

# Selected Excerpts From Triple Your Profit

## Important Note

There are twenty-one profit improvement exhibits in *Triple Your Profit!* They can all be tailored to show results for your firm. None of the exhibits are shown in this brief set of excerpts.

## An Excerpt From the Introduction

Most business owners are victims of a work-ethic mentality. You are probably one of them. They believe that their role in life is to work long, hard hours. Interestingly, most owners actually enjoy working those long, hard hours.

The problem is that too often those long, hard hours generate a lot of psychic income but do not generate the dollar profit that should accompany that psychic income. In fact, most businesses produce inadequate profits.

Research conducted by the Profit Planning Group over the last thirty years suggests that companies of all sizes can be lumped into three profit categories:

- **Disasters**—Approximately 30% of all firms either lose money or generate profits that are so low the business really should shut down. Whenever there is a recession these are the buildings with “going out of business” signs in the window. Psychic income doesn’t pay the rent.
- **Soldiers**—The vast majority of firms (around 60%) produce profits that keep them from shutting the door, but are far from adequate. To a certain extent the owners are trapped. The psychic income is nice, but the profits are not. After working for 40 years, what is the result?
- **Winners**—The top 10% of firms generate sensational profits. On top of that, they also get that wonderful psychic income.

It’s actually worse than just inadequate profits today. Firms that don’t produce strong profits can’t be sold in the future for anything other than fire-sale prices. At retirement time there is no residual value to the business.

There is some good news, though. The Winners are not any smarter or any harder working than the other 90% of the firms. They have simply put in place the programs and practices that ensure profits today and into the future. They are doing nothing that cannot be done by everybody else.

## **Stop Everything**

Two Excel templates came with this book. By now you should have loaded the first template onto your hard drive and entered some basic information for your firm. This simple exercise allows you to have every exhibit in this book tailored to your company.

Load the blasted Excel template, now.

## **An Excerpt From Step One: Take the Business Back from Your Accountant**

Most of the people who start and run small to medium-sized businesses are not accountants. They are people who have the guts to take a risk. They are also the folks who only remember that debits were against the windows and credits were against the wall in Accounting 101.

In short, finance is a foreign language for the overwhelming majority of small business owners. Most likely this includes you. Consequently, your accountant handles all of the financial stuff and occasionally tells you how you are doing.

Note this carefully: Your accountant doesn't know jack about how to increase the profits of your business. In fact, the original working title of this book was ***Fire Your Accountant!*** Since your accountant probably has a family, you should not resort to firing. You should simply put your accountant on a very short leash. Remember that you are the owner and the decision maker, so your accountant must do what you want when you want it.

In the end, your accountant will prove very useful after you have read this book and successfully implemented the concepts. Namely, your accountant will work to keep you from paying too much in taxes on all that profit.

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Time to drive your accountant nuts. You need to receive financial statements (a profit-based income statement and a balance sheet) every month and you need them no later than three days after the month ends. If you are going to stay on top of the business, you must work in real time.

Your accountant will tell you it can't be done. Tell the accountant to do it. End of story. With current technology there is no excuse.

Once you have this information, you can go on to the next big step. Namely, determining how much profit the income statement ***should*** show every month.

## An Excerpt From Step Two: Set a Realistic Profit Target

Whenever the owners of small to medium-sized businesses are asked how much profit their firm should generate, they always come up with the same two answers:

“As much as we can.”

“More than we do now.”

Neither of these is particularly helpful. If the firm is going to reach its full profit potential, it has to know what that potential is. Neither “more” nor “lots” provides the specificity that is required.

There are two components to setting a profit goal. Both need to be given very careful attention:

- **Maximum Profit Level**—This is determining the highest realistic profit level that can be produced. This is measured in terms of profit before taxes as a percent of net sales. The Maximum Profit Level is what the firm could produce if everything were properly planned and controlled. It might be 5.0% or 10.0% or any other number.
- **Time Frame**—This involves determining how fast the firm should be able to reach the Maximum Profit Level. For some firms it might be one or two years; for others it might be closer to five years.

In determining the Maximum Profit Level the profit figure must always be after paying fair compensation to the owner. In short, the firm needs to produce that fair compensation plus the Maximum Profit Level number.

The Maximum Profit Level represents the sort of results produced by the winners—the top 10% of the firms in terms of profit performance. There is no need to bother with what the other 90% of the firms do.

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You need to remember a couple of your mother’s favorite homilies.

“Rome wasn’t built in a day.”

“Slow but steady wins the race.”

These are essential thoughts for deciding how fast you can get to where you want to be. It always takes longer than you think it should.

In determining how fast you can reach the Maximum Profit Level you need to resolve two conflicting issues. First, your firm has to stretch or it will never get to where it wants to be. Second, if your goals are too high you create a climate in which goals are never met so they don't really matter. Both conditions are fatal.

**1) Stretch Performance.** Almost every firm can do better than it is currently doing. In order to eventually reach the Maximum Profit Level you need to push the envelope a little on profit performance every single year. Your goals need to be challenging.

