

Silver Advantage Consulting Alert

Maximizing Your Profits

By Steven D. Handler, CPA – Partner

April 2013 – In light of increasingly volatile economic conditions and competitive pressures, CEOs continue to be held accountable for maximizing the bottom line and, therefore, are constantly in search of methods to improve their results. Profit maximization is a set of tools available to CEOs to help them and their organizations achieve significant improvements to financial performance and results.

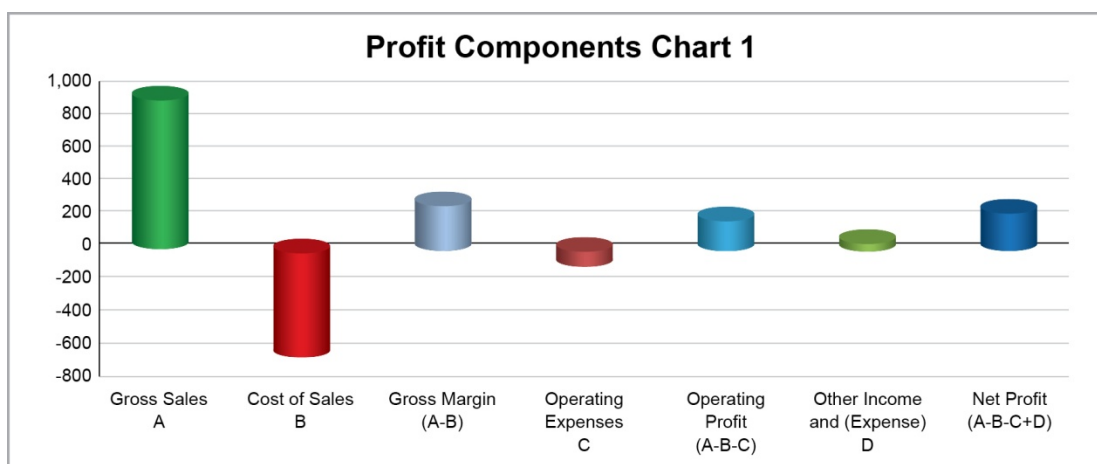
Michael Silver & Company CPAs has partnered with a broad range of companies to successfully improve both short- and long-term profitability without sacrificing value, quality, or social responsibilities.

Following is a simple illustration of the profits formula (i.e., to maximize profits, variables A and D need to increase, while variables B and C are minimized):

\$000's Omitted

| | | |
|----------------------------|-------------------|---|
| Gross Sales | 1,000 | A |
| Cost of Sales | <u>(700)</u> | B |
| Gross Margin | <u>300</u> | |
| Operating Expenses | (100) | C |
| Operating Profit | <u>200</u> | |
| Other Income and (Expense) | <u>50</u> | D |
| Net Profit | <u><u>250</u></u> | |

These hypothetical numbers above are graphically depicted in Chart 1 below.

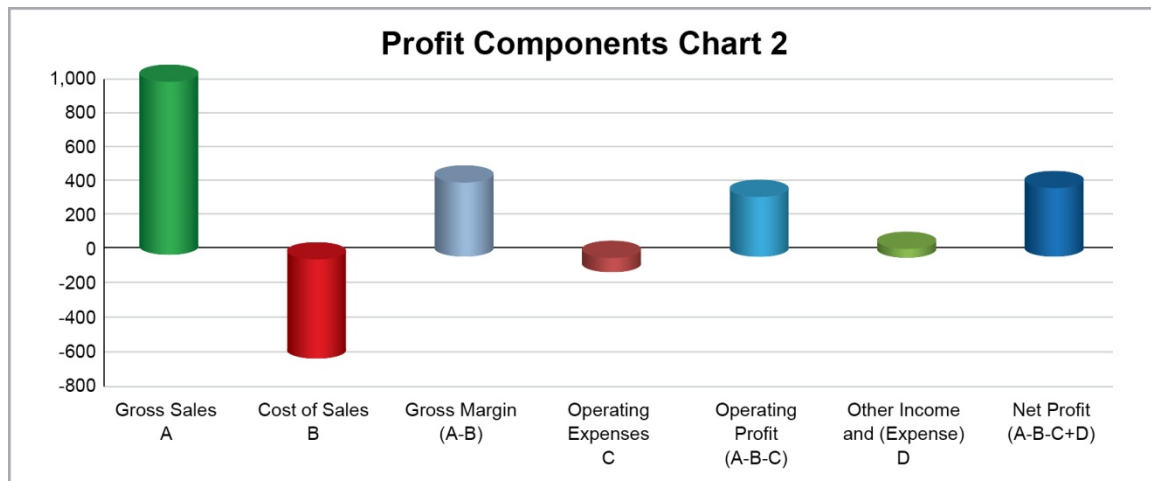


If we are able to improve each of these variables by 10%, net profits increase dramatically (i.e., A and D increase by 10% while B and C decrease by 10%).

\$000's Omitted

| | | |
|----------------------------|-------------------|---|
| Gross Sales | 1,100 | A |
| Cost of Sales | <u>(630)</u> | B |
| Gross Margin | <u>470</u> | |
| Operating Expenses | (90) | C |
| Operating Profit | <u>380</u> | |
| Other Income and (Expense) | <u>55</u> | D |
| Net Profit | <u><u>435</u></u> | |

These improved numbers are graphically depicted in Chart 2 below.



Although this process sounds simple, it is akin to an orchestra conductor synchronizing all of the musicians' efforts in order to allow the audience to hear what Mozart truly composed.

The process begins with an understanding of the company's goals and philosophy, as well as a thorough analysis of its financial statements and operational results. Following on from this activity is a prioritization of the approach to the four variables.

Short-term actions for fast profit improvement should be identified first. Some of these items, such as cost-saving measures, will be easy to identify while others will require more creativity. Long-term actions will involve more strategic considerations, such as pricing, diversification, marketing strategies, and technology planning.

Additionally, the critical “*How can we*” questions should be addressed:

How can we increase sales?

- Get more customers
- Raise prices
- Sell more to existing customers
- Reduce returns

How can we reduce our cost of sales?

- Purchase materials more economically
- Operate more efficiently

How can we reduce our operating expenses?

How can we increase our other revenues?

How can we minimize our interest expenses and taxes?

Michael Silver & Company CPAs can assist in conducting a microscopic examination of an organization with the ultimate goal of maximizing profits. We have the experience necessary to assist companies improve their bottom line. If you would like to learn more about how to maximize your company's profits, please contact me at 847.213.2107 to arrange a complimentary consultation.

Steve has been a Partner with Michael Silver & Company CPAs since 1997. His prior experience includes 15 years as a Partner in another CPA firm, and over a decade of management experience as an industry executive. Steve is a Certified Management Consultant with expertise in mergers & acquisitions, long-range planning for closely-held businesses, compensation planning, and database programming. He specializes in the real estate industry and in assisting international companies with their U.S. operations.