

NUMBER CRUNCHING

How to use maths to grow profit and
business value

- MARK HOLT & CO CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS
- HEALIUM BUSINESS DEVELOPMENT SPECIALISTS
- YOUR FINANCE PEOPLE
- YOUR TAX PARTNERS
- MARK HOLT & CO WEALTH MANAGEMENT



Peter Hill

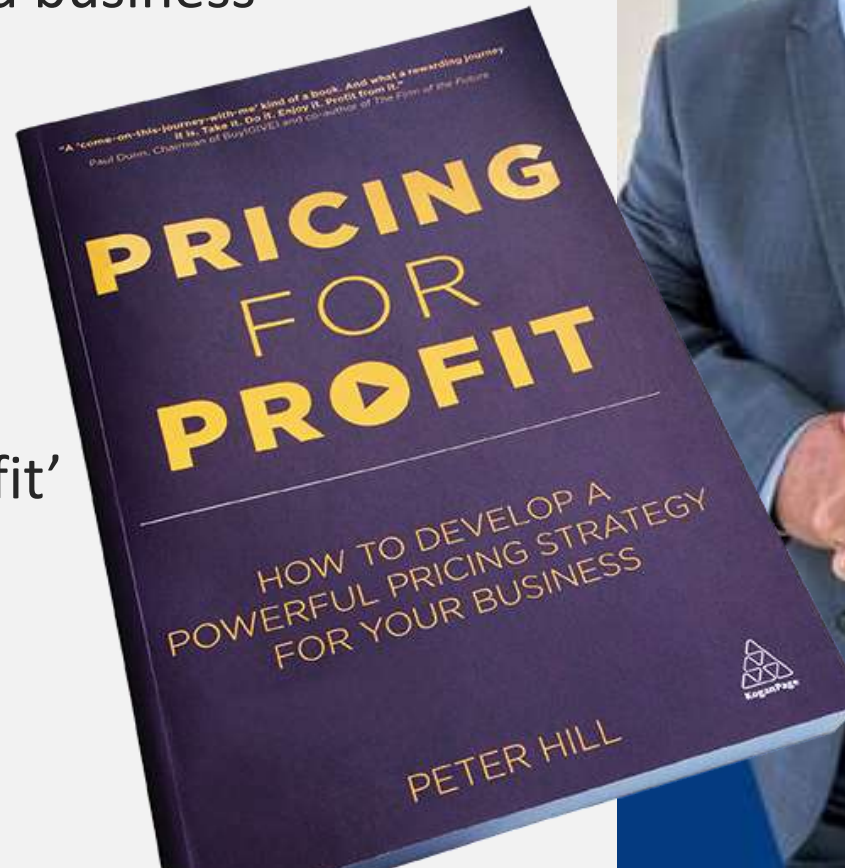
Practicing Accountant and business consultant

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Over 40 years experience

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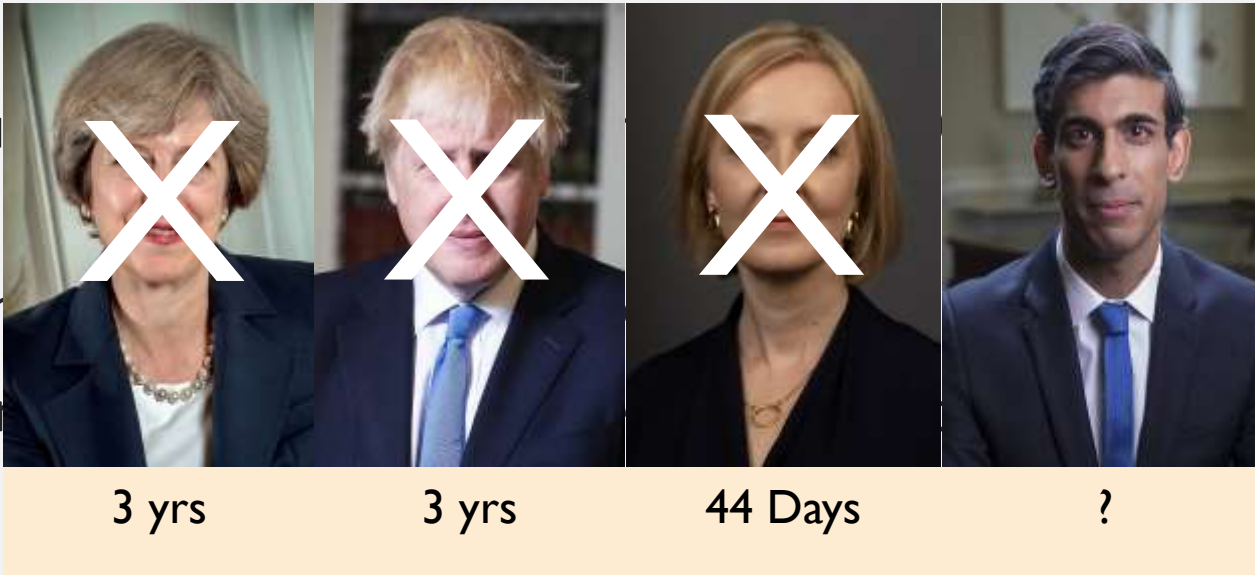




