

When setting targets for a business individually or collectively as a group, it is imperative to be able to track performance monthly and by year to date (YTD).

Business operators need to track and compare data in the key areas of their business - the four profit drivers.

### What are the Profit Drivers?

The four profit drivers of any business are:

- Volume
- Margin
- Operating expenses
- Transaction activity

If a Business Owner/Operator understands from the very beginning how these operate, they stand a much better chance of establishing a successful business.

By measuring and analysing these figures regularly, they will grow faster and further than would otherwise have been the case. Most small business owners find it difficult to link profit to activity to business volumes. The trick is to break it down into manageable pieces of information.

### Understanding Volume, Fixed / Variable Costs and Break Even.

Let's say that of every \$1 of sales made, 60c goes towards variable costs – the actual cost of making that sale, including the cost of the product itself.

That leaves 40c, which needs to pay for fixed costs – things like the rent, the staff costs and the phone bill – as well as generating a profit for the business owner.

If the analysis for this particular business has shown that the fixed costs are \$200,000 per year, this means that the business will need to achieve sales of \$500,000 (\$9600 per week) to break even. However, the breakeven figure only allows for covering costs – not making a profit. The true sales target needs to reflect the Owner's lifestyle plus outgoings plus all reliant debt repayments. If this figure is, say, \$250,000, then the required sales level will be \$625,000 (\$12,000 per week).

This might seem like a big increase until you break it down into smaller tasks. For example, if you need an additional \$2400 of sales per week, what does that mean in terms of numbers of customers? If your average sale is \$200, can you find an additional 12 customers per week? Or if your average sale is \$10.30, can you increase it to \$11.20?

The result...most people would say they could do that, and it's an exercise every Business Owner/Operator should be able to do with their Accountants and Managers.

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

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