

# Financial performance

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# Financial performance

This concise guide has been developed to help you assess and enhance your financial performance. Complete this plan to review and evaluate your gross margin, revenue per customer, break-even point, and other factors that weigh in your profitability. With this data you can make informed decisions about how to increase your revenue without also substantially increasing your costs.

Here's what you need to consider:

## 1. Improving gross margin

Your gross margin shows how profitable your core operations are. It's the percentage of revenue that remains after you've factored in the direct costs of producing your goods or services. To determine your gross margin, subtract the cost of your goods sold from the total revenue and then divide the result by your total revenue.

Gross Margin = (total revenue – cost of goods sold)/total revenue

Improving gross margin can include revising pricing to ensure it covers direct costs and desired gross margin, negotiating better supplier agreements, reducing expenses, and reworking the product mix to include more high-margin products or services.

## 2. Improving average revenue per customer

Increasing the amount of money each customer spends with your business is a viable way to improve your profitability while providing value for your customers. You could consider bundling products or services at a reduced price compared to buying each individually, cross-selling or upselling complementary products or upgrades that add value to the customer's purchase, implementing loyalty programs, introducing premium offerings, or offering upgraded service levels.

## 3. Improving revenue growth

Outline your sales over the past three years. Explain why your sales have been the way they have. For example, if they went up or down, explain why. Explore the trends to see what factors influenced increases or decreases in sales and see if you can use that to improve your revenue in the short- and long-term.

## 4. Improving revenue per employee

Your revenue per employee is your total revenue divided by the number of employees. Often, there are ways to improve this ratio without adding extra employees. Explore ideas such as assigning tasks based on each employee's strengths and expertise, offering performance incentives, streamlining processes, adopting technology, conducting performance reviews, and investing in training.

Remember as you improve revenue per employee that you should also balance job satisfaction and worker morale. While employees may be more productive in some scenarios, you want to create an environment where they can perform at their best. That may also mean providing remote or flexible work arrangements and more autonomy in their roles.

## 5. Improving net profit percentage

Net profit percentage refers to how much profit your business earns for every dollar of revenue it generates. You calculate it by dividing your net profit (after expenses, taxes and interest are deducted) by your total revenue. This number is then multiplied by 100 to give you a percentage. Higher net profit percentage means you are generating a greater amount of profit relative to your revenue.



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To improve your net profit percentage, the easiest method is to increase your price. It could be by very small amounts over a range of products and services. You can also consider renegotiating contracts, reducing unnecessary overhead, setting pricing that allows for healthy profit margins, offering more high-margin products and services, implementing efficient inventory management to reduce waste, refinancing high-interest debt, and tax planning.

## 6. Lowering your break-even point

The number of items or hours of service you must sell each week to make a profit will assist planning your sales and monitor your profitability. Your break-even analysis will show you the level of sales needed to cover all costs and expenses, after which your sales will result in profits.

Calculate your break-even point using the following formula:

Break-even point (in dollars) = fixed costs divided by your gross margin percentage (if you don't sell any products then your gross margin will be 100%)

Armed with this information, you can assess the profitability of your goods and services, set a pricing strategy, implement cost controls, and determine whether you need to change your prices.

## 7. Manage factors that impact cost

Outline all the factors that affect your costs, regardless of whether they are within or outside of your control. Factors that could affect your costs include wages and salaries, material and inventory costs, overhead expenses, production volume, costs of acquiring and maintaining technology, supplier costs, energy costs, regulatory costs, and economic conditions.

## 8. Review your price strategy

There are a variety of pricing strategies that could be used to set your pricing. The strategy you use depends on market dynamics, competition, business goals, and your value proposition. These pricing strategies include:

- › **Cost-plus pricing**, where you add a certain markup to the cost of producing a product or delivering a service
- › **Value-based pricing**, where prices are set based on the perceived value of your good or service to the customer
- › **Competitive pricing**, where prices are set based on competitors' pricing
- › **Penetration pricing**, where prices are initially set low to gain market share and attract some customers, then those prices are increased
- › **Bundle pricing**, where several products or services are sold together at a discounted price compared to the price of buying them individually

When you determine your strategy, explain why you've chosen it based on your target market, competition, and the value of the products or services you offer.

**Note.** This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.