NOW IS THE TIME TO
CHANGE

Many of the economic indicators are flashing red...

- Interest rates increasing (Base rates could reach 6%+ within a year)
- Inflation running wild (and will follow)
- Unemployment rising (and will follow)
- Limited immigration (and will follow)
- Political uncertainty (and will follow)



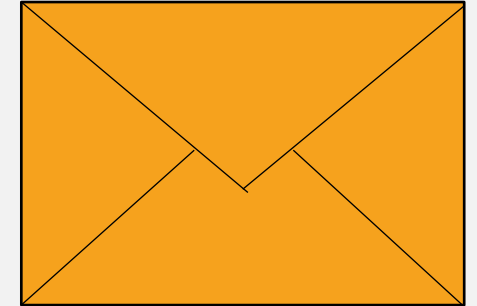
10+ years of 'plain sailing' has become much more challenging.



In other ways things haven't changed at all

- Cash is king.
- Not all customers are good customers.
- Banks want to lend you money when you don't need it, and not when you do!
- Most businesses are focused on turnover and not profit.
- The fundamentals of good business have not changed (they never do!)

YOUR INPUT



- On your seat you'll have an envelope marked A or B
- Open the envelope, take out the paper inside **DO NOT SHARE WITH OTHERS**
- On that paper you are asked for what you think is the fair price of three things.
- Don't over think it. Just put a best estimate of what you would pay for each item.
- Seal the envelope and they will be collected in a few minutes.
- All will become clear!

HIGHER RATE TAX EXPLAINED

- 10 Guys meet each week for a pint and a snack.
- The bill is £100, and they need to decide how to split the bill.
- Rich guy says *“I earn most so I happy to pay more, so the pensioners can pay less”*
- They agree that three with least income drink and eat free. The rest according to affordability. Next pays £1, next £3, £5, £9, £15, £18 and the richest guy £49.
- Everybody is happy.



HIGHER RATE TAX EXPLAINED

- Later the landlord says he appreciates the business and gives a £20 discount.
- They discuss how best to share the £20.
- If they just take £2 each, then the lowest 4 guys are now being paid to drink!
- So they agree that the first 4 drink free, and the rest pay £2, £4, £7, £13, £15 and the richest guy pays £10 less at £39.
- Everybody is happy.



HIGHER RATE TAX EXPLAINED

- Outside the pub, one of the pensioners comments that the rich guy got £10 off.
- *“It’s always the rich that win. 3 of us got nothing, 6 of us shared the other £10”*
- So they kick the S**t out of the rich guy to make their complaint clear.
- The following week, only 9 turn up. The rich guy decides to drink elsewhere.
- When they come to split the bill, there is now £39 less in the kitty!!

- Nobody is happy!!



HIGHER RATE TAX EXPLAINED

- 40% contributed nothing
- Top 10% paid half of the bill
- If those that create wealth are dis-incentivised from doing so. We all suffer!
- But apply this logic to other areas...
 - Who are the 10% of your employees delivering 60% of your outputs?
 - Which customers contribute the most profit?
 - Which products contribute the most profit?



FACTS, NOT EMOTIONS

ANALYSIS, NOT ASSUMPTIONS

INFORMATION, NOT ESTIMATES

Because...

WHAT YOU CAN MEASURE, YOU CAN MANAGE'

AND WHAT YOU CAN MANAGE, YOU CAN IMPROVE

5 ways to grow your business

Bottom line profitability is a function of 5 key indicators...

