1.

Business Overview Report

So What?

Version 5.0

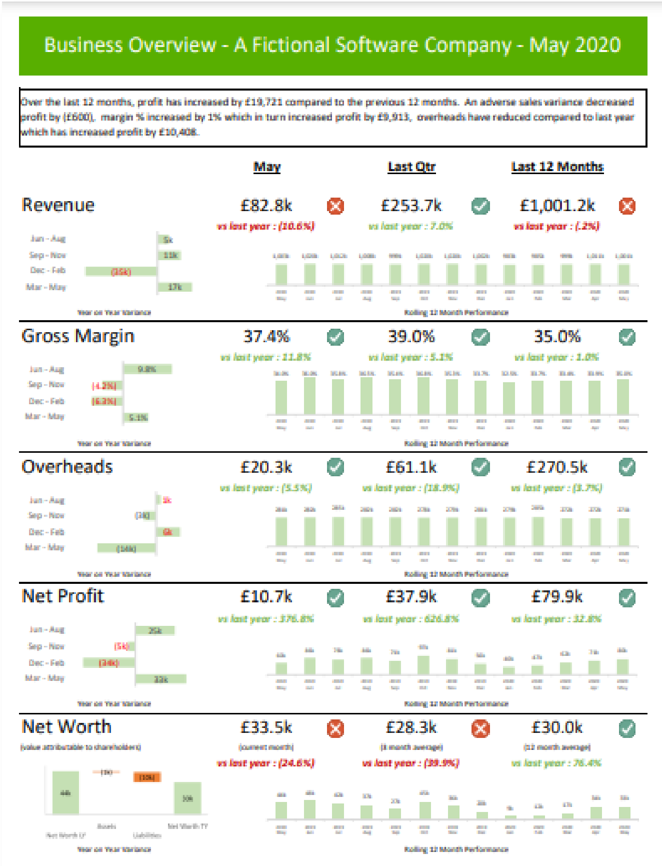
vfd virtual finance director

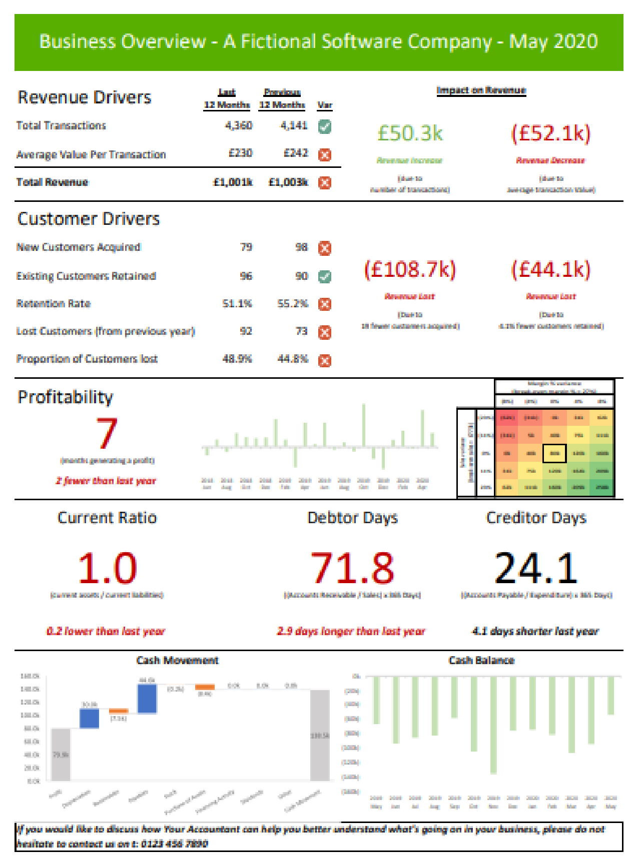
CONTENTS

1. OVERVIEW:

The Business Overview Report (BOR) is a concise 2-page business overview with page one focussed on key 'Lag' data, detailing performance over the last 24 months and page two analysing the key trends that will impact performance in the future along with other key performance information.

