



How to do Business with HCDE



How to measure Profitability in your Business

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- Senior Financial Executive and Speaker with 30+ years of experience in Business & Financial Management in the global logistics and banking industry.
- STC Consulting was founded in 2016

Education:

- Bachelors in Business Administration in Management - Universidad Catolica de Santiago de Guayaquil (Ecuador) (1995)
- Master in International Business - University of St. Thomas (2002)
- Certificate of Organizational Leadership - Rice University (2007)

Community:

- Member of The Harris County Opportunity Fund Loan Review Committee
- Vice Chair of The Houston Minority Supplier Development Council (HMSDC) MBE Input Committee (MBEIC).
- Member of The Houston Symphony's Hispanic Leadership Council



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AGENDA



1. Understanding Profitability
2. Financial statement: Income statement
3. How to measure profitability? Gross Profit & Net Profit
4. How to improve profitability? Analysis
5. Average Profit Margin for Small business
6. What actions are you taking?



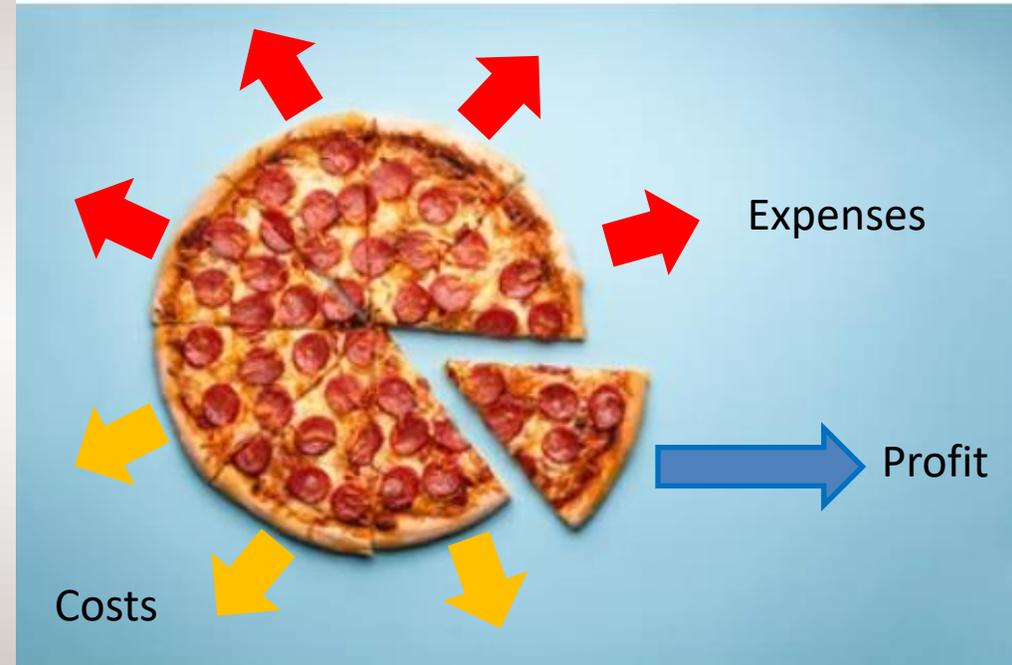
1. Understanding Profitability



- Profitability is the primary goal of all business ventures.
- Without profitability the business will not survive in the long run.
 - **Profitability:** Measured with income and expenses.
 - **Income:** Money generated from the activities of the business. Loans are not income
 - **Costs & Expenses:** Direct & Indirect
 - **Profit Margin:** Revenue – Cost of goods sold = Gross Profit



1. Profitability & Pizza



2. What is a Financial Statement?

A financial statement shows you where a company's money came from, where it went and where it is now.¹