**2) Reaching the Goal.** Too high of a goal is just as bad as too low. If you set an overly aggressive goal, then the firm will not reach it. That sends a message to everybody in the company that goals are just arbitrary numbers. Next year you will set a new goal and you won't reach that either.

## An Excerpt From Step Three: Understand Your Profit Dynamics

There is an old management saying, “The way to make more money is to do more of the things that are good for you and less of the things that are bad for you.” Like all old management sayings, it is brilliant in concept, but says nothing about how to do it.

The problem with running a business is that everything is important. Driving more sales would certainly be good for you. So would lowering expenses. Collecting receivables faster looks nice, too. There are more good things than can be done in a day.

In addition, there are a lot of things that have to be done whether they are good for you are not. Payroll checks really need to be written on time, reports have to be sent to the IRS and so on. The list is endless.

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Yet another homily: “Sales solves all problems.” In reality, increasing sales volume does solve a lot of problems. But, at the same time it actually creates some other problems. The issue of problems solved and problems created will be deferred until Step Four. The real concern at this time is how quickly more sales puts more money on the bottom line.

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Now for one of the most important revelations in profit planning. Gross margin is the single most important driver of profitability. Nothing else comes close.

Gross margin improvement is wonderful in terms of how fast it produces additional profit. At the same time, gross margin is probably the most challenging of all the profit drivers to get right. It’s the biggest bang for the buck, but the most difficult to implement.

This is the way the world works for almost everything. If it were easy, everybody would do it. Given the importance of gross margin, it will have an entire step in the profitability process devoted to it.

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It is absolutely essential that you understand the size and nature of the key profit drivers in your business. The size issue is easy:

- **Gross Margin**—The big enchilada of profit determination
- **Fixed Expenses**—Also a very strong driver of profitability
- **Sales**—Relatively important as a profit driver, but slightly less important than fixed expenses and much less important than gross margin
- **Investment Levels**—Modest impact on profitability

## **An Excerpt From Step Five: Get Control of Your Gross Margin**

This step will introduce a concept so innovative, so creative that it will literally knock you off your feet. Here it is: Buy low, sell high. You can get back up now.

Okay, so everybody in the world has heard that one before. The truth of the matter is that almost nobody is actually doing it. Until the lesson is not only understood, but implemented, it is still something new and exciting.

Unless you can get control of your gross margin, your company will never be as successful as it needs to be. It will never reach its Maximum Profit Level. Never is an awfully long time.

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There are individuals reading this book—you know who you are—who believe that if you can drive enough sales dollars, a low-price strategy can be made to work. In some instances that is true. In the overwhelming majority of cases, it simply can't be done.

As they say down home, you can't get there from here. Firms with an exceptionally high gross margin to begin with might be able to make it up with volume as long as the price cuts are small. For most firms price cuts are fatal.

It may be absolutely essential for your firm to engage in serious price cutting because of competitive issues. In that case you must gut the fixed expenses. Not cut the fixed expenses, gut the fixed expenses. For most firms it is not a particularly appealing task.

## **An Excerpt From Step Seven: Developing a Plan**

Most firms think of the increasing profit by trial and error. If sales were increased by 5%, how much would profit go up? It is great for doing “what ifs” but not good for planning. The trial and error component of the process needs to be eliminated.

The planning process requires a procedure that makes the activity much more directional. That concept is what is commonly called “Profit First Planning.” Excuse the acronym avalanche, but PFP.

### **Stop Everything One Last Time**

There is a second Excel template that is part of this educational system. It lays out the steps in the planning process. Be sure to load that Excel template on to your hard drive.

This book is organized into steps rather than chapters. To avoid confusion the Excel template divides the planning process into goals rather than steps.

PFP is extremely controversial among non-financial managers. The executives in a few firms think it is wonderful. The folks in a lot of firms think it is absolutely insane. As it turns out, the firms where management thinks it is wonderful make a lot more profit than those that think it is crazy. There is a moral there somewhere.

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By far the largest mistake in planning is to start the planning process with sales. It is not simply a mistake, it is a fatal one.

Why not start with sales? After all, there is yet another homily: “Nothing happens until somebody sells something.” The fact that some of the things that happen after somebody sells something creates losses rather than profit is never mentioned. Nice homily, though.

The real reason that planning almost always starts with sales is that the sales line is at the top of the income statement. Starting at the top and working down is the very essence of almost everything in life—“to do” lists, baseball batting orders, mindless PowerPoint® presentations and so on.



The logic of starting at the top is so ingrained it is almost impossible to challenge. The fact that in profit planning it is beyond dumb should at least be considered, though.

Starting at the top leads to what can be called “profit by subtraction.” The firm plans sales first and then goes to the next item on the income statement, which is cost of goods. Once those two are planned, the firm then subtracts to get gross margin. After that, the firm plans expenses. Then expenses can be subtracted from gross margin to get profit.

This procedure is the very heart of the problem: In this sequence profit really isn’t planned. Instead, profit ends up being whatever is left over after the firm stops subtracting. It is classic profit by subtraction. The entire process must be scrapped.