



Transitions

The Power of 1%

Shai Vyakarnam

www.transitions.co.uk



Break-even analysis

- How much you need to sell to cover all your costs
- Can be expressed in £ sales or in volume of units



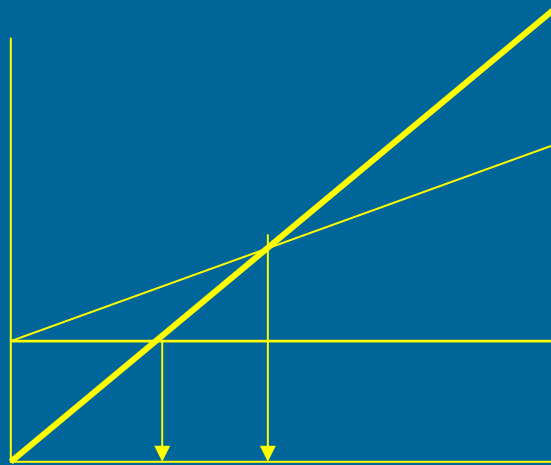
A few definitions

- Sales revenue – to achieve this:
- Incur direct costs – materials and labour – which vary directly with sales.
- This leaves you with **Gross Profit** – it pays for the Fixed costs of the business.

Remember the point about TUI



How to calculate B/E



Sales revenue – Cost of Sales = Gross Profit

**Express Gross Profit as a % of sales
($GP/Sales \times 100 = GP\%$)**

Find your fixed costs

Divide your Fixed costs by GP %

Short cut (cheat)

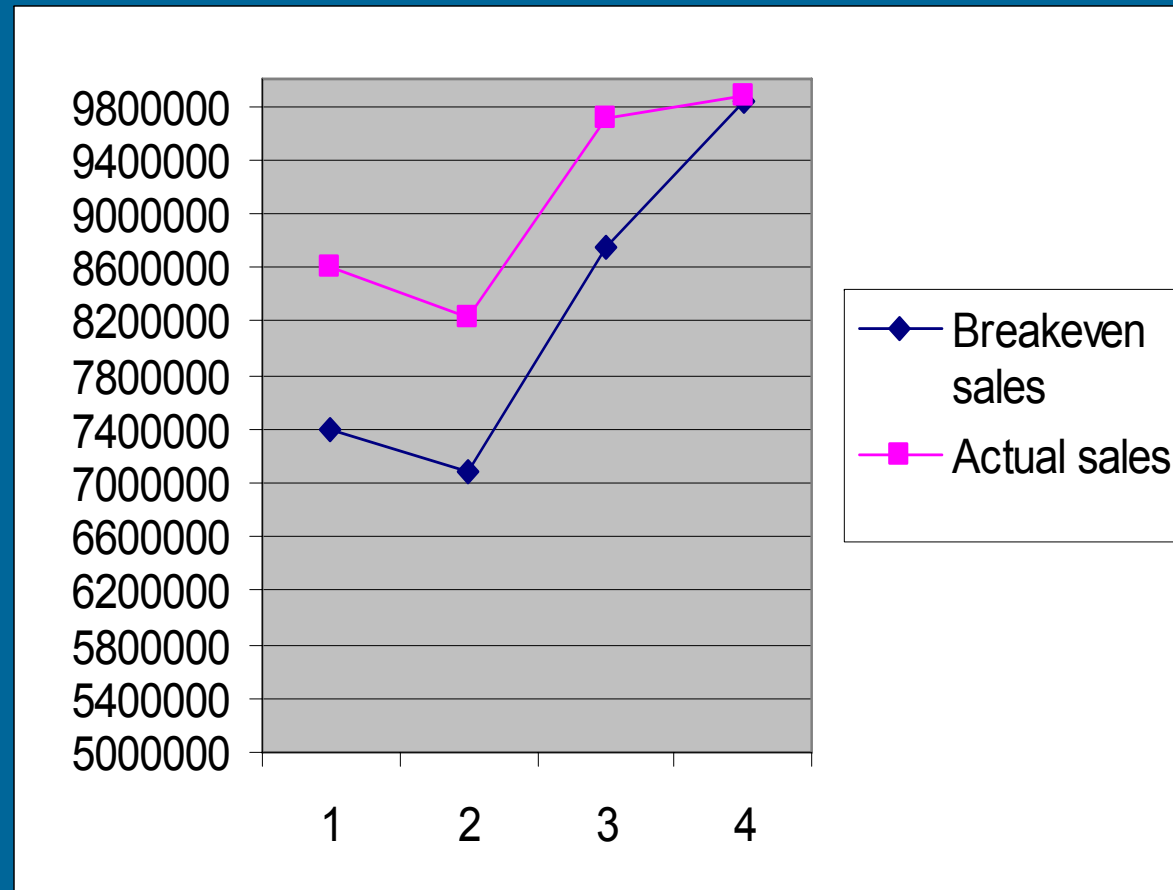
Simply move your decimal point by 2 points