This document sets out to address the 'So What?' question by highlighting the business related discussions that would logically flow from the information found in the Business Overview Report.





2. SUMMARY OF PROFIT, SALES, GROSS MARGIN AND OVERHEADS:

Over the last 12 months, profit has increased by £19,721 compared to the previous 12 months. An adverse sales variance decreased profit by (£600), margin % increased by 1% which in turn increased profit by £9,913, overheads have reduced compared to last year which has increased profit by £10,408.

Whilst anyone with an understanding of business finance will know there are only three ways to grow a business, many business owners do not instinctively understand this. Therefore, at the start of the Business Overview Report, a single statement sums up the movement in profit over the last 12 months.

As the report will ideally be generated and reviewed each month the information provided is enormously useful. In this example profitability has increased by nearly £20k. The drivers of that profit movement (sales, gross margin, and overheads), and their impact are concisely conveyed.

In an ideal world all three would be moving in the right direction, increasing sales, improving gross margin, and reducing overheads. There is only finite scope to improve Gross Margins or reduce overheads so the best way to grow a business in a scalable manner is to increase sales.

Discussion Point for the business owner:

- ✓ *Why are sales not growing?*
- ✓ *What are you doing to increase customer numbers?*
- ✓ *What are your expectations for the future regarding Revenue, Margins and Overheads?*
- ✓ *What Key Performance Indicators do you use to manage your business?*

Highlight the fact that the BOR is updated every month, (provided bookkeeping is up to date), so the information provides a rolling update which means that ideally the overall profit will be increasing every month. Also highlight the rubbish in – rubbish out…

- ✓ *Who currently does the bookkeeping?*
- ✓ *Are they happy with the bookkeeping service they are currently receiving?*
- ✓ *Does your client know you offer a bookkeeping service?*

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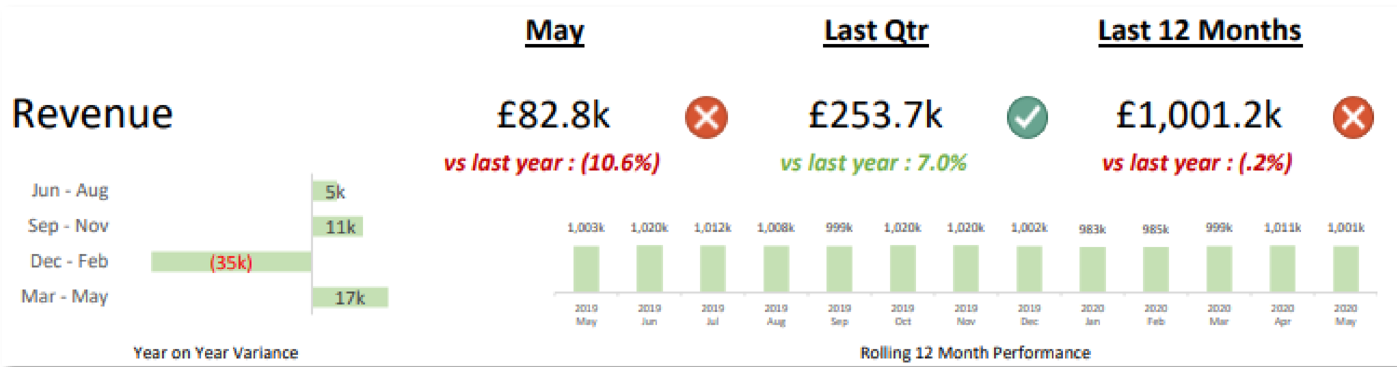
3. REVENUE ANALYSIS:

