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**Donald Cooper** is respected by clients in over 40 industries as both a “thought leader” and a passionate visionary in the areas of marketing, service and business excellence.

Drawing from his real life experience as a world-class manufacturer, award-winning retailer and business speaker, he has helped thousands of businesses throughout the world to add more real value to their customers’ lives...and more dollars to their bottom lines.

To subscribe to Donald’s thought-provoking, **free, monthly Management E-Newsletter**, email us at [newsletter@donaldcooper.com](mailto:newsletter@donaldcooper.com).

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## **If you don’t understand you numbers, you don’t understand your business!**

Many business owners and managers simply don’t understand the fundamental math of their businesses. Because of this, they’re making bad decisions and it’s hurting their bottom line! To make things worse, some consultants and so-called experts don’t understand how the numbers work...and they’re dispensing bad and harmful advice.

While preparing a presentation for the International Pizza Expo Conference in Las Vegas a couple of months ago, I read several trade magazines dedicated to the success of that \$32 billion industry. One article stated, and I quote, *“Say, for example, your restaurant earns a 10% profit after taxes and you need to come up with a quick \$100 profit increase. It’s easier to eliminate \$100 worth of expense than it is to sell an extra \$1000 worth of pizza to generate that \$100.”*

Now this is just stupid math...and really bad advice. Here’s how the math really works:

The direct product cost of producing a pizza is about 35% of the selling price. This leaves a contribution to overhead and profit of 65%, or 65 cents per dollar of sale. If the business is already covering all of its overhead and making a profit, all of that 65 cents goes directly to the pretax bottom line.

So, if a pizza business wants to **increase after tax profits by \$100** it’s going to have to generate an additional pre-tax profit of \$126, assuming a small business tax rate of about 20%. To generate that \$126, it will have to increase sales by \$194, not the \$1000 that the consultant stated in the article. The consultant was wrong by a factor of five and the sad part is that a whole bunch of gullible restaurant owners will believe this bad advice and make bad decisions as a result.

Do you truly understand the mathematics of profitability in your business, or your department within the business? Do you have accurate and timely information on at least seven key measures of profitability in your business every day, week or month? Depending on your business do you track the important key performance measures such as sales, average sale, gross margin by product, inventory levels, stock turns, receivables, customer turnover, employee productivity, quality problems per 1000, response to advertising, customer complaints, customer wait times, cycle times, wage expense, occupancy costs, cost of utilities...and the specific success of any programs designed to improve any of these?

*Did you know that...*

- a) Increasing your **prices** by just 5% could grow your bottom line by 60% to 80%?
- b) Increasing **sales** by 5% could increase your bottom line by 30% to 40%...or that,
- c) Reducing **costs** by 5% could increase profits by 25%?

It’s called “leverage” and it’s about the most powerful thing you have going for you in your business. Sit down with your accountant in the next five days and figure this stuff out for your business, or department. Get comfortable with the math. You’ll make better decisions and you’ll grow your bottom line. Remember, if you don’t understand your numbers, you simply don’t understand your business.

For more information on how Donald Cooper can help you redefine and reinvent your business to create, deliver and communicate compelling, customer-owning Value, visit our website at [www.donaldcooper.com](http://www.donaldcooper.com), email us at [info@donaldcooper.com](mailto:info@donaldcooper.com) or contact us by telephone in Toronto, Canada at 1-(416) 252-3704.