- | | |
|---|-------------------------|
| ☐ How fast you win new customers | - Acquisition rate |
| ☐ How fast you lose customers | - Defection rate |
| ☐ How often they buy from you | - Transaction Frequency |
| ☐ How much they buy | - Sales Volume |
| ☐ How much they pay | - Price point/Margin |

PROFIT IMPROVEMENT POTENTIAL

What if screen	Starting data	Changes	Potential results	Profit increase from each action
number of customers at start	800		800	
acquisition rate %age	10.00% 80	0.00% 0	10.00%	£0
defection rate	10.00% 80	0.00% 0	10.00%	£0
Number of customers served	800		800	
sales frequency	12.00	0.00	12.00	£0
total number of sales	9600		9600	
Average sales value	£1,041.67	Extra volume £0.00 Price increase % 0.00% Price increase £ £0.00	0.00% £1,041.67	£0 £0
Total sales for the year	£10,000,000		£10,000,000	
Cost of sales	£7,500,000		£7,500,000	
Gross profit £	£2,500,000		£2,500,000	
gross margin %	25.00%		25.00%	
overheads fixed	£2,000,000		£2,000,000	
variable	£250,000		£250,000	
profit	£250,000		£250,000	

COMPOUND PROFIT INCREASE

FROM ALL CHANGES

£0 0%

PROFIT IMPROVEMENT POTENTIAL

What if' screen	Starting data	Changes	Potential results	Profit increase from each action
number of customers at start	800		800	
acquisition rate %age	10.00% 80	3.00% 24	13.00%	£67,500
defection rate	10.00% 80	2.00% 16	8.00%	£45,000
Number of customers served				
sales frequency				£46,875
total number of sales				£307,375
Average sales value				£48,000
Total sales for the year				£100,000
Cost of sales				
Gross profit £	£2,500,000		£2,839,853	
gross margin %	25.00%		25.74%	
overheads fixed	£2,000,000		£2,000,000	
overheads variable	£250,000		£267,969	
profit	£250,000		£571,884	COMPOUND PROFIT INCREASE FROM ALL CHANGES £321,884 129%

Why do customers leave?

Relationship	3%
Miscellaneous	6%
Product or service failure	9%
Product/Price/Time issues	14%
“Perceived Indifference”	68%

PROFIT IMPROVEMENT POTENTIAL

What if screen		Starting data	Changes	Potential results	Profit increase from each action
number of customers at start		800		800	
acquisition rate %age		10.00% 80	17.00% 136	27.00%	£382,500
defection rate		10.00% 80	-2.00% -16	12.00%	-£45,000
Number of customers served		800		920	
sales frequency		12.00	0.00	12.00	£0
total number of sales		9600		11040	
Average sales value	Extra volume	£1,041.67	£0.00	0.00%	£0
	Price increase %		0.00%		
	Price increase £		£0.00	£1,041.67	£0
Total sales for the year		£10,000,000		£11,500,000	
Cost of sales		£7,500,000		£8,625,000	
Gross profit £		£2,500,000		£2,875,000	
gross margin %		25.00%		25.00%	
overheads	fixed	£2,000,000		£2,000,000	
	variable	£250,000		£287,500	
profit		£250,000		£587,500	

COMPOUND PROFIT INCREASE

FROM ALL CHANGES

£337,500 135%

PROFIT IMPROVEMENT POTENTIAL

What if screen	Starting data	Changes	Potential results	Profit increase from each action
number of customers at start	800		800	
acquisition rate %age	10.00% 80	17.00% 136	27.00%	£382,500
defection rate	10.00% 80	-2.00% -16	12.00%	-£45,000
Number of customers served	800		920	
sales frequency	12.00	0.00	12.00	£0
total number of sales	9600		11040	
Average sales value	£1,041.67	Extra volume £0.00 Price increase % -3.00% Price increase £ -£31.25	0.00% £1,010.42	£0 -£300,000
Total sales for the year	£10,000,000		£11,155,000	
Cost of sales	£7,500,000		£8,625,000	
Gross profit £	£2,500,000		£2,530,000	
gross margin %	25.00%		22.68%	
overheads fixed	£2,000,000		£2,000,000	
variable	£250,000		£287,500	
profit	£250,000		£242,500	

