

Inflation-Proofing Your Business

Agenda

- Housekeeping
- Speaker Introduction
- Inflation's Impact:
 - Profitability
 - Cash Flow
 - Cost Considerations
 - Revenue Considerations
- Q&A

Welcome and Housekeeping

- Microphones will be muted throughout the webinar to cut down on background noise
- Have questions? Send them within the chat or Q&A to the moderator, Mary Scanlan
- An **On Demand** version of the webcast will be available approximately two days after the webcast, and will be emailed back out to all registrants

Meet Our Speakers



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Inflation

How Did We Get Here?

Understanding Inflation

- Progressive rise in price of goods & services
- Supply chain issues
- Labor shortages
- Higher energy costs
- Government stimulus money

Impacts

- Negative impact on small business profitability
- Strategies to overcome impact of inflation

Calculating Profitability

Five Commonly Asked Questions

1. Best way to improve cash flow? **MAKE MORE \$**
2. Best way to increase my salary? **MAKE MORE \$**
3. Best way to become bankable/more bankable? **MAKE MORE \$**
4. Best way to invest in equipment & inventory? **MAKE MORE \$**
5. Best way to sell my business for top dollar? **MAKE MORE \$**

Income Statement

Sample Income Statement

Sales	5,000,000
Cost of sales	<u>3,750,000</u>
• Gross profit \$'s	1,250,000
• Gross profit %	25%
Selling, General & Admin (SGA)	<u>920,000</u>
Net income (loss)	330,000

How to Calculate Gross Profit

Sales	\$100	\$100
(CGS)	<u>(75)</u>	<u>(80)</u>
Gross Profit	\$25	\$20
GP% = $\frac{GP}{Sales}$	$\frac{\$25}{\$100} = 25\%$	$\frac{\$20}{\$106.67} = 20\%$

\$100	\$100
<u>(85)</u>	<u>(90)</u>
\$15	\$10
$\frac{\$15}{\$100} = 15\%$	$\frac{\$10}{\$100} = 10\%$

Impact of Falling Gross Profit (GP) %

Gross Profit	25%	20%	15%	10%
Sales	5,000,000	5,000,000	5,000,000	5,000,000
Cost of sales	<u>3,725,000</u>	<u>4,000,000</u>	<u>4,250,000</u>	<u>4,500,000</u>
Gross profit	1,275,000	1,000,000	750,000	500,000
SG&A	<u>920,000</u>	<u>920,000</u>	<u>920,000</u>	<u>920,000</u>
Net income (loss)	355,000	80,000	(170,000)	(420,000)

Gross Profit Goal



Goal: Increase Gross Profit

1. Grow revenue
2. Reduce costs

Calculating Cash Flow

Cash Flow

Cash flow:

Describes **the flow of cash in and out of your business** to provide it with enough liquidity to continue operating because you have money available.

