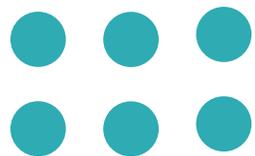




Profitability

- **Presented by Jo Tomlinson**
- Owner and MD of Business Works UK
- Certified Quickbooks Trainer
- Certified Profit Improvement Coach



Jo Tomlinson BA(hons) ACMA

MD Business Works UK LTD

jo@businessworksuk.co.uk

www.businessworksuk.co.uk



After 20 years in Industry analysing company data to support commercial business decisions, I founded Business Works with a vision to offer real-world solutions to businesses.

We have grown into a trusted partner for companies seeking a better understanding of their numbers, great customer service, and business growth.

With a team of 12, we are large enough to provide all the finance support SME business owners need, plus the value-added services that help them to flourish and grow.

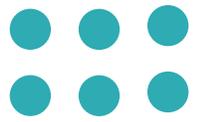


Table of Contents/Agenda

1

Profit Reporting

2

Why split profit

3

Products and Services

4

Allocating Direct Costs

5

Allocating Indirect Costs

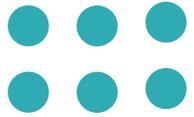
6

Knowing your numbers

7

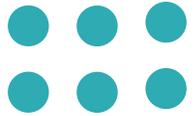
Strategies to improve profit

8



Profit Reporting

- Know Your Numbers
- Frequency
- Cost breakdown of each product or service you sell
- What about overheads



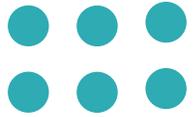
Profit Reporting

Revenue	XXXX
Cost of Sales (Direct Costs)	<u>XXX</u>
Gross Profit	XX
Overheads or Indirect Costs	<u>X</u>
Net Profit	X



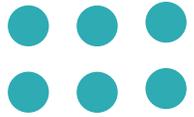
Profit Reporting

- Does each product or service create a positive gross profit
- Does the volume of each of those products/services we sell, create enough gross profit to at least cover our overheads



Profit Reporting

- Breakeven Analysis
- How much do you need to sell at your forecasted margin, to cover your overheads



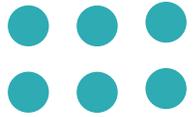
Profit Reporting

Gross Profit

Profit after taking account of all Direct Costs

Direct Costs – often known as Costs of Sale or Costs of Goods Sold

- Costs which vary directly in line with how much you sell



Profit Reporting

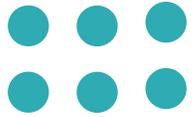
Gross Margin - the percentage version of gross profit.

- Calculation

Take COGS away from Revenue to get Gross Profit and then divide this by revenue.

- Example

Revenue	£1,000
COGS	£500
Gross Profit	£500
Gross Margin	50%



Profit Reporting

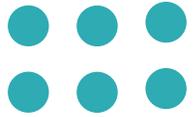
Markup – the difference between the cost of a product and its selling price, generally expressed as a percentage

- Calculation

Take COGS away from Revenue and divide this by COGS.

- Example

Revenue	£1,000
COGS	£500
Gross Profit	£500
Markup	100%



Profit Reporting

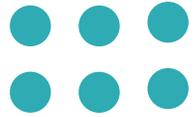
Net Profit

Profit after taking account of all Costs

Direct Costs – often known as Costs of Sale

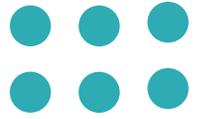
Indirect Costs – often known as Overheads

Costs which remain relatively fixed



Why split Profits

Profitable products or services can mask unprofitable products or services



Why split Profits



Example

A café/coffee shop.



Why split Profits

Example

	2024
Sales/Takings	£100,000
Cost of Sales (COS)	
Labour	£ 35,000
Materials	£ 25,000
Total COS	£ 60,000
Gross Profit	£ 40,000
Gross Profit %	40%
Premises Costs	£ 7,200
Wages and Salaries	£ 12,570
Staff related Costs	£ 1,000
Insurances	£ 1,500
Legal and professional	£ 3,600
Software	£ 2,400
Advertising and Marketing	£ 2,400
Finance and interest	£ 3,500
Depreciation	£ 1,000
Total Overheads	£ 35,170
Net Profit	£ 4,830
	5%



Why split Profits

	2024	2025
Sales/Takings	£ 100,000	£ 200,000
Cost of Sales (COS)		
Labour	£ 35,000	£ 70,000
Materials	£ 25,000	£ 50,000
Total COS	£ 60,000	£ 120,000
Gross Profit	£ 40,000	£ 80,000
Gross Profit %	40%	40%
Premises Costs	£ 7,200	£ 7,200
Wages and Salaries	£ 12,570	£ 12,570
Staff related Costs	£ 1,000	£ 1,000
Insurances	£ 1,500	£ 1,500
Legal and professional	£ 3,600	£ 3,600
Software	£ 2,400	£ 2,400
Advertising and Marketing	£ 2,400	£ 12,000
Finance and interest	£ 3,500	£ 3,500
Depreciation	£ 1,000	£ 1,000
Total Overheads	£ 35,170	£ 44,770
Net Profit	£ 4,830	£ 35,230
	5%	18%



