

# Mastering The P&L: Unlocking Its Potential for Efficient Business Operations

Part of the “Realize Your Dream” series created by



Central  
Arizona  
College



# Agenda

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- **Objective: What You'll Learn From This Presentation**
- **P&L Basics: What Is It & What's it *Used For*?**
- **Line By Line: Breaking Down The P&L**
- **Digging Deeper: Managing Your Business**
- **CAC SBDC: What We Do**
- **Final Comments & Questions**

# CAC SBDC Center Director

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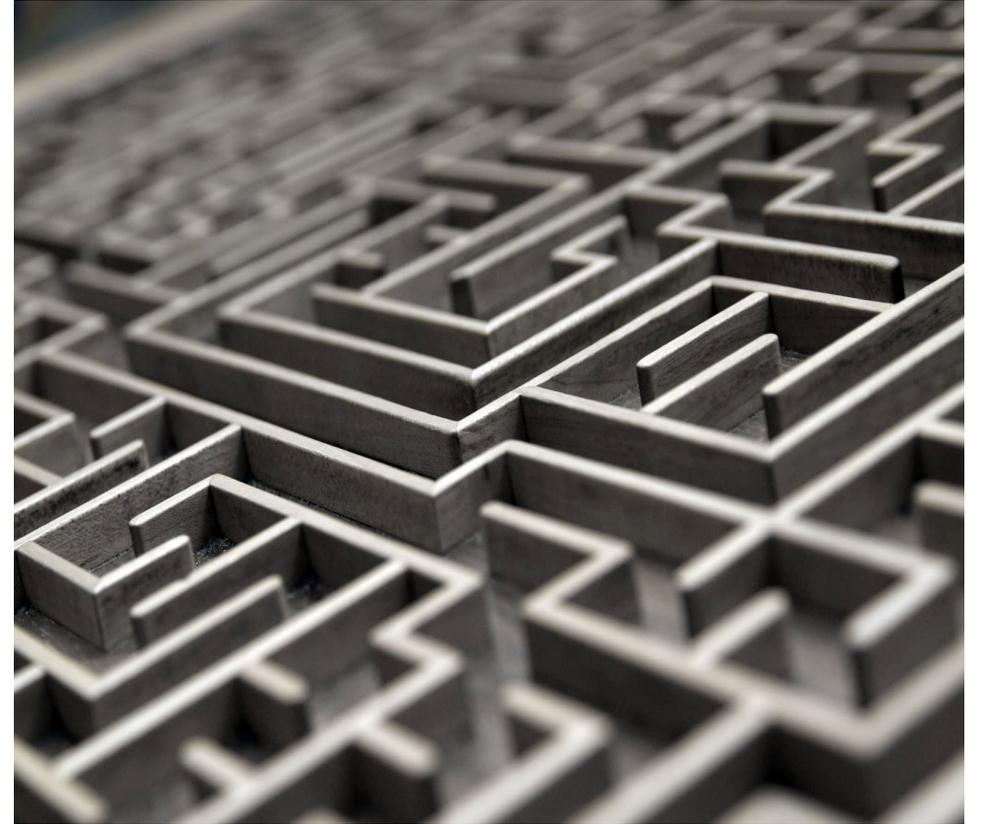


- **15 Years in Corporate America**
  - Publishing Sales, Marketing, Acquisitions
  - Director of Marketing
- **15 Years as a Small Business Owner**
  - Photography Studio & Gallery, San Diego
  - 3-Time National Photographer of the Year
  - First 10 Years: Wahoo!
  - Next 5 Years: OMG!?!?

# Objective

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**To understand what the P&L is, how it works, and how you can make it *work for you* to better manage your business.**



# Caveats

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- **This presentation is a high-level, low detail look at an actual P&L.**
- **Caveat Emptor!**
- **You MUST be using accounting software to run your business.**
- **You should be working with at least a bookkeeper level accounting professional.**



## The Fine Print:

The CAC SBDC cannot provide clients with accounting and legal advice. Please visit a professional for help.

