Profit Mastery

Do you know your P&L's "Magic Number"

Neighborly Unlocking Growth Series

Profit Mastery®

Today’s Goals

- Intro to Profit Mastery
- Why this is important
- Setting the stage
- How to use this
- Q&A

Profit Mastery

- Founded in 1983
- Over 1,000,000 alumni
- Sponsored by banks, CPA firms, franchisors, SBDC
- We help businesses in 3 ways
  - Newsletter (DIY)
  - Courses and workshops (DIWM)
  - Implementation services (DIFM)

Roadmap

Creating a Foundation for Change
Module 1

Understand your financial reports to make informed business decisions.

Financial Analysis
Module 2

Learn how to increase your profit margins and build wealth.

Price-Volume-Costs
Module 3

Discover how to create value in your business for sustainable growth.

Cash Flow
Module 4

Build a profit plan and cash budget on a step by step basis.

Financial Gap Analysis
Module 5

Assess your current survival position, identify the potential costs of future growth.

Funding & Financing
Module 6

Learn how to communicate information to increase your chances with funding sources.

Instructors

Steve LeFever
Chairman

- Founder of Profit Mastery
- Former banker and business owner
- Hosts online course

Colin King, CPA, CFA
President

- Accountant, investor, entrepreneur
- Own and operate group of businesses – retail, ecommerce, distribution
- Practitioner and teacher of PM

Seven Steps to Business Success

1. Plan properly before start up
2. Monitor financial position
3. Understand the relationship between price, volume, and costs
4. Manage cash flow
5. Manage growth
6. Borrow properly
7. Plan for transition

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Why this matters?

Helps us answer – *"How much do I need to sell to cover my costs?"*

- Downside protection
- A "north star" for sales and costs
- Easiest way to find cost cutting opportunities

Definitions

Key concepts covered today:

- Fixed costs – expenses that don’t change with sales
- Variable costs – costs that fluctuate with sales
- Contribution margin – sales minus variable costs
- Breakeven – sales level required for zero profit

What Types of Questions Can Breakeven Answer?

1. If I cut or add a fixed cost how will it impact the volume of sales I need to Breakeven?
2. If I have a profit goal, how will I know the "needed sales"?
3. If I hire a new manager, how can I calculate the sales required to cover their costs?

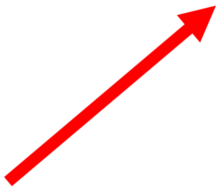
Break-Even: 4-Step Process

1. Classify expenses as variable or fixed
2. Determine Variable Cost Percentage
3. Determine Contribution Margin Percentage
4. Calculate Breakeven in dollars

Variable vs. Fixed Costs

<u>Variable Costs</u>

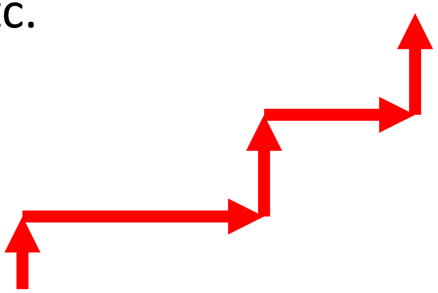
- Sales commissions
- Freight (shipping)
- Materials (COGS)
- Labor (hourly)
- Royalties
- CC fees



Directly correlated with sales

<u>Fixed Costs</u>

- Software subscriptions
- Phone, internet, etc.
- Labor (salaried)
- Insurance
- Utilities
- Rent



Do not change regardless of sales

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Understanding Contribution Margin

