplus.org](http://www.profitsplus.org)

# Three Steps to Increasing Your Profit Margin

## The three options

1. Decrease expenses
2. Increase prices
3. Increase gross margin

## To do your homework:

1. Visit [www.profitsplus.org](http://www.profitsplus.org)
2. Enter your data
3. Press "calculate" button
4. Print your results
5. Compare each month

Formula name: Current ratio

Definition:

Formula:

Industry averages:

Ways to improve:

Formula name: Acid ratio

Definition:

Formula:

Industry averages:

Ways to improve:

**Formula name:** Turn rate

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

**Formula name:** Days sales outstanding

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

Formula name: Days inventory on hand

Definition:

Formula:

Industry averages:

Ways to improve:

*Added tool: "open-to-buy" calculator at [www.profitsplus.org](http://www.profitsplus.org)*

Formula name: Return on equity

Definition:

Formula:

Industry averages:

Ways to improve:

**Formula name:** Return on assets

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

**Formula name:** Gross profit percentage

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

**Formula name:** Operating expense as a percentage

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

**Formula name:** Cost of goods sold

**Definition:**

**Formula:**

**Industry averages:**

**Ways to improve:**

Formula name: Debt to equity

Definition:

Formula:

Industry averages:

Ways to improve:

## Three Steps to Increasing Your Profit Margin!

What can you do when you return to work to:

Decrease expenses

Increase prices

Increase margins

## Another 3 Steps to Improving Your Profit Margin:







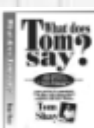





Get the financials completed on time

Under the financial ratios


Use the *Profits+Plus* website to create a monthly checkup

# Resources Order Form

Today's prices reflect a 20-percent savings off regular prices!

	Filled with 251 strategies for increasing business with retailers. Also a great read for retailers.	\$15 <input type="text"/>		Create and see each of your next 12 financial statements (includes a disk for computer installation).	\$25 <input type="text"/>
	Advertising and promotion ideas that have been proven to work at little or no cost.	\$8 <input type="text"/>		Advertising and promotion ideas that have been proven to work at little or no cost.	\$8 <input type="text"/>
	Business-building and managing ideas to increase profits and reduce expenses.	\$8 <input type="text"/>		Business-building and managing ideas to increase profits and reduce expenses.	\$8 <input type="text"/>
	A collection of 50 of the best of Tom Shay's columns from 65+ trade journals and magazines. (PDF format on CD)	\$15 <input type="text"/>		A second collection of 50 of the best of Tom Shay's columns from 65+ trade journals and magazines. (PDF format on CD)	\$15 <input type="text"/>
	29 posters providing inspiration, education and motivation.	\$15 <input type="text"/>		This deck of cards creates an interactive event for employees to learn how to work better with customers.	\$15 <input type="text"/>
	Make your annual advertising, marketing and promotional plans – guaranteed to keep you on budget and on task!	\$30 <input type="text"/>		Screen savers for your PC containing photos of store displays and the best ideas from the Power Promoting books.	\$15 <input type="text"/>

## VALUE PACKAGE

	Get the complete 12-piece set of Profits+Plus Tools which includes: EZ Cashflow™      How to become the Preferred Vendor      Powers Posters Collection All 4 Idea Books      What Does Tom Say?      Power Promoting PC Big Deal Cards      What else Tom Say?      Screen Savors AMP Calculator	\$175 <input type="text"/>
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**EACH ITEM SOLD WITH A GUARANTEE TO MAKE YOU MONEY!**

Name:	Business Name:
Address:	City, State, Zip:
Phone #:	e-mail Address:
Credit Card #:	Expiration date:
Signature:	Today's Date:
Please send me the monthly e-retailer via e-mail FREE!	<input type="text"/>



## More than a piece of paper

By Tom Shay

SOUND ADVICE FOR BUSINESS

Sometime during the middle of the month, the owner or manager of the store performs the monthly ritual; a file folder begins to fill with various sheets of information, all of which is delivered to the accountant for the appropriate processing. Then there is a phone call from the accountant to the store owner within the next couple of weeks wanting to set an appointment for a visit. "I have the numbers ready," is the traditional beginning to the conversation.

What will occur is a meeting in which the accountant will review the monthly financial sheets with the owner. The meeting lasts approximately 1 hour; and during this time the gross sales, gross margin, maybe a couple of expense items, and the bottom line are reviewed.

The store owner then takes the financial sheets back to his office, files them in the appropriate cabinet, and returns to work; often with a facial expression which is indicative of how the financial sheet looked. Is this an over exaggeration of the monthly ritual?

In many businesses, the answer is "no," even though many stores have computers and are able to generate preliminary financial sheets. At larger stores, there may be a company comptroller performing this exercise.