So divide your fixed costs (££££) by 0.00

= Breakeven Sales



Breakeven sales





Example – 100% commission agency

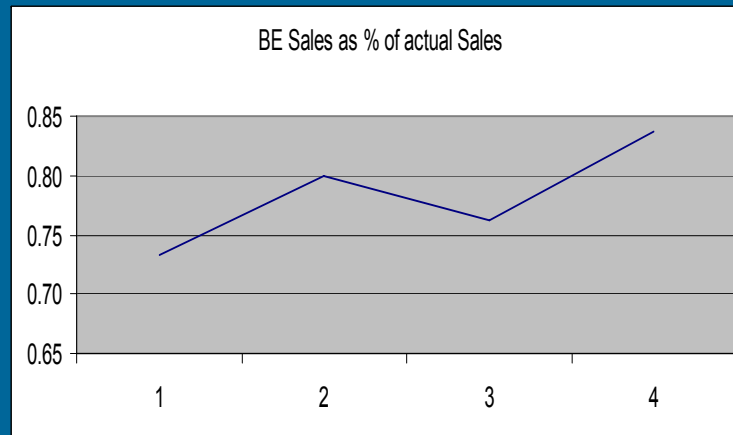
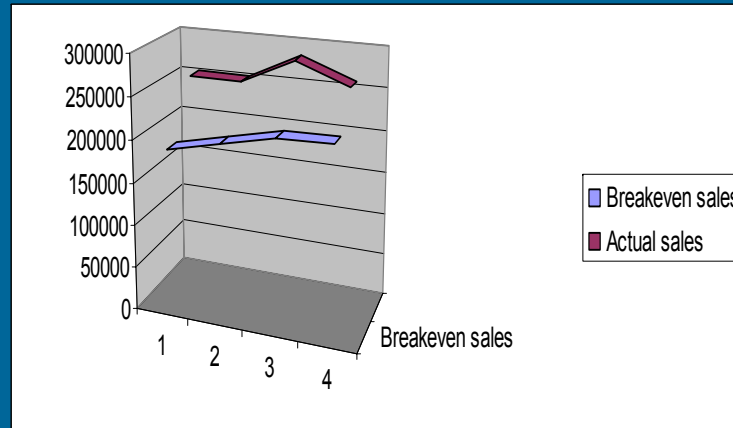
	2002	2003	2004	2005
Sales revenue	254000	250000	284000	280000
<u>Cost of Sales</u>	0	0	0	0
Gross Profit	254000	250000	284000	280000
GP%	100	100	100	100
Admin expenses	186000	202000	216000	217000
Operating Profit	68000	48000	68000	63000
Ops profit %	26.77	19.20	23.94	22.50
Breakeven sales	186000	202000	216000	217000
Actual sales	254000	250000	284000	260000
BE Sales as % of actual Sales	0.73	0.81	0.76	0.83



Maybe we should think about the allocation of time - re the presentation by Alan Morris.. this would lead us to Activity Based Costing and some notion of sales per hour



Breakeven – zone of comfort



When can you go home???