COMPOUND PROFIT INCREASE

FROM ALL CHANGES

-£7,500 3%

PROFIT IMPROVEMENT POTENTIAL

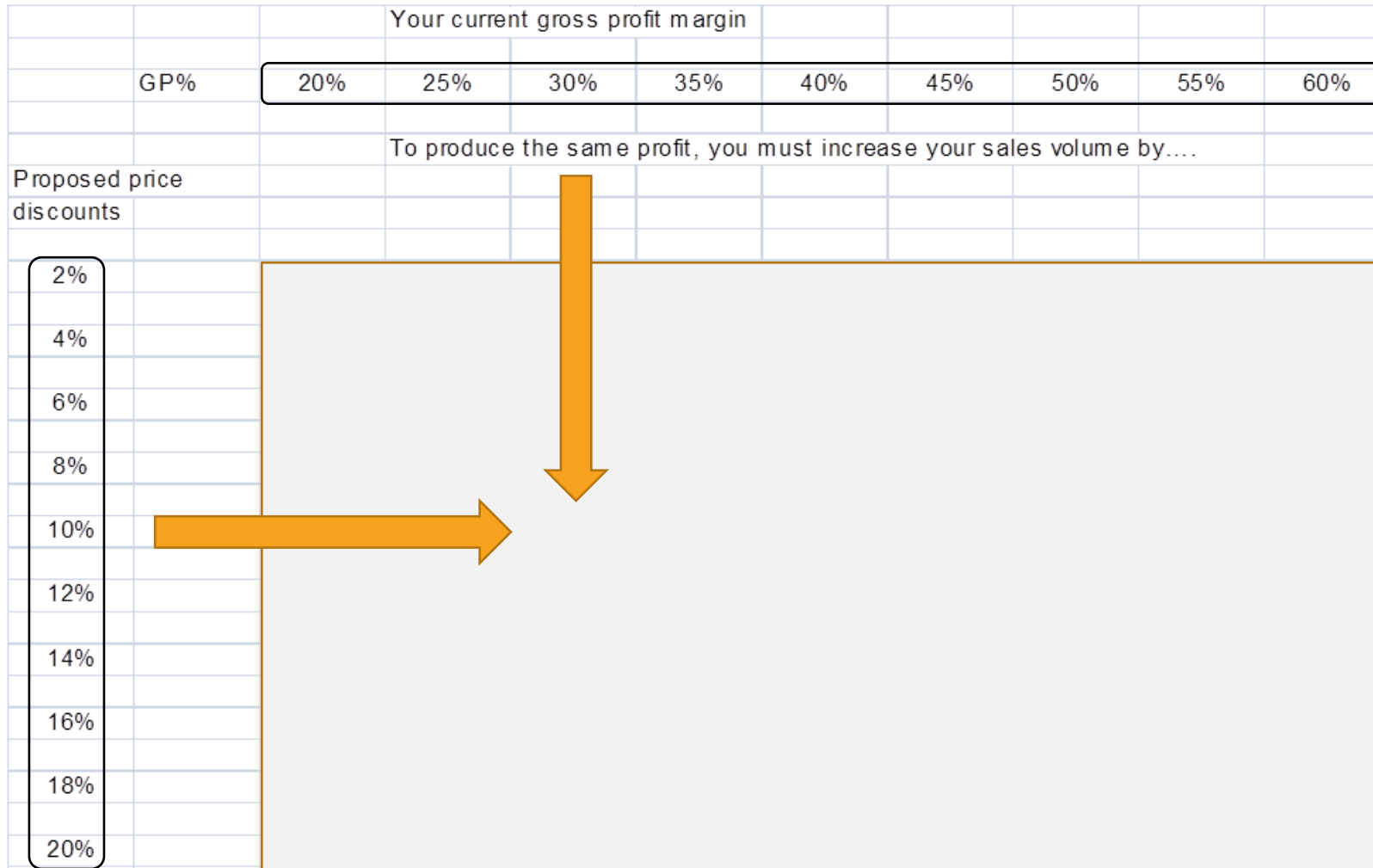
What if screen		Starting data	Changes	Potential results	Profit increase from each action
number of customers at start		800		800	
acquisition rate	%age	10.00% 80	-2.00% -16	8.00%	-£45,000
defection rate		10.00% 80	-2.00% -16	12.00%	-£45,000
Number of customers served		800		768	
sales frequency		12.00	-0.25	11.75	-£46,875
total number of sales		9600		9024	
Average sales value	Extra volume	£1,041.67	-£10.00	-0.96%	-£24,000
	Price increase %		2.00%		
	Price increase £		£20.83		£200,000
Total sales for the year		£10,000,000		£9,497,760	
Cost of sales		£7,500,000		£6,983,647	
Gross profit £		£2,500,000		£2,514,113	
gross margin %		25.00%		26.47%	
overheads	fixed	£2,000,000		£2,000,000	
	variable	£250,000		£235,000	
profit		£250,000		£279,113	

COMPOUND PROFIT INCREASE

FROM ALL CHANGES

£29,113 12%

The effect of discounting on sales volumes.