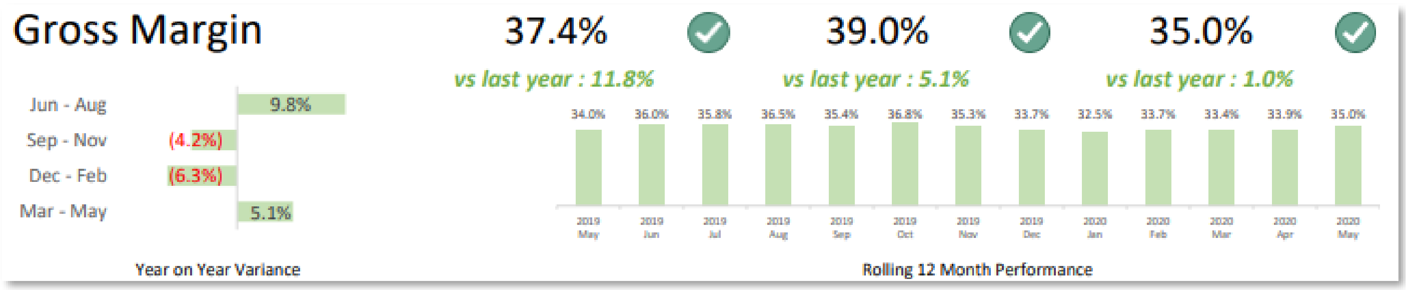


Revenue in May this year is 10.6% down on revenue achieved in May the preceding year, hence the red cross. Revenue in the last Quarter is up 7%, hence the green tick. However, revenue for the last 12 months is 0.2% down on revenue in the preceding 12 months.

Discussion Point for the business owner:

- ✓ *What happened in May, why was it down, is there anything we can learn…?*
- ✓ *What caused Revenue in the last quarter to improve, is there anything we can learn…?*
- ✓ *Why is Revenue declining year on year, what are you going to do differently next year…?*

4. GROSS MARGIN ANALYSIS:

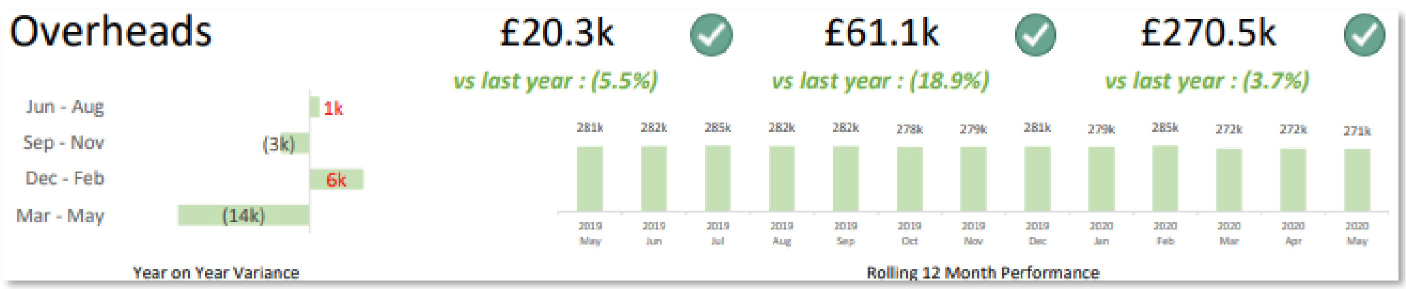


Margin rate is higher than last year in the latest month and quarter which has contributed towards the annual average of 35% increasing by 1% compared to the previous 12 months.

