

PROFIT

# PROFIT INTRODUCTION



VIDEO  
TRANSCRIPT  
ONE



**COACHING ACADEMY SPECIALIST**  
Where Small Businesses Grow

# Video Transcript One

## Profit Introduction

**Profit is achieved, simply by ensuring that your expenses are less than your income or that your sales always exceed your costs.**

To help you achieve this, you must maintain a simple set of management accounts. One line is going to show sales and all the rest is about expenses.

By listing them and subtracting them from your sales, you will see if you've had a good or a bad month.

**A proper set of management accounts will take into account all of your current monthly expenses together with bills you will incur over the period of your business year.**

Within your expenses, you'll have bills that you pay annually, quarterly, and some you'll pay monthly. With your annual bills – you must simply divide them by twelve and put that figure, which is called – for management purposes, an accrual into your expenses list. With the bills you get quarterly; you don't just put it into the expenses when you get that quarterly bill, you anticipate it and put in a third of it right now into your monthly expenses

**You must also include in the accruals section, an estimated amount for items that you haven't purchased yet that you know you'll have to purchase at some stage.**

It could be solicitor's costs, break-down repairs, advertising, bad debts etc. And if you say, "What if I don't know how much it's going to be," you're going to have to guess what you expect it's going to be and you just put that estimated amount into your monthly expenses.

**You will find with good management account's, that it's going to help you drive your business towards making a profit, by getting you to focus on your sales and your expenses.**

## Video Transcript One

### Profit Introduction/Continued....

**I frequently come across the business owner who will say, “Well, I’m quite happy the way the business is ticking along at the moment. We’re breaking even and that’s good enough for me.”**

And it’s just not good enough. It’s never good enough to just continue to break even.

Because you must build up some reserves, you have to build up some cash for the rainy day. The rainy day is when you lose some customers, maybe to your competition or they have just gone out of business and they’re not buying from you anymore. You might have a downturn in business because, “maybe China are producing something cheaper.” Or you’re in trouble because your supplier has gone out of business.

**Whatever the reason, there’ll be a downturn and there’ll be trouble.**

And without your reserves, you’re going to be in difficulty. You’re going to need to make a profit to build reserves. You also need to make a profit so that you can reinvest in the business because of having to update or replace the machinery, because of the equipment, because of your marketing, because of the systems that you’ve got.

You are going to have to reinvest because there’s a better way of doing things and you’re going to be forced to make some decisions; and if you haven’t got the cash to do it, you’re going to be in difficulty.

**So to grow your business, you’re going to have to make a profit.**

So let’s say now that you’re moving along and all is ‘tickety-boo’, everything is going fine and your sales are exceeding your expenses and things are looking good, and then there’s a downturn in sales.

Now, I find the greatest, most successful businesses I’ve come across have difficulty in dealing with this simple situation, which should have been anticipated, where the sales have dropped.

Now you’ve got a choice. You can either increase sales or you can reduce expenses or you can do a bit of each.

**But to do nothing is business suicide, you’re looking for trouble, to do nothing is irresponsible.**

## Video Transcript One

### Profit Introduction/Continued....

**When it comes to light that you're making a loss, it's easy to conclude, that you need to increase sales. That's the obvious solution.**

But while you're trying to increase sales and there's great pressure on you, maybe you won't be as successful as you would like to be, so you should also look at ways to cut expenses.

When I see people doing that, they will look at the cost of paperclips, they will look at the cost of paper and phone bills, they'll look at the cost of things that they buy so they might buy less of. To make savings wherever possible is always a good idea.

But you know what's more important than that?

**You'll frequently find that the greatest expense item on your management accounts is payroll and maybe that's where you have to make cuts.**

It is so easy to say, "Maybe we'll deal with it tomorrow." That's what some businesses do and that's why some businesses go out of business, because they can't bear the thought of saying goodbye to that lady or gentleman in the corner who has done nothing wrong. They come to work on time, they're honest, they're reliable, they work hard. But if we're making a loss, we have to make difficult decisions.

So making a profit is a difficult subject. It is the most important part of your business, you need to make a profit to grow, you need to make a profit to stand still, you need to make a profit to invest in your business, you need to have to build up some reserves. And to enable you to do that, you need to make difficult decisions just so you can stay in business.

**To make a profit, you can either increase sales or you can cut expenses or you can do a bit of each. But what's really important is that you actually do something.**

**DON'T FORGET TO WATCH THE "PROFIT INTRODUCTION" VIDEO.**