The effect of discounting on sales volumes.

		Your current gross profit margin								
GP%		20%	25%	30%	35%	40%	45%	50%	55%	60%
		To produce the same profit, you must increase your sales volume by....								
Proposed price discounts										
2%		11%	9%	7%	6%	5%	5%	4%	4%	4%
4%		25%	19%	15%	13%	11%	10%	9%	8%	7%
6%		43%	43%	25%	21%	18%	15%	14%	12%	11%
8%		67%	47%	36%	30%	25%	22%	19%	17%	15%
10%		100%	67%	50%	40%	33%	29%	25%	22%	20%
12%		150%	92%	67%	52%	43%	36%	32%	28%	25%
14%		233%	127%	88%	67%	54%	45%	39%	34%	30%
16%		400%	178%	114%	84%	67%	55%	47%	41%	36%
18%		900%	257%	150%	106%	82%	67%	56%	49%	43%
20%		*	400%	200%	133%	100%	80%	67%	57%	50%

Alternatively...

A 30% margin business that **increases** prices by 10%, can afford to lose 25% of its sales

DISCOUNT IS £ FOR £ PAIN

Discount rarely drives sales and is often therefore £ for £ pain. £1 discount = £1 lower profit.

The problem is that it is not the person giving the discount that feels the pain!

- £10m business gave an average of 20% discount
- It was therefore really a £12.5m business that gave away £2.5m
- No one knew this number, had responsibility for it, or considered its financial impact.
- This was around £50k a week given away, with no rules, conditions or recording
- What happens when we make it cash?....
 - Controls are needed
 - Sales people's behaviours change
 - Customer appreciation changes

Margins are critical

If you grow your top line at the expense of margins,
you are likely to fail.

GET BETTER, NOT BIGGER

Growth must be controlled – Customer classification



Premium customers

- Quality more important than price
- Expect great service
- Want ideas and proactivity

£ = 66% No = 5%

Profit £ = 80%



Normal customers

- Make VFM judgements
- Judge you on 'how' you deliver
- Generally loyal

£ = 32% No = 45%

Profit £ = 35%



Poor customers

- Want cheaper, or have no money
- Slow payers
- Complain

£ = 2% No = 50%

Loss £ = 15%

Know the numbers for your customers

Many businesses I work with make no distinction between A, B or C (or D) grade customers. What the numbers will show in almost every business is that a small number of customers are critical to future success, and a large number are actually costing you money.

How can we handle the C grade customers?

- Increase prices to make them more profitable
- Set minimum order quantities to make sales more efficient
- Cash only, no credit
- Online sales only
- Ask them to go elsewhere!!

Some interesting issues and case studies

- How does the number '7' or the number '0' in a price influence a buyer?
 - Which number would you trust? £1,077 or £1,000 -
 - 7.7% discount or 10% discount.
- Why is '9' so prevalent in pricing?
 - Many surveys now suggest consumers no longer trust a price with a '9', and regard it as negotiable.
- Why is cost plus pricing fundamentally flawed?
 - The tale of the generous shop keeper

Some interesting issues and case studies

- How emotion often (wrongly) trumps financial reality.
 - Dobwalls example
- Do your frontline people understand the numbers well enough?
 - Loss leaders don't work
- How does the way you describe something affect the price? (survey results...)
 - If you make price the only issue, it is how the decision to buy will be made.

Numbers are important!

The problem is that many business people are making decisions based on *emotions, assumptions*, or *copying* what others do without understanding their own financial dynamics.

KNOW THE NUMBERS!!

Summary

It was relatively easy to run a profitable business over the 10 period pre Covid

Brexit created a paralysis. Many businesses held cash and became complacent

Covid forced cost reductions and innovation

Government support kept Zombie businesses alive

Many businesses are not ready for the economic volatility we are about to see

Action

Understand your drivers of profit. Where should you focus attention?

Know your customers. Identify the ones that actually cost you money to serve.

Manage cash hard (cash, debts, keep the bank close, control spending)

Grow sales with the right customers, and strong margins. Be ready for the economic volatility that is coming.

DON'T GET BIGGER, GET BETTER!



SPECIAL OFFER

Post on your social media platform about this session and tag in Mark Holt & Co and EDA.

The first 20 will be given a free 2 hour one to one session to use the financial modelling tool and explore their numbers and the profit potential of their business.

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