# **For Many Small Businesses:**

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**The business owner knows  
their business well...**

**...but many have little to no  
experience **RUNNING** a  
business.**



# Understanding The P&L Helps You...

...RUN your business better with real-time data:

- Better Decisions
- Fewer Mistakes
- Faster Adjustments
- Greater Probability of Success

Ordinary Income/Expense	
Income	
Amazon Local Deal	18,204.99
Commercial Photography	19,284.59
Events	1,750.00
Fine Art Prints	515.00
Portraits	163,556.68
Shipping	40.00
Weddings	14,618.49
<b>Total Income</b>	<b>217,969.75</b>
Cost of Goods Sold	
Photographic Paper & Inks	1,582.50
Packaging	40.44
Mounting & Framing Supplies	293.11
Labor costs	350.00
Lab expenses	4,761.22
Frame & albums	929.12
Albums	8,490.97
<b>Total COGS</b>	<b>16,447.36</b>
<b>Gross Profit</b>	<b>201,522.39</b>
Expense	
Administrative costs	17,249.40
Employee Expense	97.76
Insurance Expense	675.74
Interest Expense	7,245.04
Marketing expense	9,739.93
Outside Services	95.00
Overhead expenses	59,976.34
Payroll Expenses	40,131.92
Professional Fees	11,540.00
Travel & Entertainment	4,088.64
<b>Total Expense</b>	<b>150,839.77</b>
<b>Net Ordinary Income</b>	<b>50,682.62</b>

# If There's ONE THING To Remember...

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***You Can Only Manage What You Measure***

# P&L Basics: What Is It?

- A snapshot in time of the overall health of your business
- The most important data with which to manage your business
- One of 3 financial statements
  - Balance Sheet, Cash Flow
- a.k.a. The Income Statement

Jan - Dec 12

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Travel & Entertainment	4,088.64
<b>Total Expense</b>	<b>150,839.77</b>
<b>Net Ordinary Income</b>	<b>50,682.62</b>
Other Income/Expense	0.18
<b>Net Income</b>	<b>50,682.80</b>

**My ACTUAL  
P&L From  
2012**

# P&L Basics

There are 3 major “lines” of any P&L...

What’s the most “famous” line?

# P&L Basics

**The Top Line**

**Sales**

a.k.a. "Revenue" or "Income"

**The Middle Line**

**Expenses**

**The Bottom Line**

**Profit**

# P&L Basics

## Top Line

Ordinary Income/Expense	
Income	
Amazon Local Deal	18,204.99
Commercial Photography	19,284.59
Events	1,750.00
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Shipping	40.00
Weddings	14,618.49
<b>Total Income</b>	<b>217,969.75</b>

## Middle Line

Cost of Goods Sold	
Photographic Paper & Inks	1,582.50
Packaging	40.44
Mounting & Framing Supplies	293.11
Labor costs	350.00
Lab expenses	4,761.22
Frame & albums	929.12
Albums	8,490.97
<b>Total COGS</b>	<b>16,447.36</b>
<b>Gross Profit</b>	<b>201,522.39</b>

## Bottom Line

Expense	
Administrative costs	17,249.40
Employee Expense	97.76
Insurance Expense	675.74
Interest Expense	7,245.04
Marketing expense	9,739.93
Outside Services	95.00
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# P&L Basics

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**Sales - Expenses = Profit**

**Top Line - Middle Line = Bottom Line**

# P&L: Refining The Lines

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**Top Line = Sales**  
**a.k.a Revenue, Income**



**What about Returns?**  
**Sales - Returns = Net Sales**

**Top Line = Net Sales**

# P&L: Refining The Lines

## Cost Of Goods Sold = COGS

- Raw materials
- Direct labor
- Commissions
- Shipping & Packaging
- Utilities, for production site only

All costs associated with  
the production of goods



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Payroll Expenses	40,131.92
Professional Fees	11,540.00
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<b>Total Expense</b>	<b>150,839.77</b>
<b>Net Ordinary Income</b>	<b>50,682.62</b>



# P&L: Refining The Lines

## COGS

### “Variable Cost”

- **Change with fluctuations in sales**
- **The more you sell, the more you need to produce, the greater the COGS**
- **Decrease/Increase in COGS goes “straight to the bottom line”**
- **Constant Goal: Manage COGS**

Total Income	217,969.75
Cost of Goods Sold	
Photographic Paper & Inks	1,582.50
Packaging	40.44
Mounting & Framing Supplies	293.11
Labor costs	350.00
Lab expenses	4,761.22
Frame & albums	929.12
Albums	8,490.97
Total COGS	<u>16,447.36</u>