Discussion Point for the business owner:

- ✓ *We have already seen that a 1% improvement in margin will translate to an increased profit of £10K, if we could achieve the 39% seen in the last quarter for all of next year, that 4% increase alone would increase profits by another £40K per annum. What would we have to do to maintain the 39% gross margin?*

5. OVERHEADS ANALYSIS:



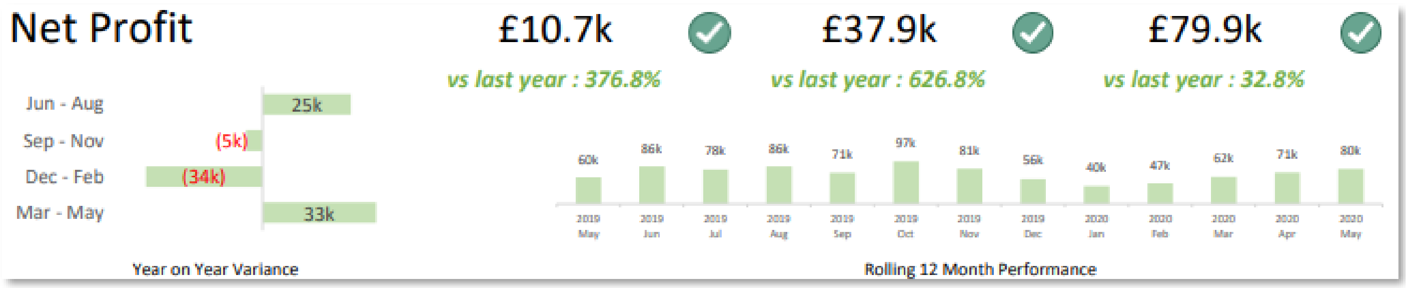
The year overall shows a reduction of 3.7%, but better than that, it looks like the more recent performance is even better which bodes well for the future. The most recent quarter shows a potential to reduce overheads by 18.9%.

The 12-month rolling average for sales, gross margin and overheads are all showing a very stable pattern without much variation.

Discussion Point for the business owner:

- ✓ *What drove the reduction in overheads in the last quarter and can that level of expenditure be maintained without adversely impacting delivery of customer satisfaction?*

6. NET PROFIT ANALYSIS:



Clearly, we need to read this with caution as absolutes versus percentage when viewed over a short period can throw up some confusing numbers, especially with net profit that can fluctuate positive or negative around zero. In this case we can see the profit improvement over the year is showing a very healthy improvement up 32.8%, an increase of nearly £20k to £80k.

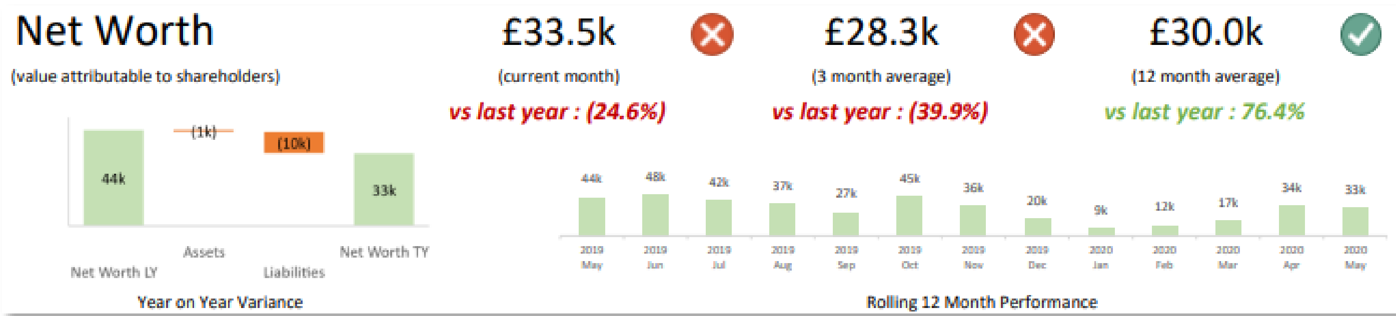
Is that good or bad, we don't know at this stage, but we can assume the business owner is happy with the improvement and is potentially looking forward to paying themselves a higher dividend, so in all likelihood they are feeling very happy, confident and probably don't feel they need any assistance with finance.

We can see that the rolling Monthly Performance now indicates a range of profitability from as low as £40k to as much as £97k. Ideally, we will be seeing a general trend upwards which we can see over the last 5 months, but the period before that has fluctuated considerably.

