The Profit Equation

Profit = (Revenue * Gross Margin) − Expenses

• This simple is the basic profit equation for any business and is easily found on the P/L statement

• Revenue = Sales (money that comes into your business)

• Gross Margin is the money left over from sales after the cost of material, and the other costs of making the sale.

• Expenses are the fixed costs of your business (rent, phone bill, salary, etc)
The Profit Equation

Profit

Revenue

Marketing

Sales

Gross Margin

Revenue per customer

Cost of Sales

Cash Flow

Net Margin

Fixed Costs

Expenses

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Revenue

- Marketing is how you inform people about your business and generate leads
- Sales is the conversion of leads (from your marketing) to sales
- Determine some proactive metrics that will achieve more revenue
  - Leads
  - Conversion rate

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Gross Margin

\[
\text{Gross Margin} = \frac{\text{revenue} - \text{cost of sales}}{\text{revenue}}
\]

- **Cost of Sales**
  - Material costs
  - Direct labor
  - Other costs associated with the sale

- **Revenue per customer**: can you generate more revenue from customers to increase the efficiency of each sale
  - Price increase
  - Up-Sale
  - Extended services

- **Cash Flow**
  - Decrease your cash gap: The time between when you pay for material and when you receive payment for the goods or services
  - Increase you inventory turns
Net Margin

• Expenses
  • Rent, utilities, fees
  • Salaries that are fixed regardless of sales
  • Insurance, licenses
Solving the equation for your business

• On the next slide is a table for you to apply the areas of the profit equation to your business

• Enter the numbers for the previous year
  • Number of leads may need to be estimated if you haven't kept a database

• Calculate the potential profit increase if you improved each bolded area by 10%

• It is not unusual to see upwards of a 68% profit increase
## Your Profit Equation

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<td>Net Profit</td>
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Your Profit Equation:

\[
\text{Leads Generated} \times \text{Conversion Rate} = \text{New Customers} + \text{Retained Customers} = \text{Customers} \times \text{Revenue/Customer} = \text{Revenues} \times \text{Gross Margin} = \text{Gross Profit} - \text{Fixed Costs} = \text{Net Profit}
\]
Next Steps

- Now that you have seen the potential profit in your business, put a plan together to achieve it.
- Implement strategies for each item.
- Review the metrics proactively weekly.
- Determine how you hold yourself accountable.
- Set up a meeting with AdviCoach today. We provide a complimentary coaching session to walk through the profit equation and the strategies to increase your profits.