Balance Sheet

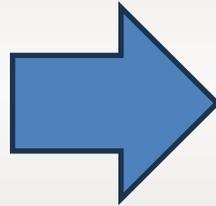
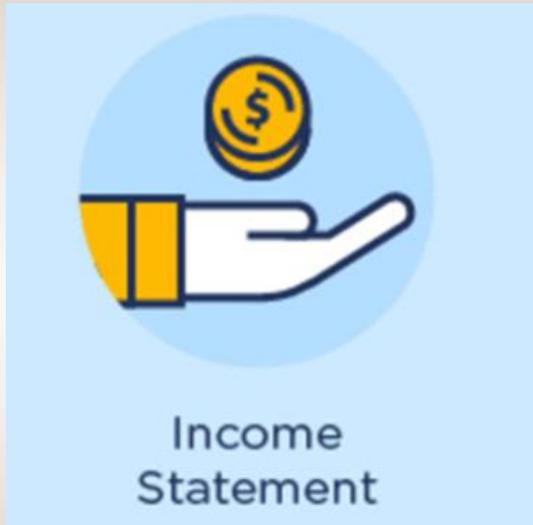


Income Statement



Cash Flow Statement

2. Financial Statement



- ❑ It measures profitability and not cash flow.
- ❑ Summary of a company's Revenues, Costs and Expenses during a month, quarter or year.



2. Income Statement: Profit & Loss



Definition

- It measures profitability
- Revenues – Costs = Profit
- Summary of a company’s revenues and expenses during a month, quarter or year.

Profit and Loss Statement Template

[Company Name]
[Street Address], [City, ST ZIP Code]
 [Phone: 555-555-5555] [Fax: 123-123-123456]
 [abc@example.com]

Profit & Loss Statement
 For the Period Ended _____

Income	\$	\$
Sales	0000000	
Services	00000000	
Other Income	00000	
Total Income		0000000
Expenses		
Accounting	0000000	
Advertising	000000	
Assets Small	000000	
Bank Charges	000000	
Cost of Goods Sold	00000	
Total Expenses		00000000
Profit/Loss		00000000

3. How do you measure profitability?

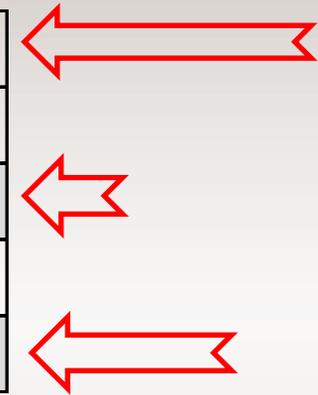


A business's profitability can be determined by calculating metrics: Key Performance Indicators (KPI's)

- **Gross profit margin:** The percentage of profit a business makes after subtracting the cost of goods sold from sales.
 - Revenue – Cost of goods sold = Gross Profit
 - Gross Profit/Revenue = Gross Profit Margin
 - Gross Profit Margin: 40% = \$40 / \$100

- **Net profit margin:** The percentage of revenue a business keeps as profit after subtracting expenses from revenue
 - Gross Profit – Expenses = Net Profit Margin
 - Net Profit / Total Revenue = Net profit margin
 - Net Profit Margin: 10% = \$10 / \$100

Revenue	\$ 100	
Cost of goods sold	\$ 60	
Gross Profit	\$ 40	40%
Expenses	\$ 30	
Net profit	\$ 10	10%





4. How to improve profitability?



Profit and Loss

	Jan - Dec 2021	Jan - Dec 2020 (PY)	Change
Total Income	\$ 122,512.37	\$ 134,641.24	-\$ 12,128.87
Gross Profit	\$ 122,512.37	\$ 134,641.24	-\$ 12,128.87
Total Expenses	\$ 93,962.12	\$ 90,386.10	\$ 3,576.02
Net Operating Income	\$ 28,550.25	\$ 44,255.14	-\$ 15,704.89
Margin	23%	33%	



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5. Average Profit Margin per Industry



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5. Profit margin for small Businesses



As a rule of thumb:

- 5% is a low margin,
- 10% is a healthy margin, and
- 20% is a high margin.
- a one-size-fits-all approach isn't the best way to set goals for your business profitability.



Key concepts



6. What actions are you taking now?



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