Discussion Point for the business owner:

- ✓ *Whilst fluctuation in profitability in individual months is common, it should be far less common to experience fluctuations in rolling 12-month performance as this removes any seasonality factors. Is the business owner aware of the factors causing the fluctuations seen above?*

7. NET WORTH ANALYSIS:



Whist the P&L provides a good understanding of the trading performance of the business, the Balance Sheet provides some useful insight into how the business is run.

Net Worth is frequently only ever looked at as part of a brief discussion and review of 'last year's results' as part of a 'year-end' discussion between the business owner and their accountant. Reviewing the Balance Sheet is as important as reviewing the P&L and analysing Net Worth will provide a good overall picture of how the business is being run.

Discussion Point for the business owner:

- ✓ *One would instinctively think that if profits were increasing year on year, the net worth of the business would reflect this. In the case above, even though Profit has increased, Net Worth has decreased which has been driven by an increase in liabilities. Is the business owner aware of what has caused this increase and is it likely to continue?*

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8. REVENUE DRIVERS:

Revenue Drivers	Last 12 Months	Previous 12 Months	Var
Total Transactions	4,360	4,141	✓
Average Value Per Transaction	£230	£242	✗
Total Revenue	**£1,001k**	**£1,003k**	✗

Impact on Revenue	
£50.3k	(£52.1k)
Revenue Increase	*Revenue Decrease*
(due to number of transactions)	(due to average transaction Value)

Everything on page 1 is history, or a lag measure because it has already happened. Page 2 of the Business Overview Report provides key performance indicators (KPIs) to help improve results in the future…

Total Revenue is a function of the total number of transactions multiplied by the average value per transaction. Yet very few people track either of these two critical KPIs. The Business Overview Report updates the measurement each month, so this is a moving, dynamic report and KPIs… In the example above total transactions have increased year on year, but average value per transaction has declined, more than offsetting the gains.

Discussion Point for the business owner:

- ✓ *Do you track you Total Transactions every month?*
- ✓ *Do you track your Average Value per Transaction every month?*
- ✓ *What would happen if you discussed these two KPI's with your team every month?*
- ✓ *What could we do to increase the number of transactions per customer?*
- ✓ *What could we do to increase the average value per transaction?*
- ✓ *What would happen to profits if we increased prices by X%?*

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9. CUSTOMER DRIVERS:

Customer Drivers

New Customers Acquired	79	98	✗
Existing Customers Retained	96	90	✓
Retention Rate	51.1%	55.2%	✗
Lost Customers (from previous year)	92	73	✗
Proportion of Customers lost	48.9%	44.8%	✗

(£108.7k)

Revenue Lost

(Due to
19 fewer customers acquired)

(£44.1k)

Revenue Lost

(Due to
4.1% fewer customers retained)

The number of transactions is a function of the number of customers and the number of customers in the future is a function of three things: Total number of customers today, plus customers acquired minus customers lost in the next XX months. The absolute number and the trend are important KPIs to track.

Discussion Point for the business owner:

- ✓ *Do you track the number of new customers acquired each month and do you understand why they chose to work with you rather than anyone else?*
- ✓ *Do you track the trend in terms of the rate of customer acquisition, positive or negative and its potential future impact on sales?*
- ✓ *Do you track customer satisfaction ~ do you track customers lost and do you understand the real reason they chose to leave you / ceased to purchase?*
- ✓ *Do you track the rate of customer retention / attrition?*
- ✓ *What could you do to improve customer retention?*
- ✓ *Do you regularly brainstorm with your team to try to find new ways to improve customer satisfaction?*
- ✓ *Do you have systems or processes to ask customers for referrals?*

