

# POWER OF \$



Profitability solutions for business owners  
that help them achieve long-term success.

Written by CEO & Founder Lil Roberts

xendoo



> Rich and Debbie, stylists and small business owners

# Got Profits?

Major corporations utilize the Power of 3 as a standard operating practice to increase productivity and profitability over time. Although it is not widely known in the traditional small business environment (specifically, businesses with less than 30 employees), the Power of 3 could prove to be incredibly rewarding for small business owners!

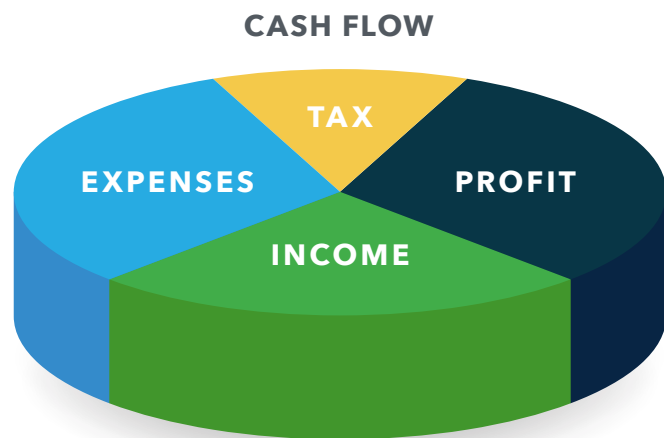
In understanding the Power of 3, it is helpful to understand the difference between profit and cash flow. From there, you will be able to improve your profit and cash flow and have visibility into your business financials. Whether you sell products or time, utilizing the Power of 3 will exponentially increase your profitability!

# Profit vs. Cash Flow:

## WHAT IS THE DIFFERENCE?

Profit and cash flow are both key indicators of business health, just in different ways. Profit demonstrates immediate and short-term success. On the other hand, cash flow informs the long-term financial outlook of a company.

Profit, also referred to as Net Income, is the difference between income and expenses. There are three types of profit: **gross, operating, and net profit.**



- ✓ Gross profit is the profit of your business after deducting the cost it takes to provide the goods or services.
- ✓ Operating profit is calculated by subtracting operating expenses from gross profit.
- ✓ Net profit is the profit that remains after subtracting everything, including taxes and operating expenses (rent, payroll, utilities, etc).

Cash flow is defined as all of the money that flows into and out of your business over a specific period of time. Positive cash flow means there is more money coming in than going out, while negative cash flow means that there is more money going out than coming in.

Profit is not cash flow. However, being aware of when cash flows into and out of your business will enable you to make informed financial decisions at the right time, so that you do not run out of cash. The more visibility you have into your cash flow, the more profitable your business will become!

# Improving Profit and Cash Flow

If you struggle with cash flow, you are not alone. It is a common struggle for small business owners! According to a U.S. Bank study:

- ✓ 93% of small business owners run their business from their bank account. This means that they monitor their bank account balance, but do not consider the dollars they have in inventory, or other expenses that are on the horizon. Monthly financials that are prepared by a professional will provide these insights.

- ✓ Of the businesses that fail, 82% that close their doors are actually profitable, but do not have visibility into their cash flow. Perhaps their bookkeeping team was not delivering reports on time, or the books were not being done at all. In either case, this lack of visibility is preventable.
- ✓ 46% of those businesses failed either because their prices were too low, their customers did not pay them on time, or they incurred expenses that they could not cover due to lack of cash.

Businesses thrive when business owners have financial visibility. As the best practice, financials should be reviewed monthly to ensure business goals are being met, plan for tax season, and make informed, data-driven decisions.

Here are some steps you can take to maintain a healthy cash flow and increase your profitability:

## Adjust your pricing.

Some assume that selling more products will increase profits, but this is not necessarily true. The key is to ensure that your pricing delivers a profitable margin after factoring in all your costs for the product or service plus your overhead expenses (such as rent and insurance).

## Know your industry metrics.

Research your industry metrics to see how you compare to your competition. This will show you where you place along the average, and how you can accelerate to the top.

## Review your Profit & Loss.

The Profit & Loss Statement can help you to predict your profit and trends months in advance. They reveal financial cycles in your business, such as holidays and other high and low periods that affect your sales. Examining your Profit & Loss Statement on a monthly basis will provide key insight into the financial cycles your business experiences.

## Make your business easy.

Select a few Key Performance Indicators (KPIs) to focus on. For example, you could aim for a 20% bottom line (meaning 20% net profit). To achieve this, you must calculate the amount of sales you need to make, as well as your expenses (COGS and general and administrative expenses). This will keep you mindful of your cash flow and laser-focused on the steps you need to take to increase your profitability.