For too many stores, the sequence is exactly as described, which prompts us to ask the question, "If you are not making decisions in a timely manner from the financial sheets you receive or create each month, then why not create them only once a year for the necessary tax purposes?"

The answer will probably be that in observing the sheets for several months, the store owner may see a trend that can be avoided or promoted as the situation dictates. While the logic does make sense, it can also be likened to deciding which direction to drive a car by looking in the rear view mirror to see where you have been. Fortunately for all businesses, there is an alternative.

Stepping back to observe the available material, store owners have long depended on the two traditional sheets: the income statement (also known as the profit-and-loss statement) and the balance sheet. The income statement is the story of what the business has done for the last month. The story begins with the first day of the month and ends with the last day. It reflects the incomes and all the expenses charged to that month.

A business utilizes one of two styles of income statements. The first is a cash-basis income statement, and the second is an accrual-basis income statement. To explain the difference, we can look at one of the many items that appear on the statement. The federal income tax which is due on March 15 can be entered on the books for the month of March—an action that will likely greatly affect that month's statement.



## More than a piece of paper (continued)

By Tom Shay

SOUND ADVICE FOR BUSINESS

As the taxes are paid in March and entered into the books in March, this type of accounting is referred to as cash-basis accounting. If however, an estimate of the federal income tax due is divided by 12, with the lesser amount being entered on each of the 12 income statements, the business is utilizing an accrual-basis accounting system.

With accrual, each of the 12 months will now have a financial sheet that is more reflective of the true income and expenses of the month. The example of federal income tax can be extended to include wages, insurance, rent, and any other expense (or income) that is created by the events of more than one month.

The balance sheet is the financial strength of the business, with items from the entire existence of the business included. As the income statement is created at the end of the month, select items (cash on hand, inventory, accounts receivable, accounts payable, net income, and a few others) are updated as a result of the last 30 days of business.

With this backdrop of information provided, let's look at the idea of looking forward as we decide where the business is going. The tool necessary to turn our head from looking exclusively at the history to one of primarily looking forward is a cashflow sheet.

The cashflow sheet is the tool that allows a business to anticipate the opportunities and pitfalls that present themselves to the decisionmakers within the business.

So how do you create the cashflow sheet, and for what can you use it? While earlier versions of cashflow sheets were created using multi-column ledger sheets and an adding machine, today's versions utilize computer spreadsheet programs and provide answers within a few minutes once the format is created within the software.

As you are reading, you will need to know the difference between cash-basis accounting and accrual-basis accounting; and as you gain more knowledge, you may find that you will rearrange your financial sheets to better give you guidance. Just like a captain steering a boat, you will not be looking over the rear of the boat, but instead ahead to the future. You will find that compared to being just historical information, your financial sheets will now guide you into a more profitable future.

After creating this cashflow sheet that is reflective of the past 12 months, you can begin to ask yourself questions about where you believe your business is going. You would start by anticipating the sales for each month, as well as the expenses. As you change each cell to indicate what you expect is going to happen from what did happen last year, you will notice the last line (cash on hand) changes to reflect how the new entry will affect your cash on hand for not only the current month but each of the succeeding months.

With this new tool in hand, what can you do to utilize it? After all, if you are not going to make decisions from the information you receive, there is not a strong case to be made in defense of creating the tool. There are, however, an abundance of possible decisions to be made. Let's look at several examples.



## More than a piece of paper (continued)

By Tom Shay

SOUND ADVICE FOR BUSINESS

Do you think you need an extra employee? Once you add this expense to your current wages, insurances, and payroll taxes, you will see if you have the necessary cash on hand.

And if you believe the new employee will increase your sales, you can make this entry as well and see if you are now a more profitable business or one that is just trading dollars.

And finally, from the experience of several businesses that have experienced a cashflow deficiency, there is an opportunity to foresee the problem and take corrective action. Of course, with a cashflow sheet, you would see well in advance any and all months in which your business experienced a cash shortage.

While this problem usually leads to concern, worry, and sleepless nights, the situation would now be taken in stride if a cashflow sheet were present. The cashflow sheet would show the depth and duration of the cash shortage. Again using your cashflow sheet, you would be equipped to visit your banker with a plan of action stating how much money you would need, for how long, what type of interest rate and payment plan would work for the needs of your business.

Needless to say, sleepless nights could be eliminated in addition to being able to impress your financial advisors and creditors with your ability to manage money.

Perhaps there is truth to the saying "A little information can be a dangerous thing." But in addition to having too little information, the failure to utilize information can not only be dangerous, but can preclude the failure to take advantage of opportunities, or even the failure of the business. The cashflow sheet can be the best tool in the management arsenal of a store owner. It is, most definitely, more than a piece of paper.