The Business ADVISOR

STORM™ CONSULTING, LLC

6075 Atlantic Blvd.,
Crossings Center VI
Ste: K-2
Norcross, GA 30071.
678.291.9191.
.stormconsultingllc.com.

TOPIC SUMMARY FROM STORM MANAGEMENT

Leveraging Costs and Expenses

In many traditional companies and indeed in many startup companies as well, the most difficult aspect of the business is generating revenues with a reasonable margin contribution. In fact, more likely than not, the additional marketing and support expenses to gain new business offsets the additional gains in revenues and margin dollars in the first year.

At STORM one of our key philosophies is, *"The easiest way to make money is not to spend it!"* Companies new and old, large and small often ignore this ideology. This doesn't mean necessarily cutting out expenses in a few large areas, but rather we believe it is more important to instill a cost savings culture in your organization. **Motivate your team to adopt an attitude of *spending the company's money as if it is their own* . . . while on a tight budget.** This philosophy applies in good times as well as in bad because it takes several years to change a corporate culture, and it's not a one-time program.

Let's look at why cost and expense reductions provide significantly more leverage than incremental dollars of revenue to an organization. In Table 1 below, we have a traditional company that is marginally profitable. This company is generating a 5% return on revenue, which will support a minimal debt and tax burden. The gross profit margins are tight at 25%. In Table 2 we see that an additional million dollars of revenue will yield $250,000 in gross profit margin. It costs an incremental 10% or $100,000 in sales expense to generate this revenue, thus there is a contribution margin of $150,000 to the bottom line (we are assuming that general administrative expenses remain unchanged). The additional million dollars of revenue results in a negligible 3% increase in operating profitability.

TABLE 1

	Dollars (in millions)	**%**
Revenues	$100	100
Cost of Goods Sold	75	75
Gross Profit Margin	25	25
Sales Expenses	10	10
General Administrative Expenses	10	10
Subtotal SG&A	20	20
Operating Profit	5	5

TABLE 2: Additional $1M of Revenues	Dollars (in millions)	%
Revenues	$101	100
Cost of Goods Sold	75.75	75
Gross Profit Margin	25.25	25
Sales Expenses	10.10	10
General Administrative Expenses	10	9.9
Subtotal SG&A	20.10	19.9
Operating Profit	5.15	5.1

TABLE 3: Revenues of $1M of Costs & Expenses	Dollars (in millions)	%
Revenues	$100	100
Cost of Goods Sold	74.5	74.5
Gross Profit Margin	25.5	25.5
Sales Expenses	10	10
General Administrative Expenses	9.5	9.5
Subtotal SG&A	19.5	19.5
Operating Profit	6	6

In Table 3 let's take out a million dollars of our costs and expenses (for illustrative purposes, 50% in costs, 50% in SG&A expenses), thus the same million dollars in costs and expense savings falls directly to the bottom line. This results in a 20% increase in operating profit. More importantly, having reduced our break-even levels, we enhance our cash position and enhance our survivability as we are operating more efficiently and can better withstand any downturn.

STORM executives have proven many times over the years of experience as CEO's and COO's of large companies, that it is infinitely easier to take out cost and expense than it is to generate incremental revenues at a reasonable margin contribution. At STORM we have many proven techniques to reduce "break-even levels" (the sum of all costs and expenses) to make organizations more efficient. We can share these techniques with management to achieve significant bottom line results on an accelerated basis. For more information on STORM and our advisors, contact us at 678.291.9191.