

Trend Analysis and how to find lost profits in your business

A very simple way that any business owner can find out which expense areas of the business require corrective action is to take the Profit and Loss for the past 3 to 4 years and calculate each expense item as a percentage of sales. You can plot this on a very simple excel spreadsheet. A conservative approach is to take an **average** of each expense line ratio and then focus your efforts on those expenses that are worse than average. A more aggressive approach is to focus on all ratios worse than the best. The next step is to then dig deep into why that particular expense line is an exception – this would include digging into the detailed expenses within that expense line, be ruthless as to whether they are necessary or not. The common question to ask in your analysis and research is **WHY** – don't accept the ordinary – be bold and aggressive in resolving these areas – it's critical to your success – accept nothing less than the best.

Below is an example:

	2009 6mths	%	2008 12mths	%	2007 12mths	%	2006 12mths	%
Sales	100	100	120	100	110	100	97	100
COS	70	70	83	69	66	60	59	60
Admin	5	5	5	4.2	6	5.5	4	4.1

Areas to address

(The above can also be done by detailed expense line – however your focus initially must be on material areas first and staying high level initially will do this – the next phase of the process would be to go down with the same process to the next level)

COS= Cost of Sales

Average = 64.75%

Best = 60%

So the Direct costs associated with the Sales has worsened since 2006 – WHY, WHY, WHY

- Find out why – be honest with yourself – no excuses – have you lost control – have your production controls become sloppy, do you need to tighten up, has waste increased, do you need to put in place an incentive program for production that rewards the employees for beating the average, etc ,etc

Admin

Same story – here again dig deep into the detailed expenses making up this category

If you need further assistance or guidance please don't hesitate to contact us at:

Email: info@businesscoach-canada.ca website: www.businesscoach-canada.ca

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