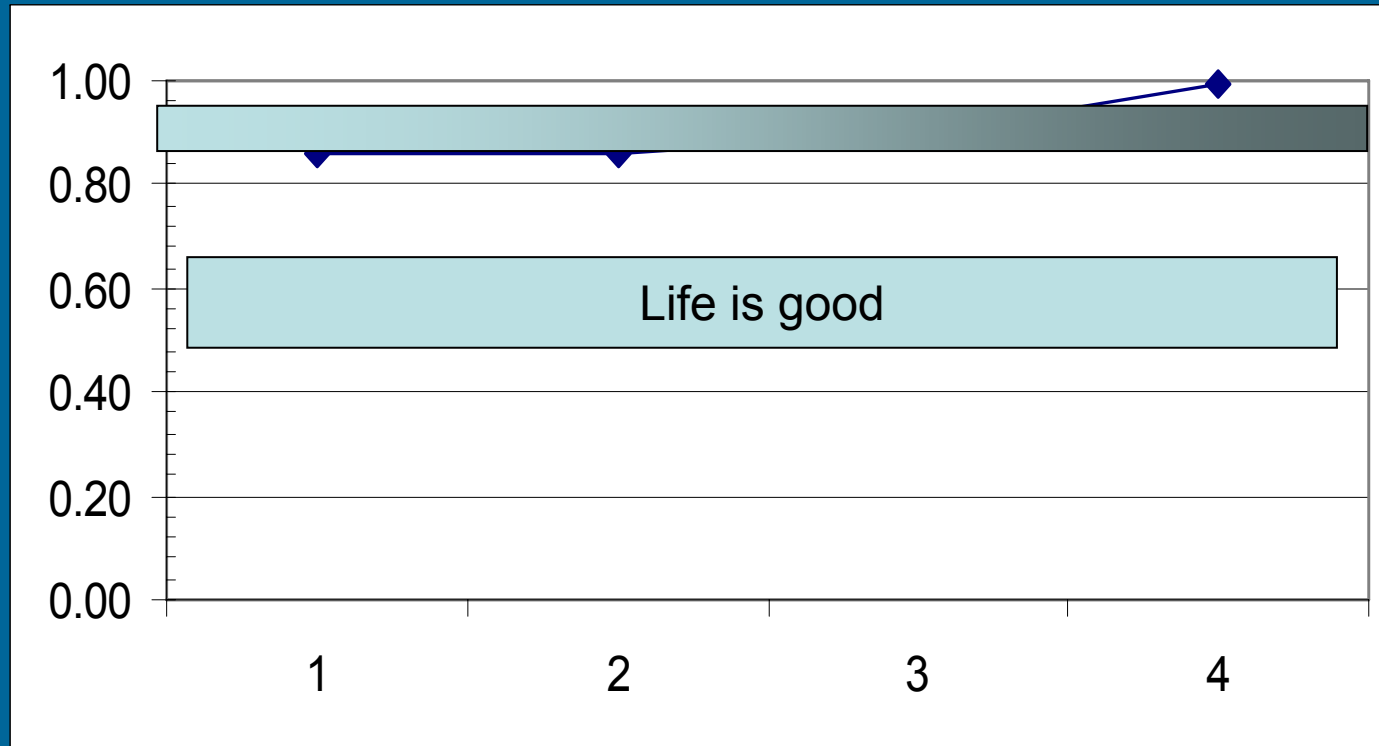
Friday morning

Thursday night

Wednesday pm

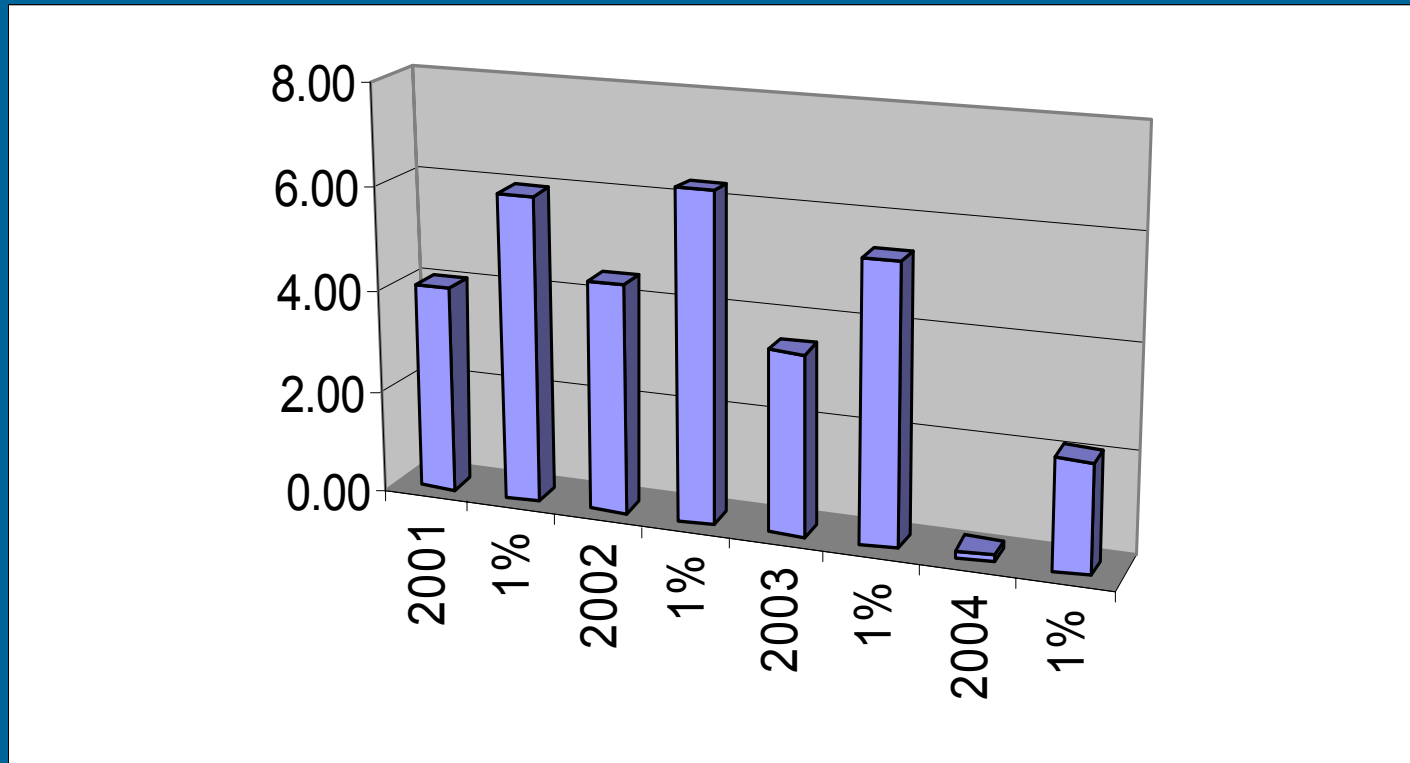


Zone of comfort





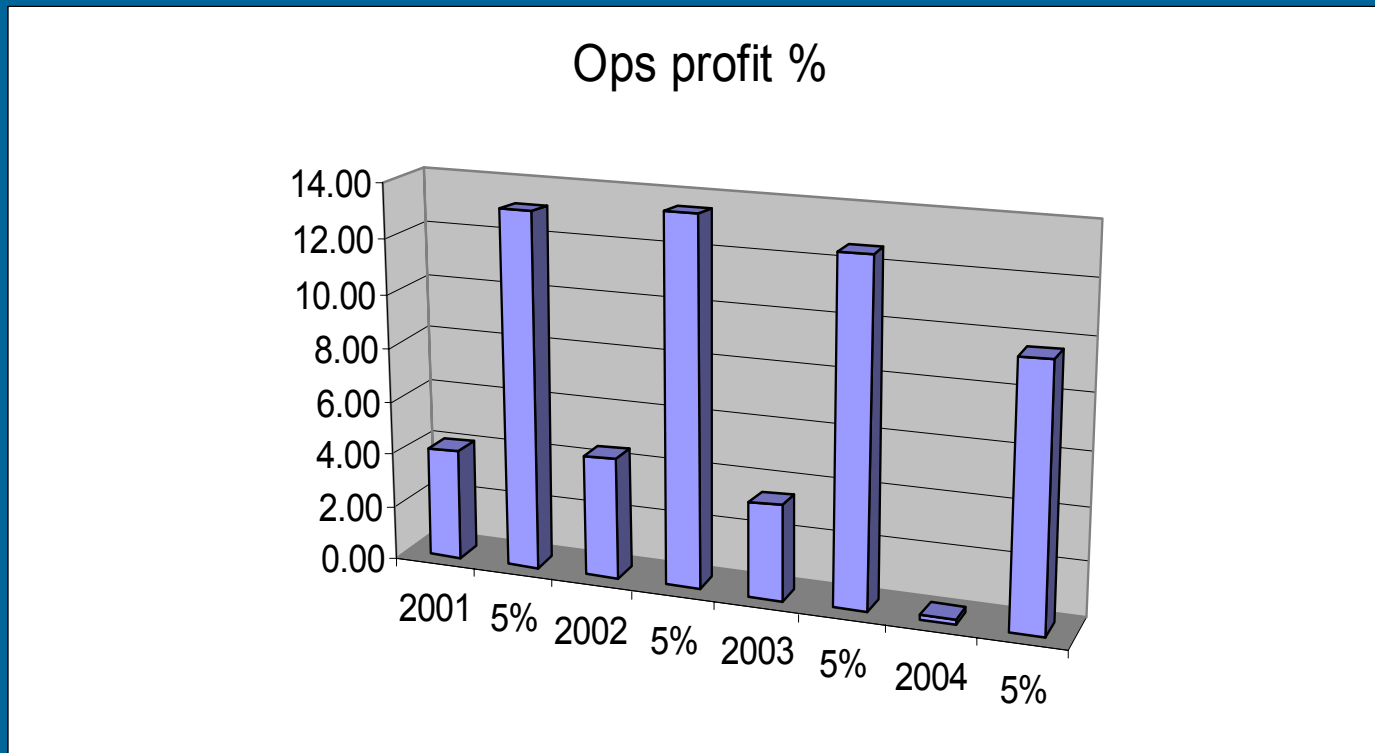
Impact of 1% changes – On operating profit



47% 42% 55% 1407% !!



Impact of 5% changes – On operating profit



225% 204% 263% 6767% !!



Costs

- **Buying power to reduce cost of sales**
 - Preferred supplier – 18% improvement?
 - Repeat purchase – conversion rates
 - This is crucial – it helps with gross margins
 - Overtime, errors, waste, operational inefficiency – lack of productivity
 - OTSUs
- **Fixed costs – where can you gain savings?**
 - Will bring down B/E sales line and help with operating profits



So what? – Sales line

- **Price increases?**

- How high can you go without losing customers?
- Optional extras?
- What do you give away free at present?

- **Volume increases?**

- Cross selling
- Improved customer engagement
- Smarter selling
- Selling up
- “share of wallet”



Summary – to deliver Performance and Profit goals

- **Breakeven sales – crucial**
- **Understand your numbers**
- **Check the metrics - £/person or £/hour or £/Sq foot**
- **Guide you to Sales effectiveness**
- **Guide to cost controls**
- **Have Fun!**