

To Increase Profitability Focus on Both the Bottom and Top Lines

Where did the year go? With 2017 coming to a close, entrepreneurs are diligently planning their 2018 budgets and P&L's. This analysis, budgeting and forecasting is critical for your continued success.

Be honest: are you actually do this work or are you just thinking about your 2018 financial goals? Every motivational and business speaker vehemently states, "you must write down your goals" – so just do it. If you are doing it, good for you. If you are not, start now!

My company has worked with over 10,000 small and mid-sized businesses in my career – and as a fellow entrepreneur, I am always intrigued and enjoy learning from like-minded business people how they plan to grow in the coming year.

Some actual answers to this question from CEOs include:

"I just hired the best salesperson so excited for next year."

"Finally, we are starting a social media strategy to go viral."

"Our shopping cart experience is much better and I see sales already growing."

"Internal communication is getting better – weekly sales meeting every morning."

"My goal is to visit more customers personally and get a true sense of their experience with our company."

" Our new CRM will make sales tracking that much better for

continued growth.”

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Every above answer is important, meaningful and true. You must do some or all of these strategies to grow your top-line revenue. You will determine whether your goal is 10 percent, 20 percent or 100 percent growth. And, these answers are also shortsighted as over 90 percent of entrepreneurs neglect other ways to demonstrate company growth.

How else can you grow? Let's define growth? There are different metrics to analyze. I would argue there is only one benchmark to quantify growth. Your bottom-line profitability! That's it! Are you making the money to which you aspire? Such a simple concept and one metric that, in my opinion, gets continuously confused.

We all know of SaaS businesses that are showing zero profitability but, because of continued user adoption, are sold for a big multiple on top-line growth. When I was an investment banker in the late 1980's working on Wall Street, EBITDA (earnings before interest, taxes, depreciation and amortization) was our constant metric to determine a business sale price. Yes, EBITDA is still a very important factor in market valuations. EBITDA highlights bottom-line profitability.

Let's focus on another strategy to grow or increase your profitability: expense reduction is at least equally valuable and could be low hanging fruit to increase the value of your company. It's not as sexy as growing top-line sales with new marketing strategies, but it's more valuable. As your business grows, your expenses continue to grow. When was the last time you, your CFO or somebody within your leadership team was empowered to review your expenses?

Is expense reduction more valuable than top-line sales? It's not. Both are important but let's be analytical and compare

both the sales strategies and expense strategy to determine the net bottom-line effect for your company: XYZ Company (these are real numbers from a \$1.1M business).

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Boosting sales

In example one, the CEO employed different sales strategies in late 2016 and top line 2017 grew by \$100,000 to \$1.2 annually. Profit margin is 30 percent and after labor, cost of goods sold, labor, XYZ Company earned \$30,000 on that additional \$100,000. Of that \$30,000, the company pays its salespeople, independent and salaried, a 50 percent commission.

Net profit on that \$100,000 is \$15,000 bottom-line to the company.

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Trimming expenses

This same company employed major expense savings analysis in early 2016 on every major expense line item. For every \$1 saved is bottom-line in profitability. Savings equaled \$42,000 on an annualized basis for 2017. As a caveat, it's impossible to provide exact metrics because every company is different, every industry unique but I hope the logic is reasonable.

Based on my analysis with real-life examples of companies ranging in a wide variety of industries, a dollar saved is 2.8 times as valuable as a dollar added with new sales. Once you have your expenses under control, go back to sales growth, but it's critical you review your significant expense line items every year.

In XYZ Company, a \$1 saved is 2.8 x's more profitable than a

\$1 of top line sales growth! XYZ literally made \$42,000 in bottom line profit, which increases the EBITDA bottom-line.

Now, let's have some real fun and extrapolate the increase in company value should the CEO wish to sell or exit from the business. As mentioned above, using multiples to determine a sale price is a common accounting methodology. Multiple ranges greatly depending on many variables and industry types. Let's use a five multiple common in XYZ Industry.

This \$42,000 in expense savings just added \$210,000 in equity value to the company. Not bad.

Some expenses to focus on include shipping, phone, banking fees, utilities and credit card processing fees, just to name a few. The "hidden fees" prevalent in these expense categories is disturbing and offensive. Yes, I use this word purposely. The business owner is being taken advantage of. Do you really know how to "read" your electric bill, telephone bill or credit card processing statement? I don't (except for the credit card bill because I have spent 20 years in that industry).

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I find it completely frustrating. Why can't just once a company be pro-active and call me and say we found an error in your bill or we have a new program that will save you money! It doesn't happen.

As the year ends, think about both growing top-lines sales and "sharpening your pencil" on all your expense items. Take a breath and either take ownership of your expenses or empower somebody within your organization to get these line items under control.

Whether you employ internal personnel or outside consultants, it's your responsibility as being part of the leadership team

to review your P&L. It's not hard. Just get it done. Doing both of these strategies concurrently will make for a more profitable 2018.

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