Know your numbers

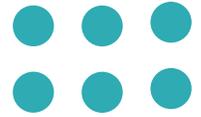
- Understand the profitability of each product or service you sell
- Knowledge is power
- If you don't know, you can't do anything about it



Know your numbers

- Back to the coffee shop example

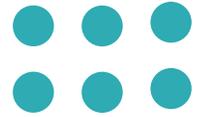
	Latte	Black coffee	Tea
	£ 3.00	£ 2.75	£ 2.50
Coffee	£ 0.20	£ 0.20	£ 0.05
Milk	£ 0.20		£ 0.10
	£ 0.40	£ 0.20	£ 0.15
	£ 2.60	£ 2.55	£ 2.35
Staff Cost	£ 1.00	£ 0.75	£ 0.50
	£ 1.60	£ 1.80	£ 1.85
	53%	65%	74%



Products and Services

What about

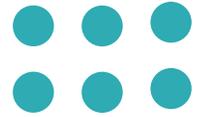
- Milk in the coffee – latte has a lot of milk
- Milk alternatives
- Wastage
- Takeaway cups



Products and Services

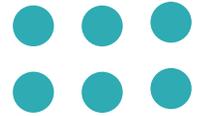
Examples

- Coffee
- Tea
- Cold drinks cans
- Cakes
- Ice-cream
- Toasties/paninis
- Cold sandwiches



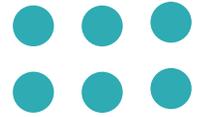
Products and Services

- What level do you do down to?
 1. Individual SKU – Product or service
 2. Groups of similar products or services



Products and Services

	1	2	3	4	5	6	7	8	9	10
Units	1,000	4	10	1	500	50	3,000	15	100	100
Price each	£ 1.00	£ 500.00	£ 5.00	£ 1,000.00	£ 2.00	£ 350.00	£ 0.25	£ 20.00	£ 30.00	£ 40.00
Revenue	£ 1,000	£ 2,000	£ 50	£ 1,000	£ 1,000	£ 17,500	£ 750	£ 300	£ 3,000	£ 4,000
Gross Margin p.a.	£ 100	£ 600	£ 8	£ 400	£ 100	£ 2,625	£ 75	£ 45	£ 150	£ 600
GM %	10%	30%	15%	40%	10%	15%	10%	15%	5%	15%