Accountant's P&L

Sales
-<u>COGS</u>
=Gross Profit
-<u>OE</u>
Net Profit

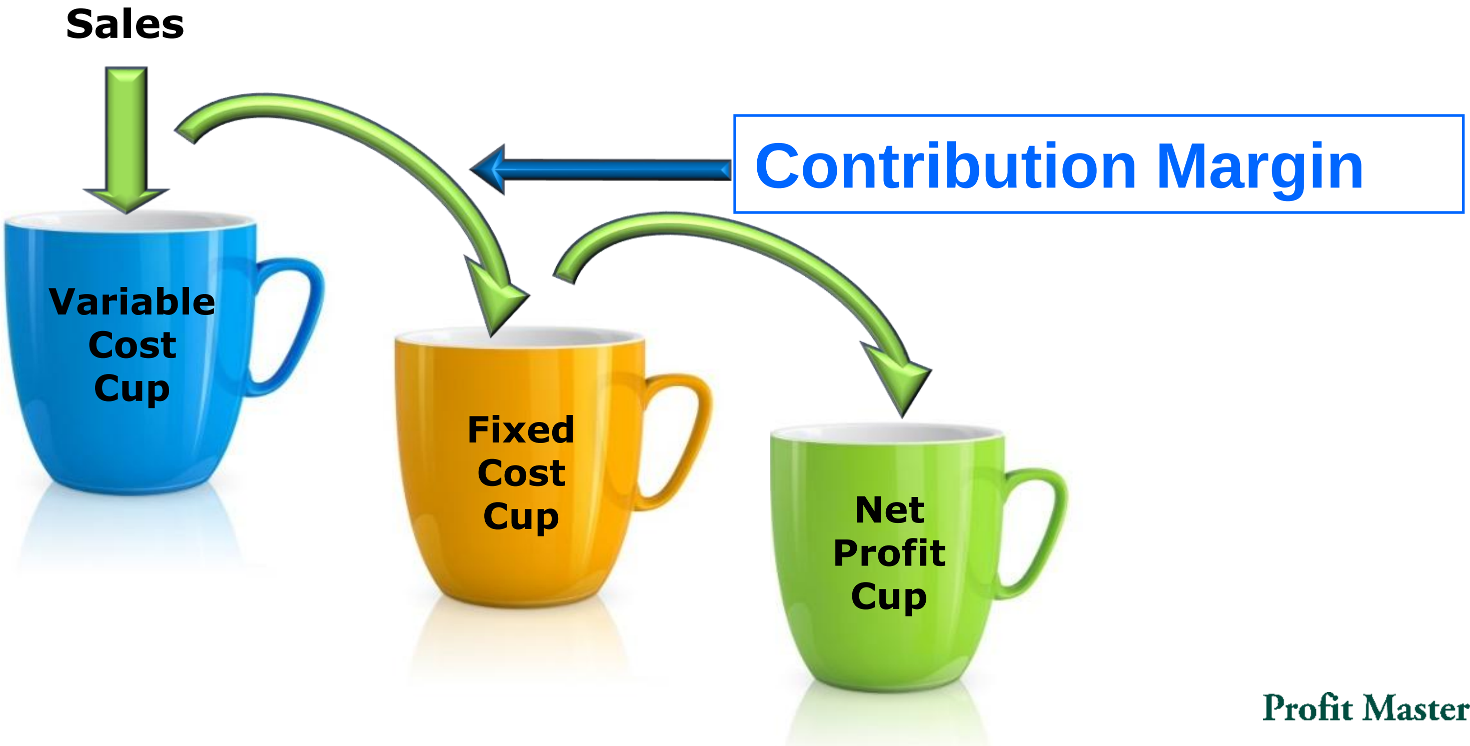
Contribution Margin →

Managed or Breakeven P&L

Sales
<u>-VC</u>
What's Left
<u>-FC</u>
Net Profit

With Net Profit at 0, you are at Breakeven

The Cup Theory
The Concept of Contribution Margin



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Breakeven

Breakeven Sales = Fixed Costs ÷ Contribution Margin %

Case Study:

- Selling pens for $1
- Cost of pens = 70c
- Fixed costs = $12,000 per month
- Want $60,000 profit

Breakeven: Example

Variable Cost% = 70%
Fixed Costs = $144,000
Target Profit = $60,000

Questions:

1. Total required sales: ____________________
2. If FC ↑ increase 1.00, what sales are needed? ________

Breakeven: Example

Sales	1.00
Var. Cost	.70
Cont. Mgn	.30

Fixed Cost	= $144,000
Target Profit	= $ 60,000
"Bogey"	$204,000

$$\frac{\$204{,}000}{.3} = \$680{,}000$$

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Breakeven: Example

If FC ↑ increase by 1.00, what sales are required?

$$\frac{1.00}{.3} = \$3.33$$

If FC ↑ increase by 1.00, sales must ↑ increase by $3.33

THIS IS YOUR MAGIC NUMBER!

Using Breakeven

A quick guide on how/when to use this:

- Calculate at least 2-3x per year
- Watch fixed costs closely (monthly)
- Track contribution margin
- Know your magic number

Quick Recap

1. Key concepts
2. Using Breakeven
3. Breakeven: A 4-Step Process
4. Variable Costs and Fixed Costs
5. Understanding Contribution Margin
6. The Cup Theory – Visual
7. Breakeven/Magic Number

How We Can Help

3 ways we can help:

1. Newsletter
2. Course or group-learning
3. Services

Use QR code or visit www.profitmastery.io/neighborly

Survey

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