> David and Liz, talent recruiters and small business owners

# The Power of 3

The Power of 3 is a simple principle. It is the contrast of increasing one factor by a negligible 3%, while decreasing the opposite by 3%.

For example:

## IF YOU SELL PRODUCTS

Increase the price of your product by 3%, while reducing your cost of goods sold by 3%.

## IF YOU SELL TIME

Increase the price of your service by 3%, while reducing your labor costs by 3%.

## IF YOU MANUFACTURE A PRODUCT

Increase your productivity by 3%, while reducing your waste by 3%.

All businesses, whether they sell products, time, or manufacture a product, can utilize the Power of 3. To illustrate, let's take a look at a few examples:

**A retail store that sells a product:**

You sell t-shirts for \$30.  
You increase the price by 3%, rounding up to \$31.



For the other side of the equation, you may reduce your cost of goods sold in a number of ways:

- ✓ Your supplier may offer a discount if you purchase a higher quantity of materials.
- ✓ If you purchase your materials sooner, you could select a more economical shipping option.
- ✓ Many manufacturers will offer a 2% Net 10 payment option, meaning you will receive a 2% discount for payments made within 10 days.

This is an example of increasing the price of your product by 3%, while reducing the cost of goods sold by 3%.



## Let's look at an example of a business that sells time, a marketing agency, for example:

If your monthly retainer is \$1,000, a 3% increase would result in \$1,030. You could even raise it to \$1,050.



For the reduction of 3%, you could implement software tools that may increase productivity, thereby reducing labor costs by 3%.

- ✓ How many monitors does your team have? According to a study by Fujitsu Siemens Computers, three-monitor setups increase productivity by 35.5%! By providing your team with a third monitor, you can drastically increase efficiency.
- ✓ What tech stack are you utilizing? Many tasks can be automated by technology to save time, reduce human error, and increase efficiency. Consider partnering with an online bookkeeping service in order to save time and focus on growing your business!
- ✓ What equipment is your team utilizing? Make sure they are using fast computers with up-to-date software.

In this instance, you increased your price by 3%, and reduced your labor costs by 3% by increasing productivity through technology.

# The Numbers Tell the Story

To illustrate the two examples above, let's take a deeper look at the numbers in action. Let's start with a retail store that sells products:

PRODUCT RETAIL	ORIGINAL	POWER OF 3
Revenue	1,253,245	1,290,842
Cost of Goods Sold	818,628	794,069
Gross Profit	434,617	496,773
Salaries & Wages	75,195	75,195
G&A Expenses	57,201	57,201
Rent	128,187	128,187
<b>Profit</b>	<b>174,034</b>	<b>236,190</b>

- Increased gross revenue by **\$37,597**.
- Decreased the cost of goods sold by **\$24,559**.
- Increased net profit by a total of **\$62,156**.
- Increased net profit exponentially by **35%**.

By implementing the 3% increase and decrease in price and costs, this business owner was able to exponentially affect profits.

This is a clear testament to the effectiveness of the Power of 3!  
Now, let's take a look at a business that sells time:

PROFESSIONAL SERVICES	ORIGINAL	POWER OF 3
Revenue	675,850	696,125
Salaries & Wages	280,141	271,737
G&A Expenses	77,467	77,467
Rent	65,280	65,280
<b>Profit</b>	<b>252,962</b>	<b>281,641</b>

Businesses that sell time will see a remarkable lift in profits. They will also achieve more time from their team by increasing productivity and efficiency. In the example above, the business owner was able to:

- Increase gross revenue by **\$20,275**.
- **Save \$8,404** in wages by increasing team efficiency through technology.
- Increase net profit by **\$28,679**, a **11.3% lift**.

By making minor tweaks to their prices and costs of production, these businesses were able to generate greater revenue, increase efficiency, and reap an impressive profit increase!



# Know Your Numbers to Grow Your Numbers

When you know your numbers, you can grow your numbers. By performing monthly reviews of your financials, you connect the dots between your sales, expenses, and profits to ensure business growth. Understanding your key data points will help you measure the financial success of your business and make improvements as needed. Below are some examples of the key information that should be reviewed each month:

- ✓ **The Profit & Loss Statement** (also referred to as an Income Statement) shows profit and net income. Your net income provides key insight into the profitability of your company.

- ✓ **The Balance Sheet** provides insight into your cash, inventory and other asset levels, how much money is owed to you (Accounts Receivable), how much money you owe (Accounts Payable). It is a snapshot of your financial position at a specific point in time.