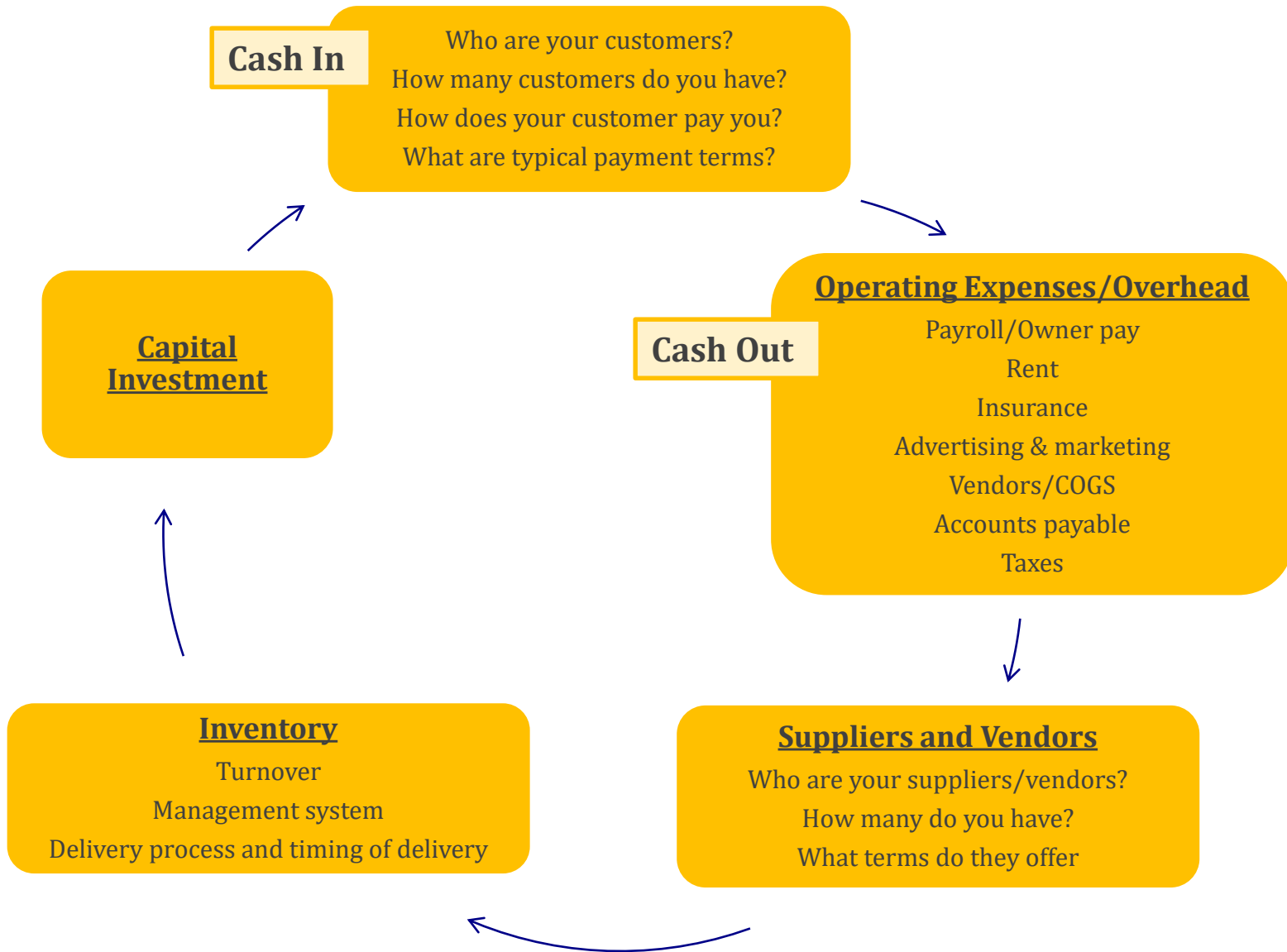


It's important to understand the **timing** of the cash flow cycle of your business and how inflation can impact this.



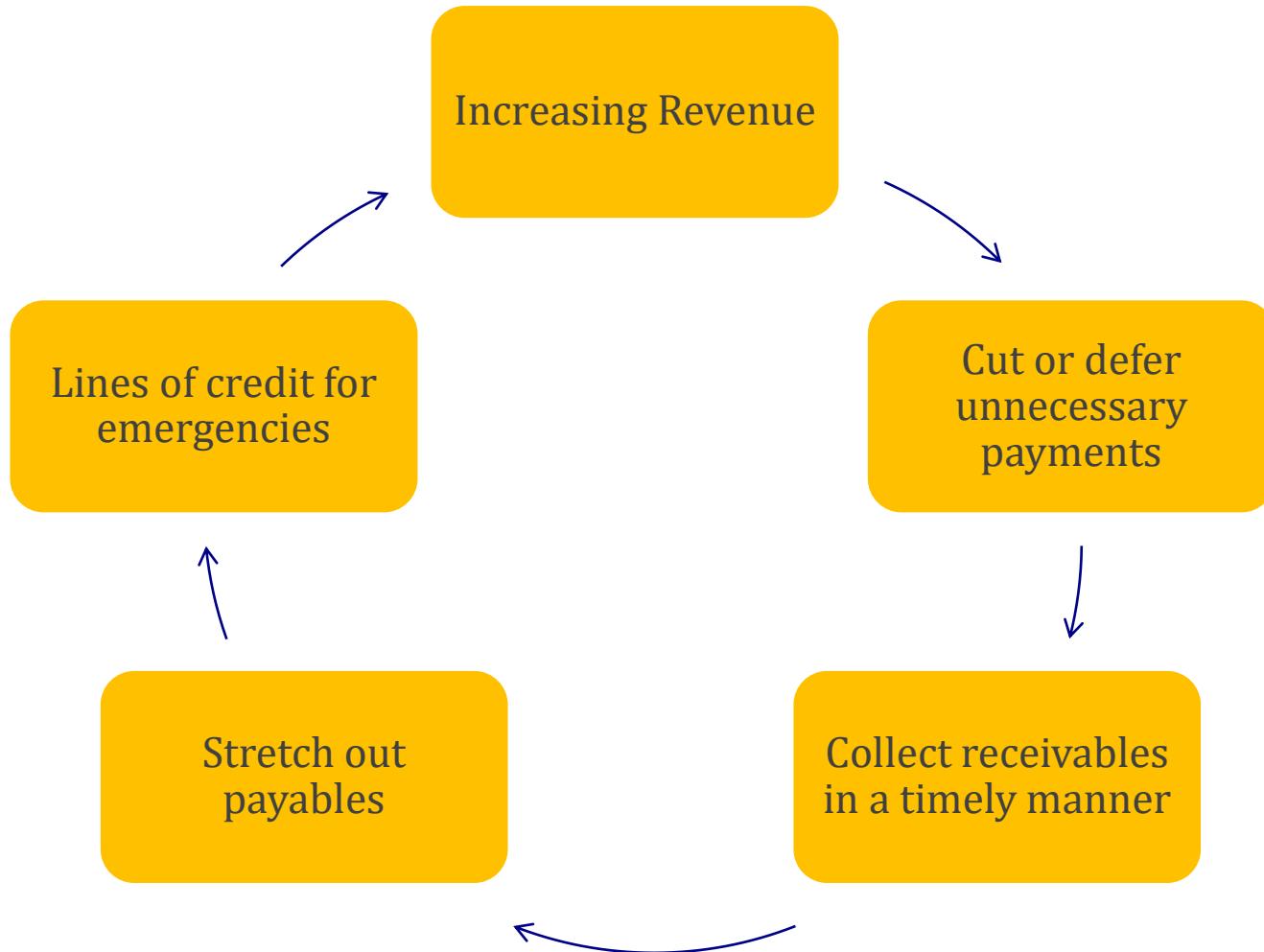
If costs are continually increasing (inflation) it will become more difficult to pay bills, employees, etc.