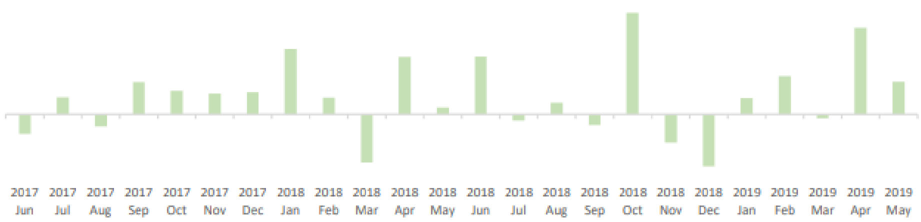
10. PROFITABILITY ANALYSIS:

Profitability

7

(months generating a profit)

2 fewer than last year



Ideally you would be making a profit every month and failing that making profit in more months than last year as opposed to remaining static or worse, making profit in fewer months each year.

Sensitivity map explained:

The centre of the table will display the profit, showing the sales that led to that profit to the left and the margin % that led to that profit at the top. The central values in the top row and left column show 0k and represent the break-even point. In this example the company would break even with £773k sales at a margin % of 35%, or at £1,001k with a margin % of 27%.

Sales variance (break-even sales = £773k)		Margin % variance (break-even margin % = 27%)				
		27%	31%	35%	39%	43%
	£773k	(62k)	(31k)	0k	31k	62k
	£887k	(31k)	5k	40k	75k	111k
	£1,001k	0k	40k	80k	120k	160k
	£1,115k	31k	75k	120k	164k	209k
	£1,230k	62k	111k	160k	209k	258k

For a company making a profit ….

The values displayed for the Margin % across the top of the table are generated based on the margin % that led to the profit for the year to date (e.g. 35%) and the margin % that would need to be applied to the sales generated this year to date, in order to break-even (e.g. 27%) the second figure (e.g 31%) is the mid-point between these two, and the final two figures are similarly extrapolated based on these.

The values displayed for the Sales on the left of the table are generated based upon the sales value that led to the profit for the year to date (e.g £1,001k) and the sales value that would need to be applied to the margin % generated this year to date in order to break even (e.g. £773k). The second figure (e.g. £887k) is the mid-point between these two, and the bottom two figures are similarly extrapolated based on these.

For a company that is not making a profit ….

The figures shown for the Margin % across the top, and the Sales on the left would be based upon the actual figure (i.e. the middle figure e.g. 35% margin % and £1,001k sales) with increments of 10% of the actual. So, if this business was not in profit the figures across the top would still have the actual (35%) in the centre, and then the figures to either side would be in increments of 3.5% higher or lower, and likewise, the figures at the side would still have the actual (£1,001k) in the centre, and then the figures above and below would be in increments of £100k higher or lower.

Discussion Point for the business owner:

- ✓ *Do you track the number of months of profitability vs loss making each month?*
- ✓ *What impact does this have on your cash position?*
- ✓ *Do you work with your team to find ways to improve profitability?*
- ✓ *Have you brainstormed strategies to find ways to increase sales in quiet months?*

11. CURRENT RATIO:

Current Ratio

1.0

(current assets / current liabilities)

0.2 lower than last year

The Current Ratio or the Acid Test gives an indication of whether the business has sufficient assets to meet its liabilities in the short term. 1.0 = only just. A trend from 1.2 to 1.0 might indicate the business is becoming insolvent, in which case urgent action is required to improve the liquidity and hence the Current Ratio.

Discussion Point for the business owner:

- ✓ *Do you track your current ratio on a regular basis?*
- ✓ *Do you understand its relevance to your business?*
- ✓ *What could you do to improve your short-term liquidity?*

12. DEBTOR DAYS:

Debtor Days

71.8

(Sales / Accounts Receivable / 365 Days)

2.9 days longer than last year

The shorter the better. Most businesses don't track this important KPI and / or assume it is just a fact of life when there are frequently many things that can be done to improve collections and reduce debtor days. This example shows a business taking an average of nearly 72 days to get paid by customers and it's getting worse, (based on the last 12 months performance, i.e. this is recalculated and updated monthly).

