



*Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.*

CFO Plus, LLC

Ted Hofmann - Principal/Senior Consultant

John Morre - Principal/Senior Consultant

Linda Panichelli - Principal/Senior Tax Consultant

1450 Grant Avenue, Suite 102

Novato, CA 94945-3142

Home Office: 415-898-7879

Toll Free 866-CFO-PLUS or 866-236-7587

Email: [thofmann@cfoplus.net](mailto:thofmann@cfoplus.net)

[jmorre@cfoplus.net](mailto:jmorre@cfoplus.net)

[lpanichelli@cfoplus.net](mailto:lpanichelli@cfoplus.net)

Web: [www.cfoplus.net](http://www.cfoplus.net)

## Sales Up, Profits Down – Say It Isn't So!

When faced with declining profits, most businesses respond with increased sales. Their thinking is that there is a direct correlation between the two. Increased sales means increased profits, right? Wrong.

When Furniture Brands International Inc., the largest furniture maker in the world, posted fourth quarter sales for 2003, at a glance, sales increased four percent from the same quarter last year. Most business people may assume that profits increased, too. However, the furniture giant's profits actually fell 23 percent compared to the prior year.

Is this fuzzy math? Not really. There were other operational lags on the company, which impacted posted profits. For example, the company absorbed millions in charges from closing numerous factories throughout the U.S.

In a similar relationship, some companies actually increase sales dramatically and earn lower profits. How? By paying for growth. A simple example is a carpet company that hired three additional sales people to increase sales. While the salespeople increased sales, their salaries, the increased labor for installing the carpet and an increase in two top-selling lines of carpet all impacted profits. Increased sales do not automatically equal increased profits.

We use a powerful software program that allows us to pinpoint key performance indicators that allow us to identify trends in profit potential. Aside from using a software program, you can examine these areas that can impact profits. Examine the following questions and you will most likely determine many areas that could be negatively impacting profits.

### Customers

- Who are your most profitable customers? What do they buy? Why do they do business with you? What additional products may they buy from you?
- Are service fees optimized?
- Are any of your customers costing your company money?

### Product

- What is your most profitable product? Why?
- What is your least profitable product? Why?
- What can you do to increase profits on your least profitable product?
- How does your product compare in price and quality to other companies?
- How can you sell more of the profitable products and cut the least or no profit products?
- Do you currently link products with customer targeting programs? Why not?

### Price and Profit

- What is the cost of your best product? What is the gross profit margin (sales less cost of sales)?
- Can you improve gross profit by increasing selling price or reducing cost of sales?
- Do you compensate sales teams based on profitability?
- Does it make sense to change the sales channel based on customer profitability?

### Operations

- What are your weekly/monthly operating costs?
- What are your largest overhead costs?
- Is there a way to reduce overhead costs?

### Warehouse

- Is your inventory in line with customer buying patterns?
- Could your picking cost be improved with a better warehouse layout?
- Can you increase truckloads, and reduce rush order handling?

The questions above are only a starting point to pinpoint where you may be able to increase profits and more efficiently manage your business.

### Sales Up, Profits Down – Say It Isn’t So! (cont.)

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Many companies hold onto products that have little or no profitability. Rather than emphasizing the company’s best selling or most profitable product, they spend company resources to develop, market, sell and house low profit, high cost products.

One such company noticed an increase in sales and a decrease in profitability. After using a profit analysis software product, they came to the conclusion that one of its customer segments was not as profitable from a net operating margin perspective as it was from a gross profit perspective due to excessive indirect cost incurred in serving the item. This knowledge allowed them to implement a profit improvement initiative to change their pricing infrastructure and service policies in order to make their business more profitable.

Whether you use the questions above or call us to perform a profit analysis product, you can be on your way to improved profits today!