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A photograph showing the silhouettes of several business professionals in a modern office. They are standing in front of large windows that offer a view of a city skyline, including a prominent skyscraper. The scene is backlit by the sun, creating a warm, golden glow. The silhouettes are reflected on the polished floor.

Running A Profitable Company

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Running A Profitable Company



This workshop examines how to run a profitable business with a healthy margin and how to analyze your company's profitability through ratios and some simple analytical procedures

Profitability is Gold



- Recruit and retain employees
- Stay competitive and increase marketing efforts
- Develop new products and services
- Expand and grow your business
- Enter a new market

The Perfect Product Mix



- Have I done the necessary research to ensure my product or service is in demand by potential and existing customers?
- Have I analyzed my competition to fully understand how my business can compete with my competitors?
- Do I have the necessary resources and support to produce, launch and market my product or service?



Pricing Model

- How do your customers perceive your product or service, in terms of price and value?
- How do your prices compare with your competitors?
- What values and benefits do your customers get from your product or service?
- Are your prices consistent with those benefits and values?

Pricing Model (continued)



- What is the current supply-and-demand relationship of your product or service?
- Does industry demand for your product or service has a short life cycle, forcing you to “cash in” quickly?
- Do you products have band name recognition that allows you the luxury of overpricing?

Marketing



- What annual dollar amount is currently allocated to marketing?
- What percentage of your total sales does this represent?
- What is your specific marketing goal as it relates to profitability? (Note: this must be within nine months; or to develop five new customers per month, etc.)
- In the past, how effective has your marketing mix been in terms of reaching these goals?
- Based on past results, should you increase, decrease or maintain your marketing budget? Likewise, should you drop or add additional media venues?

Inventory



- Do you have downtime due to lack of parts?
- Do you run out of necessary parts?
- Do you often waste time trying to locate inventory items?
- Do you need more space to house your inventory?
- Do you have a cluttered or disorganized warehouse?
- Do you spend too much time and money on overnight shipping for parts?
- Do you have problems identifying and tracking all items in stock?

Overhead



- Do you have a clear picture of your company's cash flow and balance sheet?
- If you answered yes, analyze your financial documents to see if there are areas you can reduce your costs. If you answered no, you should prepare both a cash flow analysis and balance sheet right away. The only way to control profitability is to first understand your company's cash inflows and outflows and how they relate to the bottom line.
- Are there expenses in your business today that could be reduced? Base your answer on need rather than want.

Payroll



- Do I have additional time or the skill to set to cover the work of one of my employees?
- Is every current employee busy and productive on a daily basis?
- Have I assumed my existing staff's productivity?
- Can any of our employees work part-time rather than full time?

Payroll



- Do we need someone on-site, and can we afford the costs associated with hiring them full-time (an additional 20% of their annual salary for health benefits, training, etc.) or can we outsource the work at a cheaper rate and still get the job done effectively?
- How does each of my employees contribute to my company's bottom line? (If there is not a direct correlation and your business is not as profitable as you would like, you may want to consider that employee's future with the company)
- Do we need to fill vacant positions? If so, why did the previous workers leave? (Turnover is expensive and knowing this answer may save you the cost of having to rehire again soon.)

Profit Margin



The profit margin measures how much profit you earn on each sale you make. A 10% profit margin means that every dollar in sales revenue generates \$.10 in profit. This figure also helps you determine whether your price markups will consistently cover your expenses, resulting in your desired profit level.

Profit Margin



Company X, a small book publisher, had 2001 sales of \$500,000. Their earnings before interest and taxes were \$275,000. Interest and taxes were \$50,000 and \$125,000, respectively. Company assets tallied \$200,000, and their shareholder equity totaled \$175,000.

Company X's profit margin

\$275,000 (revenue)

\$50,000 (interest)

\$125,000 (taxes)

\$500,000 (sales)

Operating Profit Margin



- This figure measures profit based on earnings before interest and taxes.
- Calculate operating profit margin using the following equation:
- $\text{Earning Before Interest and Taxes/Sales}$

Return on Assets (ROA)



- This ratio tells you what rate of return you are earning from your investment in business assets. Obviously, the higher this percentage is, the better.
- Calculate return on assets using the following equation:
- $\text{Earnings after Interest and Taxes} / \text{Total Assets}$

Example:

Company's X's ROA = $\frac{\$275,000 \text{ (revenue)} - \$50,000 \text{ (interest)} - \$125,000 \text{ (taxes)}}{\$200,000 \text{ (assets)}}$ ROA = .5 = 50%

Return on Equity (ROE)



- Measures how much you are earning for each dollar shareholders invest in your business.
- Calculate your return on equity by using the following equation
- Earnings After Interest and Taxes/Equity

Example:

Company X's ROE = $\frac{\$275,000 \text{ (revenue)} - 50,000 \text{ (interest)} - \$125,000 \text{ (taxes)}}{\$175,000 \text{ equity}}$ ROE = .57 = 57%

How does a running a profitable company help you access capital?



5 Cs of Credit¹

- Character
- Credit Score
- Capacity
- Capital
- Collateral



¹Forbes, November 5, 2013

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