Discussion Point for the business owner:

- ✓ *Do you track total debtors and debtor days each month?*
- ✓ *Would you like assistance to improve collections and hence reduce debtor days?*
- ✓ *Did you realise that if you reduce debtor days to 35 that would improve your bank balance by c.£XXX,000.*
- ✓ *If I could show you how to find an extra £YYYk in your business would you be interested?*

13. CREDITOR DAYS:

Creditor Days

24.1

((Accounts Payable / Expenditure) x 365 Days)

4.1 days shorter last year

Taking 18 days longer to pay suppliers might be good news. As it is an average it is possible / probable that critical suppliers are being paid 'on term', but others are being made to wait much longer than 38 days. What impact could that have on supplier relationships and future prices and payment terms? What would happen if suppliers started refusing to provide credit, put the company on stop, or started increasing prices… margins would start to be eroded, cash flow could be dramatically impacted and in a worst-case scenario, it might become impossible to source critical supplies resulting in an inability to deliver…

Discussion Point for the business owner:

- ✓ *Do you track the creditor days each month?*
- ✓ *Do you seek to negotiate better prices, and/or better payment terms with suppliers?*
- ✓ *Do you have a policy of paying suppliers on time?*
- ✓ *Have you projected the potential risk to continuity of supply if you don't pay suppliers on time?*
- ✓ *Have you projected the potential reduction in profit if your suppliers increase their prices?*
- ✓ *What would the impact on cash flow be if some of your key suppliers reduced or terminated your credit limit?*

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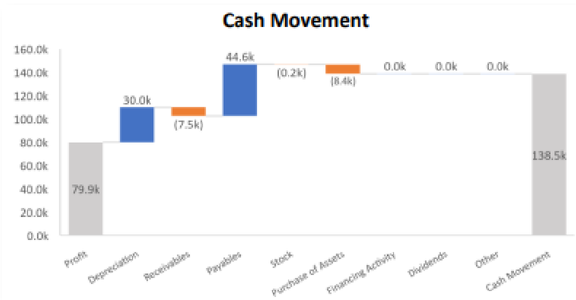
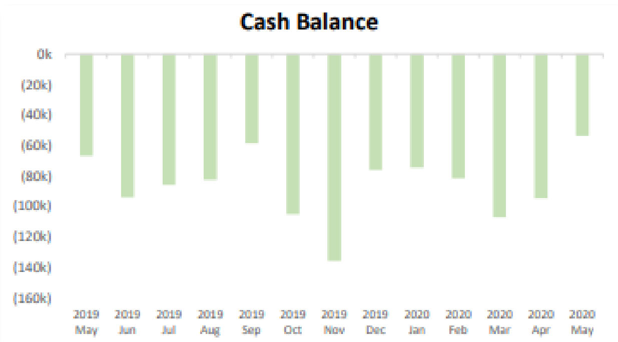
14. PROFITABILITY VS CASH MOVEMENT:

Far too many business owners link profit to cash, "I've made a profit, but I haven't got any cash in the bank", is a phrase often said. Helping them understand how their cash performance has been impacted by 'non-trading' activity will help them gain a better understanding of their complete performance picture over the past 12 months.



The Cash Movement graph shows Profit on the left and Cash Movement on the right, with the factors that make up the difference shown in between. Blue bars are increases and orange are decreases.

The Cash Balance graph shows the cash balance at the end of each of the last 12 months. The bars are displayed in the secondary branding colour.



Discussion Point for the business owner:

- ✓ *Do you understand how non-cash items have impacted your P&L over the past 12 months?*
- ✓ *How has your accounts receivable and accounts payable activity impacted your ability to bring cash into the business?*
- ✓ *How have your stock processes impacted your cash position over the past 12 months?*
- ✓ *How has asset purchases and other financing activity impacted your cash position over the past 12 months?*
- ✓ *How have dividend payments impacted your cash position over the past 12 months?*