



In the Fact Sheet series, “Understanding Profit Drivers” we focused on sales volume as one of the four profit drivers – the next is **Margin**.

There are generally five different components that affect the margins achieved by any business.

What are ‘Margin’ Profit Drivers.

- ✓ **Product mix**
- ✓ **Service mix**
- ✓ **Client mix**
- ✓ **Under reporting**
- ✓ **Discounting**

The first three are fairly obvious. Some products offer bigger margins than others, some require more service than others to sell. Equally, the mix of clients that a business has can affect margins, and this can make a significant difference between the performance of one outlet and another. By measuring the performance of the franchisee’s business in each of these key areas, the franchisor can help the franchisee to find potential improvements.

Under Reporting is the process of taking undeclared money out of the business and has several important implications.

First, if money is undeclared to the ATO, the franchisee is committing an offence with severe penalties.

Second, if money is undeclared to the franchisor, the franchisee is in breach of their franchise agreement and could be terminated. Third, skimmed money can only be spent on ‘black purchases’ or ‘black assets’ which provide no value for the money that has been taken out.

Because this revenue does not appear in the Profit and Loss accounts of the business the business has a lower value when it comes time to sell. Discounting can be an effective strategy however it is often seized upon by disorganised or panicked business as a way of boosting revenue.

However, although it may boost revenue, it actually decreases margin percent and unless sufficient revenue gains are achieved expense ratios (labour/tent) can be adversely impacted with an associated reduction on the business cash flow

See the other Fact Sheets to understand how the other Profit Drivers can be used to drive greater returns.

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