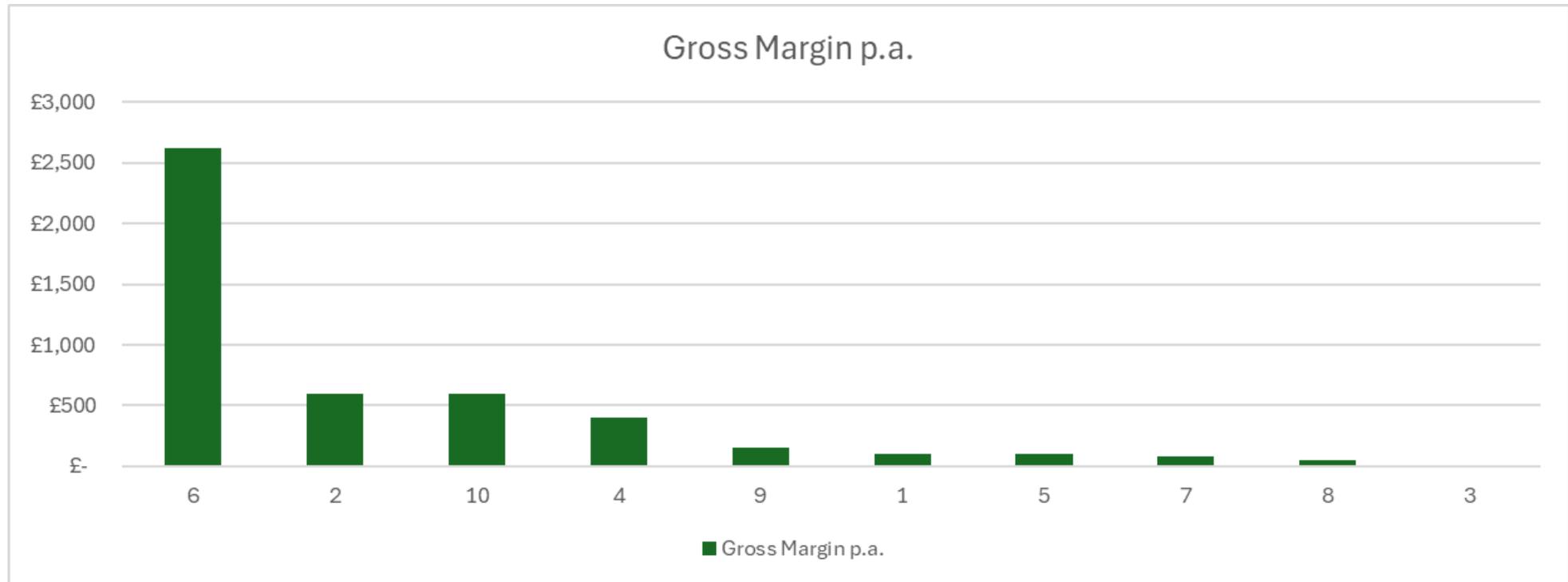


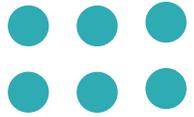
Products and Services

	6	2	10	4	9	1	5	7	8	3
Units	50	4	100	1	100	1,000	500	3,000	15	10
Price each	£ 350.00	£ 500.00	£ 40.00	£ 1,000.00	£ 30.00	£ 1.00	£ 2.00	£ 0.25	£ 20.00	£ 5.00
Revenue	£ 17,500	£ 2,000	£ 4,000	£ 1,000	£ 3,000	£ 1,000	£ 1,000	£ 750	£ 300	£ 50
Gross Margin p.a.	£ 2,625	£ 600	£ 600	£ 400	£ 150	£ 100	£ 100	£ 75	£ 45	£ 8
GM %	15%	30%	15%	40%	5%	10%	10%	10%	15%	15%



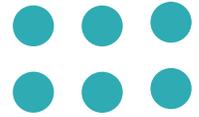
Products and Services





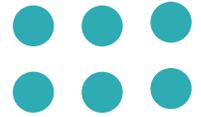
Low Margin products

- Do they bring in customers who buy high margin products
- Can you link them to high margin products
- Can you increase the price?
- Can you reduce the cost?



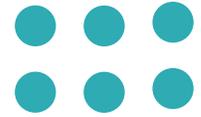
Products and Services

- Cost breakdown of each product or service from the start
- Regular reviews
- Margin per product in theory
- Any way of checking the actual costs
 - Actual time
 - Actual materials used
 - Actual wastage



Products and Services

- Do you have a standard mark up?
- Do you charge as much as you can?
- Do you charge what you consider to be the market rate?
- When did you last look at your pricing



Allocating Direct Costs

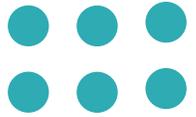
- Coffee
- Team
- Milk
- Direct Labour
- Hot Choc
- Syrups
- Sugar etc
- Cost of cake to sell
- Cost of toasty ingredients
- Cost of sandwich ingredients



Allocating Direct Costs

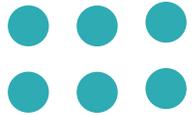
Need to take account of wastage

- For Direct Labour
 - Set up
 - Closing up
 - Cleaning
 - Idle time if shop is quiet
 - Breaks
- For ingredients
 - anything thrown away as its spoilt (dropped, or old)
 - Anything consumed by staff



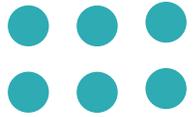
Indirect/Fixed Costs

- Capital purchases
 - Barista coffee machine
 - Cups
 - Plates
 - Chairs & Tables
 - Trays
 - Spoons
- Depreciation rules on some of this



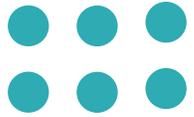
Indirect/Fixed Costs

- Rent/Rates/Water Rates
- Heat and Light
- Insurances
- Fixed Staff Costs
- Uniforms/Training
- Accountant/Bookkeeper fees
- Software
- Finance charges – card machine



Indirect/Fixed Costs

- ABC
- Flat %
- Time spent on allocations v value
- Breakeven



Margin

- Tea and Coffee – over 50%
- Hot chocolate – lots of choc in it, depends what you charge
- Milk shake – ice-cream in it?
- Mark up on cake, not likely to be as high, and more waste



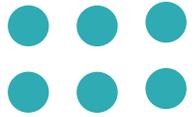
Know your numbers

- Do you know the Gross Profit of all your goods and services?
- When did you last review them?
- Do you have mechanisms to measure actuals accurately?



Eyes wide open decision making

- Facts based
- Accurate
- Recent



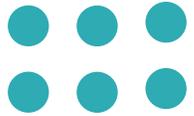
Improve your Margin

- Pricing
- Cost reduction (without reduction in quality)
 - Make v buy
 - Outsourcing



Marketing

- Push high margin goods and services
- Only sell low margin products and services as part of a high margin bundle



Resources



1. Navigating the Budget 24
2. Pricing for profit
3. Bookkeeping for business owners
4. Owning a business – what you need to know
5. Financial management – know your numbers
6. What is a tax deductible expense
7. Company structure (LTD v Sole Trader)
8. Associated Companies
9. VAT registration and Rules
10. Employing people

Thank

You



Joseph.midgley@ynygrowthhub.com
www.ynygrowthhub.com