**Monthly P&L**

**SAMPLE COMPANY**  
Oct 1, 2021 - Oct 31, 2021

Revenue	Month to Date	Year to Date
Braintree Sales	150,339	150,339
Sales - Shopify	112,700	112,700
Sales - Shopify	1,039	1,039
Sales Tax Collected / Paid	(1,372)	(1,372)
<b>Total Revenue</b>	<b>262,706</b>	<b>262,706</b>

Less Cost of Sales	Month to Date	Year to Date
Freight and Delivery	24,172	24,172
Purchases - Inventory	67,892	67,892
Supplies	163	163
<b>Total Cost of Sales</b>	<b>92,226</b>	<b>92,226</b>
<b>Gross Profit</b>	<b>170,480</b>	<b>170,480</b>

Operating Expenses	Month to Date	Year to Date
Advertising & Marketing	58,296	58,296
Bank Charges	14	14
Cable & Internet	95	95
Contract Labor	490	490
Employer taxes	1,625	1,625
Fees and Licenses	600	600
Insurance - General	80	80
Office Expense	87	87
PayPal Fees	1,157	1,157
Payroll Processing Fee	66	66
Postage & Shipping	678	678
Printing	655	655
Reimbursement	150	150
Rent or Lease	2,494	2,494
Security	15	15
Software & Web Hosting	1,893	1,893
<b>Total Operating Expenses</b>	<b>93,642</b>	<b>93,642</b>

Monthly P&L FOR MANAGEMENT USE ONLY Page 1 of 2

**Balance Sheet**

**SAMPLE COMPANY**  
Oct 1, 2021 - Oct 31, 2021

Assets	Liabilities and Equity
<b>Cash and Cash Equivalents</b>	<b>Liabilities</b>
Paypal	Chase CC - 6303
USB Checking - 9453	50,025
USB Personal Checking - 0985 CLOSED	3,402
<b>Total Cash and Cash Equivalents</b>	<b>53,882</b>
<b>Property, Plant and Equipment</b>	<b>Equity</b>
Security Deposits	3,000
<b>Total Property, Plant and Equipment</b>	<b>3,000</b>
<b>Total Assets</b>	<b>56,882</b>
	Chase CC - 4595
	50,038
	Chase CC - 7025
	87,399
	Citibank CC - 8213
	(64,286)
	Employer Benefit Liabilities
	5,035
	Loan Payable - Shareholder
	22,147
	Loan Payable - PayPal Working Capital
	(11,009)
	<b>Total Liabilities</b>
	<b>97,355</b>
	Corporate Distributions
	(406,892)
	Current Year Earnings
	77,778
	Distributions - IRS payments
	(77,155)
	Owner's Contribution
	113,150
	Retained Earnings
	352,645
	<b>Total Equity</b>
	<b>(40,473)</b>
	<b>Total Liabilities and Equity</b>
	<b>56,882</b>

Balance Sheet FOR MANAGEMENT USE ONLY Page 1 of 1

- ✓ **The Cash Flow Statement** provides data that helps you manage the timing of your payments and find solutions for costs and savings.

Accurate, consistent review and analysis enables you to make meaningful decisions as you grow your business. No matter what type of business you run, monthly financial reviews are crucial for long-term success!

✓ FULL-SERVICE BOOKKEEPING

✓ TAX PREPARATION

✓ DEDICATED SUPPORT

✓ ACCURATE BOOKS

✓ ON-TIME MONTHLY REPORTS



> Luanne,  
Sr. Accountant

# Your Online Bookkeeping and Tax Team

At Xendoo Online Bookkeeping, Accounting, and Tax, we believe in the power of small business!

Our dedicated bookkeepers and CPAs are committed to helping you grow your business by delivering timely, accurate reports and visibility into your financials. When you implement the Power of 3 in your business, our expert team will provide insight into your growth!

- ✓ **Online bookkeeping and accounting.** Our expert team takes the stress out of bookkeeping. Our bookkeepers and CPAs reconcile your books on a monthly basis, providing you the visibility you need to grow your business and stay tax compliant all year round.
- ✓ **All-in-one tax preparation, filing, and consulting.** Federal and state tax preparation and filings are included with almost all of our packages. Maximize your tax savings with minimal effort so you can spend most of your time doing what you love.
- ✓ **Catch up bookkeeping.** Whether you are behind a few months or a few years, Xendoo will bring your financials up to date so you can enjoy financial peace of mind.

## You deserve a team of real people who care.

Let Xendoo handle the bookkeeping and accounting hassles while you put more money in your pocket, reduce your stress, and focus on what you love - running your business.

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