



# How to Improve Your Firm's Profitability

August 10,2021

# Agenda

- Financial Records Importance
  - Accurate
  - Timely
  - Reveals Patterns
- Revenue and Expenses
  - Increase Revenue
  - Product Direct Costs
  - Decrease Expenses
- Balance Sheet
  - Accounts Receivable & Accounts Payable
  - Inventory
  - Debt
- Cash Flow
  - Project Future Cash Inflows & Outflows
  - Compare to Actual

# Financial Records Importance

- Profit & Loss Statement & Balance Sheet
  - Must be Accurate and Timely
  - Use them to also Manage the business
  - Stale Data is useless
- Financial Recordkeeping
  - QuickBooks type system
    - Purchase or Monthly fee
  - Bookkeeper or Accountant
    - Costlier, Timely Reporting
- Benefits of Good Financials
  - Intelligent Information
  - Annual budget
  - Allows one to drive profits
  - Easy comparison of account activity

# Revenues

## Product /Service Pricing

### Is Pricing Correct?

- It needs to be looked at regularly
- What is the competition's pricing?
- If you lower prices can you lower expenses?
- Existing Customers
  - 80/20 Rule
  - Cross Sell other products
    - If you don't have others products/services, why not?
    - Helps to diversify risk
- Analyze Your Client Base
  - Existing and Past Customers Demographics
  - How did you get them?
  - What keeps them with you?
  - Why did they leave?

# Revenues

(continued)

- New Customers
  - How to attract them efficiently
    - Referrals from existing customers
    - Be proactive, ask for them
    - Community Events & Networking
    - Reconnect with inactive and former clients
- Cost of Goods Sold:
  - When was the last time you analyzed product costs?
  - Was there a cost creep that you didn't notice?
  - If costs are higher you need to adjust Pricing to maintain your margins or lower product cost

# Expenses

- Operating expenses
  - Was there a cost creep here also?
    - Need monthly expenses based on Annual Budget
    - Analyze each line item to see if it is staying in budgeted range
  - If over budget, is there a cheaper way to incur that expense?
    - Maybe Different Vendors?  
Supplies, telephone, etc.?
  - For Insurance etc., can you increase deductibles or use Umbrella policy?
  - Group Policies with Trade Associations or Chamber of Commerce?

# Expenses

(Continued)

## Example of Monthly Analysis:

Hypothetical LLC							Six Month Total	Monthly Average	Monthly Budget (*)
	Jan.	Feb.	Mar	Apr	May	Jun			
LLC Revenue	\$ 3,000	\$ 3,200	\$ 4,000	\$ 3,100	\$ 3,800	\$ 4,000	\$ 21,100	\$ 3,517	\$ 3,300
LLC Expenses									
Rent	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 3,000	\$ 500	\$ 500
Salaries	\$ 3,000	\$ 3,000	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,600	\$ 19,500	\$ 3,250	\$ 3,000
Payroll Expenses	\$ 300	\$ 300	\$ 320	\$ 330	\$ 300	\$ 360	\$ 1,910	\$ 318	\$ 300
Utilities	\$ 125	\$ 125	\$ 175	\$ 175	\$ 200	\$ 175	\$ 975	\$ 163	\$ 125
Supplies (Office)	\$ 100	\$ 100	\$ 125	\$ 150	\$ 100	\$ 140	\$ 715	\$ 119	\$ 100
Advertising	\$ 150	\$ 150	\$ 200	\$ 175	\$ 160	\$ 175	\$ 1,010	\$ 168	\$ 150
Insurance	\$ 400	\$ 400	\$ 400	\$ 500	\$ 500	\$ 500	\$ 2,700	\$ 450	\$ 400
Interest	\$ 125	\$ 125	\$ 150	\$ 175	\$ 200	\$ 210	\$ 985	\$ 164	\$ 125
Outside Services	\$ 500	\$ 500	\$ 300	\$ 800	\$ 750	\$ 400	\$ 3,250	\$ 542	\$ 500
Telephone & Internet	\$ 100	\$ 100	\$ 120	\$ 120	\$ 125	\$ 120	\$ 685	\$ 114	\$ 100
* based on annual budget									

