

PROFIT SCENARIO PLANNER

This tool works best for trade and other businesses that have a combination of Direct (variable) and fixed costs but the principals can be applied to any business.

It will introduce to you the power of financial leverage within your P&L statement. Every business is different so this leverage will also vary between businesses. I have used this tool many times to help business owners understand that it really might not be too difficult to boost the profitability of their business. Many of these people have then either reversed their losses or boosted their profits by more than 50% when implementing these principles.

If you are one of those people that learns best through watching rather than reading, you may find this video helpful. In fact I suggest you watch it anyway. However, remember I am a business coach and not a movie star.



- Step 1: Obtain a recent P&L statement for your business. It is best that you use a summary for several months. Make sure you have identified the following income and expenditure categories: Sales, Cost of sales, Gross Profit, Operating expenses, Operating Profit.
- Step 2: Enter these results into the first column of the worksheet on the last page of these instructions. Better still, enter it into an excel spreadsheet and work from the spreadsheet.
- Step 3: Copy the figures from the first column into the second column but reduce your operating costs by 2%. Record the increase in profit at the bottom of the column.
- Step 4: Copy the figures from the second column into the third column but reduce your cost of sales by 2%. Record the increase in profit at the bottom of the column.
- Step 5: Copy the figures from the third column into the fourth column but increase your sales by 2%. (Think of this as a price increase of 2%). Record the increase in profit at the bottom of the column
- Step 6: Copy the figures from the fourth column into the fifth column but increase your sales and cost of sales by 2%. (This is the equivalent of increasing sales volume by 2%). Record the increase in profit at the bottom of the column.
- Step 6: Work out the total increase in profit resulting from your calculations in Step 2 – Step 6.
- Step 7: Repeat the exercise using different percentages. You can even use different percentages for different steps. Explore different scenarios – what do you think is achievable?

Congratulations – you have now developed a scenario you feel comfortable with. Next step is implementation. You could achieve this by following the principles in the business planning guide “From Good to Great to Awesome” or you are welcome to discuss coaching opportunities with me. I have a whole range of proven online resources, tools, videos and training material that can fast-track your success.

Send me an email entitled “Strategy session” to arrange a 20minute discussion where we can explore what will work best for you. My email is colin@5pconsulting.com.au

PROFIT SCENARIO PLANNER - WORKED EXAMPLE

	(1)	(2)	(3)	(4)	(5)
	P&L Actual result	Decrease operating costs	Decrease Cost of Sales	Increase sales price	Increase sales volume
% increase at each step ---->		2%	2%	2%	2%
Sales	1,000,000	1,000,000	1,000,000	1,020,000	1,040,400
- Cost of sales	400,000	400,000	392,000	392,000	399,840
= Gross profit	600,000	600,000	608,000	628,000	640,560
- operating costs	500,000	490,000	490,000	490,000	490,000
= Operating Pft	100,000	110,000	118,000	138,000	150,560
Increase in profit at each step		10,000	8,000	20,000	12,560
Cumulative increase in profit		10,000	18,000	38,000	50,560
Cumulative % increase in profit		10%	18%	38%	51%

PROFIT SCENARIO PLANNER - WORKSHEET

	(1)	(2)	(3)	(4)	(5)
	P&L Actual result	Decrease operating costs	Decrease Cost of Sales	Increase sales price	Increase sales volume
% increase at each step ---->					
Sales					
- Cost of sales					
= Gross profit					
- operating costs					
= Operating Pft					
Increase in profit at each step					
Cumulative increase in profit					
Cumulative % increase in profit					