***Service-focused companies rarely have any COGS***

# P&L: Refining The Lines

## Gross Profit (GP)

- Net Sales - COGS = Gross Profit
- Includes only Variable Costs
- Measures the efficiency of the production process

Ordinary Income/Expense		
Income		
Amazon Local Deal	18,204.99	
Commercial Photography	19,284.59	
Events	1,750.00	969.75
Fine Art Prints	515.00	
Portraits	163,556.68	
Shipping	40.00	
Weddings	14,618.49	
<b>Total Income</b>	<b>217,969.75</b>	<b>582.50</b>
Cost of Goods Sold		
Photographic Paper & Inks	1,582.50	40.44
Packaging	40.44	
Mounting & Framing Supplies	293.11	293.11
Labor costs	350.00	
Lab expenses	4,761.22	350.00
Frame & albums	929.12	
Albums	8,490.97	761.22
<b>Total COGS</b>	<b>16,447.36</b>	<b>929.12</b>
<b>Gross Profit</b>	<b>201,522.39</b>	<b>490.97</b>
Expense		
Administrative costs	17,249.40	
Employee Expense	97.76	447.36
Insurance Expense	675.74	
Interest Expense	7,245.04	
Marketing expense	9,739.98	
Outside Services	95.00	522.39
Overhead expenses	59,976.34	
Payroll Expenses	40,131.92	
Professional Fees	11,540.00	
Travel & Entertainment	4,088.64	
<b>Total Expense</b>	<b>150,839.77</b>	
<b>Net Ordinary Income</b>	<b>50,682.62</b>	

**Lower COGS = Higher**

# P&L: Refining The Lines

## Middle Line = Expenses

- **NOT** tied directly to production of goods
- **OPEX: Operating Expenses**
- **Fixed & Partially Fixed Costs**
- **Don't change: Rent, Insurance, Salaries**
  - a.k.a. "Overhead"
- **Partially Change: Marketing, Advertising**



***Everything in-between Gross Profit and The Bottom Line***

# P&L: Refining The Lines

## Middle Line: Expenses

- Office, Minor Hardware, Software, Subscrips
- Interest on Debt
- Marketing & Advertising
- Insurance
- Rent
- Utilities
- Salaries/Labor not tied to production
- Accounting & Legal
- Travel & Entertainment

Expense	
Administrative costs	17,249.40
Employee Expense	97.76
Insurance Expense	675.74
Interest Expense	7,245.04
Marketing expense	9,739.93
Outside Services	95.00
Overhead expenses	
Telephone	2,705.76
Health insurance	8,423.50
Liability insurance	479.46
Security Services	589.02
Solana Beach Studio Rent	42,406.63
Storage Unit	2,026.00
Utilities	3,270.97
Overhead expenses - Other	75.00
Total Overhead expenses	59,976.34
Payroll Expenses	40,131.92
Professional Fees	11,540.00
Travel & Entertainment	4,088.64
<b>Total Expense</b>	<b>150,839.77</b>

***You Can Only Manage What You Measure***

# P&L: Refining The Lines

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**Bottom Line = Profit**

**Technically, “Net Profit”, “Net Income”**

**EBITDA = Earnings Before:**

- Interest
- Taxes
- Depreciation & Amortization



**Net Sales - Net Expenses = Bottom Line  
(EBITDA)**

# P&L: Refining The Lines

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***You Can Only Manage What You Measure***

# Using The P&L

## Chart Of Accounts

- **The list of categories of income and expenses**
- **Created using your accounting software**
- **Work with your accounting professional to decide level of detail right for your business**

Ordinary Income/Expense	
<b>Income</b>	
Amazon Local Deal	18,204.99
Commercial Photography	19,284.59
Events	1,750.00
Fine Art Prints	515.00
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Shipping	40.00
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<hr/>	
<b>Total Income</b>	<b>217,969.75</b>
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Photographic Paper & Inks	1,582.50
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Employee Expense	97.76
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<hr/>	
<b>Total Expense</b>	<b>150,839.77</b>
<b>Net Ordinary Income</b>	<b>50,682.62</b>

# Using The P&L

## Where do your sales come from?

### Include ALL major revenue streams

- Add each category to your Chart of Accounts
- List should include any major product line or service that drives revenue.
- Tracked correctly, allows you to see where your sales come from and what's most profitable.
- Where should you direct more of your effort?