# Balance Sheet

- Analyze Accounts Receivable Monthly
  - Bill ASAP and Focus on Collecting.
  - Look for Slow payers
  - Are certain clients always on the late list?
  - Slow payers cost you money
    - Their not paying can cost you in increased Borrowing Costs
- Analyze Accounts Payable Routinely
  - If someone is not recording your payments soon after payment, maybe you can stretch your payments a little later.
  - But be careful of impacting your credit score



# Balance Sheet

(Continued)

- Inventory
  - Inventory sitting in storage is a dead asset and is money spent until it is sold.
  - Minimize your inventory as much as possible
  - Be like large companies and use “Just in Time” Inventory
- Debt
  - Credit Cards
    - Using your credit card to pay is no different than borrowing from a bank
    - But the Interest rate will be a lot higher
    - Credit card interest many times doesn't really show up in the financials if a personal card.
    - Track the monthly interest charges on your statements, it may shock you

# Debt

(continued)

- Bank/Credit Union Borrowings:
  - Need to have a relationship with your them
  - Communicate with them regularly, not just when you need something
  - Try for a small line of credit to start
  - They may ask for it to be secured by an asset Initially until your prove your creditworthiness
  - After you have a payment history they may release the security and/or increase the amount
  - Be mindful of Finance Companies offering teaser rates to start. Their “normal” rates maybe as high as credit cards.

# Cash Flow Forecasts

- Projecting Cash Flows
  - Allows you to anticipate cash problems ahead of time instead of at the last minute
  - Inflows
    - Cash Revenue
    - Accounts Receivables paid
    - Bank Borrowings
  - Outflows
    - Expenses
    - Bank Loan payments
    - Fixed Asset Purchases
  - Back test by doing actual later to see how well your projections were
  - The more you do it the better the numbers will be

# Cash Flow Example

Projected Cash Flow	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5
<u>1. Cash On Hand</u>					
[Beginning of month]	\$4,000	\$4,370	\$4,740	\$6,110	\$4,980
<u>2. Cash Receipts</u>					
(a) Cash Sales	\$400	\$400	\$400	\$400	\$400
(b) Collections of Accounts Receivable	\$500	\$500	\$500	\$500	\$500
(c) Loan or Other Cash Injection			\$1,000		
<u>3. Total Cash Receipts</u>					
[2a + 2b + 2c=3]	\$900	\$900	\$1,900	\$900	\$900
<u>4. Total Cash Available</u>					
[Before cash out] (1 + 3)	\$4,900	\$5,270	\$6,640	\$7,010	\$5,880
<u>5. Cash Paid Out</u>					
(a) Rent	\$100	\$100	\$100	\$100	\$100
(b) Gross Wages (excludes withdrawals)	\$250	\$250	\$250	\$250	\$250
(c) Payroll Expenses (Taxes, etc.)					
(p) Other Expenses [Specify each]					
(q) Miscellaneous [Unspecified]					
(r) Subtotal	\$530	\$530	\$530	\$530	\$530
(s) Loan Principal Payment					
(t) Capital Purchases [Specify]				\$1,500	
(w) Owner's Withdrawal					
<u>6. Total Cash Paid Out</u>					
[Total 5a thru 5w]	\$530	\$530	\$530	\$2,030	\$530
<u>7. Cash Position</u>					
[End of month] (4 minus 6)	\$4,370	\$4,740	\$6,110	\$4,980	\$5,350

# Finally

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Questions??

To request personal mentoring:  
[www.buckscountyscore.org](http://www.buckscountyscore.org)

Later questions: [joseph.lutes@scorevolunteer.org](mailto:joseph.lutes@scorevolunteer.org)