KC KEYNSHAM CONSULTING LIMITED

10 WAYS

TO GET A BETTER UNDERSTANDING OF YOUR BUSINESS PERFORMANCE

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1

Total Sales

This is an easy place to start. How much have you sold in total this month? Compare that to last month, to this month last year, to your budget for this month (if you have one). Why is it higher or lower than you expected? Has anything changed? Did you have any promotions?

2

Break-even analysis

Break-even analysis is a useful exercise to do when you put together your budget for the year ahead, especially if you are a new business. This exercise will give you the turnover amount that you need to achieve to break-even (the point where you tip from making a loss into making a profit).

If the number of sales units you need to sell to break-even seems unachievable then you need to review your selling price and your current cost structure.

You can use this data to predict the impact of a price/cost increase and see what effect it will have on your profit and break-even point.

3

Peak trading analysis

Depending on when your peak trading period is (Easter, bank holiday sales, pre-Christmas, January sales), comparing the trading in your peak period can be tricky. Complications can arise on the timing; Easter changes date every year, and sometimes the month changes too. And while the date of Christmas remains constant, it can sometimes fall into different weeks. Depending if your peak trading is before Christmas or after, you can lose a day or 2 of peak trading in/out of December when comparing it to previous years.

Manual intervention is normally required to compare your peak trading periods. The sales data from specific weeks, and sometimes specific days needs to be extracted and lined up exactly with last year's data to get an accurate comparison.

4

Gross Profit %

Gross profit shows how much profit you're making from the selling price after deducting the direct costs of making or buying those goods.

The calculation of it is: Sales – Cost of Sales = Gross Profit

And to turn it into a % : Gross Profit/Sales x 100 = GP%

Using the Gross Profit % formula you can apply this calculation to each of your products to find out which is your most/least profitable. You can apply it to your total sales in the month and compare it to previous months, to this month last year and again compare it to your budget if you have one.

You can also track how it changes during periods when you are running discounts or other promotional activities.

5

Marketing spend as % of Turnover

Hopefully when you spend money on marketing, this will give your turnover a boost. A useful way of tracking the effectiveness of your marketing spend is to calculate your marketing spend as a % of turnover. This is best done on a monthly basis, so the calculation would be:

Marketing spend in the month/Total sales in the month x 100

6

Cash-flow

Cash-flow management is one of my favourite topics, I know the importance of it first hand from working at a Retail company that had a crisis and careful cash-flow management was the only thing that got us through it.

I normally recommend using a 17 week model for cash-flow forecasting as some large payments, such as rent and VAT, are only paid quarterly. So using a 17 week model gives you visibility over the whole quarter ahead of you.

However, if you don't have a cash-flow forecast process yet, a good starting point is to track your closing bank balance at end of every month. Is it trending up or down, does it fluctuate, what happens in the months when you generate more/less cash? Are you getting close to your limits? It can still give you focus on any areas for concern in your business.

7

Overheads

Some of your overhead costs will be constant (rent, rates, salaries, depreciation) others will fluctuate more (distribution, marketing, utilities).

Tracking these cost categories month on month will give you an indication if any of your costs are creeping up and where to focus if they are.

8

Operating Profit %

Your operating profit is calculated from your gross profit less your operating expenses (also known as Net Profit/ Profit before Interest & Tax). This can also be referred to as your trading profit as it shows the profit your business has generated from your trading activities.

To calculate your operating profit %:

Operating profit for the month/Sales for the month x 100

This can be monitored month on month and compared to previous months and this time last year. Linked to point 7 above, if your operating profit % is low in a particular month, it could be because your overhead costs were higher. Also, a lower Gross Profit % can contribute to a lower Operating Profit %. So it's recommended to review this in relation to the other points above to get an overall picture.

9

Profit before tax (PBT)

The difference between your Operating profit and PBT is that Interest is deducted to get to your PBT. While Operating profit shows the profit from your trading activities, the PBT shows your overall result for the month/year, 'the bottom line' as it is often referred to.

While it's always useful to slice and dice your figures to see the detail, PBT should still be considered to see your overall result.

10

EBITDA (Earnings before Interest, Tax, Depreciation & Amortisation)

Depreciation and Amortisation (this is depreciation on intangible assets, such as software) is included within your operating costs so to calculate your EBITDA you need to exclude depreciation & amortisation from your Operating profit figure.

EBITDA is a common accounting measurement tool because interest, tax, depreciation and amortisation are items that you cannot easily control or manipulate. So if these are excluded when reviewing your accounts, then you get a clearer view of the underlying performance of your business.