Ordinary Income/Expense	
Income	
Amazon Local Deal	18,204.99
Commercial Photography	19,284.59
Events	1,750.00
Fine Art Prints	515.00
Portraits	163,556.68
Shipping	40.00
Weddings	14,618.49
Total Income	217,969.75

# Using The P&L

## Which Net Sales (Income) list is more useful and informative?

Ordinary Income/Expense		Ordinary Income/Expense	
Income	217,969.75	Income	
Cost of Goods Sold	16,447.36	Amazon Local Deal	18,204.99
Gross Profit	201,522.39	Commercial Photography	19,284.59
Expense	150,839.77	Events	1,750.00
Net Ordinary Income	50,682.62	Fine Art Prints	515.00
Other Income/Expense		Portraits	163,556.68
Other Income	0.18	Shipping	40.00
Net Other Income	0.18	Weddings	14,618.49
Net Income	50,682.80	Total Income	217,969.75

**Decide what your major sales categories are and add them to your Chart of Accounts**

# Using The P&L: “Driving Top Line”

## A.K.A...Increasing Sales

- Use the P&L to make informed decisions

## How do you do this?

- Sales Planning
- Marketing Planning

	Jan - Dec 12	Jan - Dec 11	% Change	% of Income
<b>Ordinary Income/Expense</b>				
Income				
Amazon Local Deal	18,204.99	0.00	100.0%	8.4%
Commercial Photography	19,284.59	21,546.50	-10.5%	8.8%
Events	1,750.00	1,500.00	16.7%	0.8%
Fine Art Prints	515.00	0.00	100.0%	0.2%
Portraits	163,556.68	122,752.44	33.2%	75%
Sales	0.00	5,736.57	-100.0%	0.0%
Shipping	40.00	45.00	-11.1%	0%
Weddings	14,618.45	13,481.44	8.4%	6.7%
<b>Total Income</b>	<b>217,969.75</b>	<b>165,061.95</b>	<b>32.1%</b>	<b>100.0%</b>
Expense				
Marketing expense	9,739.93	7,493.23	30.0%	4.5%
Meals and Entertainment	0.00	64.05	100.0%	0.0%

***The CAC SBDC Can Help You Create These Plans***

# Using The P&L: Managing COGS

## A.K.A... Variable Costs

- Identify your Variable Costs
- Add major COGS to Chart of Accounts
  - Raw materials
  - Direct Labor, Commissions
  - Packaging & Shipping
- Helps to determine which revenue streams are most profitable

Total Income	217,969.75
Cost of Goods Sold	
Photographic Paper & Inks	1,582.50
Packaging	40.44
Mounting & Framing Supplies	293.11
Labor costs	350.00
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Albums	8,490.97
Total COGS	<u>16,447.36</u>

# Using The P&L: Managing COGS

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## Ways of Reducing COGS

- Negotiate w/ Suppliers
- Find New Suppliers
- Monitor Inventory
- Manage Your Workforce
- Review Pricing Strategy
- Analyze Sales Trends



**Lower COGS = Higher Net Profit**

# Using The P&L: Managing Middle Lines

## A.K.A... Expenses

- Identify your Expenses
- Add to your Chart of Accounts
  - Work with your bookkeeper to decide on a reasonable level of granularity
- Include enough detail so you can effectively manage those expenses that need managing

Expense		
Administrative costs	17,249.40	7.9%
Employee Expense	97.76	0.0%
Insurance Expense	675.74	0.3%
Interest Expense	7,245.04	3.3%
Marketing expense	9,739.93	4.5%
Outside Services	95.00	0.0%
Overhead expenses		
Telephone	2,705.76	1.2%
Health insurance	8,423.50	3.9%
Liability insurance	479.46	0.2%
Security Services	589.02	0.3%
Solana Beach Studio Rent	42,406.63	19.5%
Storage Unit	2,026.00	0.9%
Utilities	3,270.97	1.5%
Overhead expenses - Other	75.00	0.0%
Total Overhead expenses	59,976.34	27.5%
Payroll Expenses	40,131.92	18.4%
Professional Fees	11,540.00	5.3%
Travel & Entertainment	4,088.64	1.9%
Total Expense	150,839.77	69.2%

# Using The P&L: Managing Middle Lines

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## Ways of Reducing Expenses