Typical Cash Flow Cycle



Inflationary Cash Flow Cycle

Your focus should be on cash in and cash out.

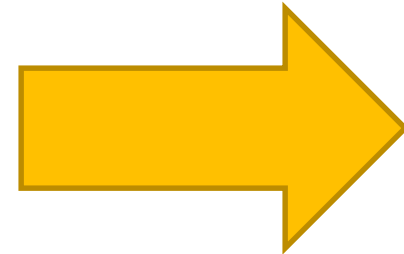


Decreasing Costs

Avenues for Potential Cost Savings

Now that you understand where your money is coming from (and going to) – let's consider...

- Cost savings opportunities to help improve cash flow
 - Location & transportation costs
 - Utility costs
 - Consider green options
 - Make use of technology & automation
 - Consider marketing costs



Avenues for Potential Cost Savings

Continued...

- Eliminate unnecessary or under utilized costs
- Consider current product offerings
- Consider putting excess cash in interest bearing accounts
- **Potential incentives to pay invoices ahead of time**
- Inventory management, consider frequency
- **Remember, everything is negotiable**
 - Renegotiate contracts with existing vendors or investigate new, lower cost vendors

Increasing Revenue

Gross Profit Goal

Coming around full circle...



Goal: Increase Gross Profit

1. Grow revenue
2. Reduce costs

Increasing Revenue

- Increase new customers
- Decrease lost customers
- Increase average purchase
- Raise pricing (pass on cost increases)
- Increase service or product offerings
- Bundle products/services
- Offer guarantees

Increasing Profitability

- Adjust product mix
- Concentrate on profitable work
- Excellent quality & service
- Train employees with proper tools
- Differentiate your business
- **Increase prices → pass on higher costs**

“Dirty Secret” About Lowering Prices (Sales)

Scenario No. 1

- 25% Gross Profit
- Reduce prices by 2%
 - You need to **increase** volume by 9%

Scenario No. 2

- 25% Gross Profit
- Reduce prices by 4%
 - You need to **increase** volume by 19%

*The takeaway:
think twice
before
lowering
prices!*

“Magic” of Increasing Prices

Scenario No. 3

- 25% Gross Profit
- Increase prices by 2%
 - Your volume could decrease by 7%

Scenario No. 4

- 25% Gross Profit
- Increase prices by 4%
 - Your volume could decrease by 14%

*The takeaway:
raise prices
when/if
possible!*

Where to Focus?

- Many owners think about profitability incorrectly
- Focus on growing revenues exclusively
- Instead maximize Gross Profit %
- Then grow revenue

Closing Tips

Other Tips for Weathering Inflation

Have an emergency fund

- A line of credit allows access to capital when needed
- Work with your banker to understand if a line of credit is a good option for your business *before* you need it

Diversify suppliers

- Find several suppliers that offer the goods/materials your business needs to avoid disaster if one supplier closes

Utilize resources to promote your business & attract customers

- Chambers of Commerce
- Social media

Thank You!

Contact Us



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Questions?