- **Prioritize: Essential vs. Non-Essential**
- **Negotiate: Rent, Work Schedules, Terms**
- **Change: Insurance, Supply Vendors**
- **Outsource: Marketing, Non-Essential Roles**
- **Automate: Repetitive Tasks, Calendaring**
- **Reduce: Payroll, Location, Travel/Entertainment**
- **Remove: Services, Underperformers**
- **Barter: Goods, Services**



# **Using The P&L: “Driving Bottom Line”**

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## **Keep More Of What You Make**

- Increase Sales**
- Reduce COGS**
- Manage Expenses**

**All Three of These Must Be  
Managed At The Same Time!**

**Changing Gears...**



1 3 5  
2 4 R

A close-up photograph of a manual gear shift knob. The knob is metallic and has a textured grip. It features a 5-speed H-pattern with the numbers 1, 2, 3, 4, and 5, and the letter 'R' for reverse. The lighting is dramatic, highlighting the top of the knob against a dark background.



**Central Arizona College**

**Small Business Development Center  
CAC SBDC**

# CAC SBDC Mission

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**To Help Entrepreneurs  
Realize Their Dream Of Business Ownership**

Serving Small Businesses in All  
Industries



**And To Provide Economic Impact  
To Pinal County & Arizona**

# CAC SBDC Services

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Counseling



Training



Research

- Completely Confidential
- Serving Pinal County
- Work with companies in all stages
- No Cost To Clients

# Counseling

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- Business Planning
- Marketing & Sales Assistance
- Assistance With Business Loans
- Community Outreach & Presentations
- And much, much more!

# Training

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- Taught by Counselors and Outside Experts
- Topics Include:
  - How To Start Your Business
  - Business Planning
  - Government Contracting
  - Small Business Entities, Lending, and much more!



# Market Research & Benchmarks

## IBIS Industry Reports

**Industry at a Glance**  
Coffee & Snack Shops in 2016

**Key Statistics Snapshot**

Revenue	<b>\$39.6bn</b>	Annual Growth 11-16	<b>4.5%</b>	Annual Growth 16-21	<b>2.7%</b>
Profit	<b>\$2.7bn</b>	Wages	<b>\$10.3bn</b>	Businesses	<b>55,664</b>

**Market Share**  
Starbucks Corporation: 43.0%  
Dunkin' Brands Inc.: 21.8%

**Revenue vs. employment growth**

**Consumer spending**

**IBISWorld**  
WHERE KNOWLEDGE IS POWER

Coffee break: Operators will add high-margin items to appeal to health-conscious consumers

This report was provided to Maricopa Community Colleges SBDC (212339505) by IBISWorld on 10 January 2017 in accordance with their license agreement with IBISWorld.

**IBISWorld Industry Report 72221b**  
**Coffee & Snack Shops in the US**  
October 2016 Andrew Alvarez

**profitcents**  
by Sageworks

**INDUSTRY FINANCIAL DATA AND RATIOS**  
Green: Company metrics highlighted in green are within the top 20% of the industry.  
Red: Company metrics highlighted in red are within the bottom 20% of the industry.

**Industry Data**  
(Number of Financial Statements)

Industry-Specific Key Performance Indicators (KPIs)	Company Data	Recent 12 Months	Distance from Industry	2013	2000-Present
Billings in Excess of Cost to Total Assets	0.68%	4.20% (12)	-84%	4.90% (14)	5.50% (237)
Costs and Earnings in Excess of Billings to Total Assets	1.65%	5.50% (7)	-70%	4.80% (8)	5.40% (200)
Months in Backlog	3.97	4.20*	-6%	N/A	4.31 (84)
Direct Labor Ratio	16.51%	17.50% (20)	-6%	18.00% (24)	22.20% (295)

## Profit Cents Financial Benchmarking Data

# CAC SBDC Team

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Kevin Connors  
Center Director

***Help is right here when you need it!***

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**Central  
Arizona  
College**



***All At No Cost To You!***

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A 3D rendering of a complex mechanical gear system. The gears are dark blue and metallic, arranged in a circular pattern around a central red sphere. The lighting is dramatic, highlighting the metallic surfaces and creating deep shadows in the recesses of the gears.

# Questions?

**[Centralaz.edu/sbdc](http://Centralaz.edu/sbdc)**

**Click on “Request Counseling”**

**[kevin.connors@centralaz.edu](mailto:kevin.connors@centralaz.edu)**