



Universal Law #1 Pricing

Module Three: Financial 101

If you aren't priced correctly in your company, you're not playing to win.

If you're not priced right today, there are three common reasons for it:

1. Poor _____ which causes you to feel unconscionable charging the necessary prices.
2. Poor _____ which causes you to doubt that customers will be willing to pay your prices
3. You don't truly understand the _____ of doing business.

Understanding Financial 101

The most important equation to know when you think about financials is:

$$\text{Sales} - \text{Expenses} = \underline{\hspace{2cm}}$$

Revenue

$$\underline{\hspace{2cm}} = \text{Total dollars sold on invoices}$$

$$\underline{\hspace{2cm}} = \text{Gross sales} - \text{Returns and allowances}$$

Example:

$$\$10,500 \text{ (Gross)} - \$500 \text{ (Returns and Allowances)} = \underline{\hspace{2cm}} \text{ (Net Sales)}$$

Direct Costs

Direct Costs (cost of sales) = The costs _____ associated with the job including _____ to install it.

Example:

- *Material*
 - *Labor*
 - *Equipment*
 - *Permits*
 - *Warranties*
 - *Sub-contractors*
 - *Disposal costs*
 - *Commissions*
 - *Etc.*
- } \$5,200 (*Direct Cost*)

Gross Margin

_____ = *Total net sales minus cost of sales*

Example:

\$10,000 Net Sales - \$5,200 Direct Costs = _____ *Gross Margin*

As a percentage, that would be $\$4,800 \div \$10,000 =$ _____%

Overhead

Component One: _____

- Yellow Pages
- Direct Mail
- Newspaper
- Radio and TV
- Telemarketing

Component Two: _____ Expenses

- Administrative/Office
- Warehouse & Purchasing
- Vacation & Holiday
- Training wages
- Payroll Taxes – FICA
- Payroll Taxes – FUTA/SUTA
- Workers Comp Insurance
- Group Health Insurance
- 401K Employer Matching
- Uniforms
- Employee Relations
- Recruiting & Hiring
- Education

Component Three: _____

- Depreciation – Furn/Comp.
- Depreciation – Tools/Equip.
- Deprecation – Leasehold Imp
- Building Maint. & Repairs
- Office/Shop Equip Lease
- Misc. Shop Supplies
- Expendable Tools
- Equip. Maint. And Repairs
- General Liability Insurance
- Rent
- Utilities
- Telephone
- Janitorial
- Facility Security
- Property Taxes

Component Four: _____

- Depreciation
- Lease
- Repair and Maintenance
- Fuel
- Insurance

Component Five: _____

- Permits & Licenses
- Accounting and Audit
- Goodwill Amortization
- Legal

- Membership Services
- Bad Debts
- Collections
- Dues and Subscriptions
- Penalties and Fines
- Office postage
- Office supplies
- Forms – Printing
- Communications
- Bank and Credit Card Fees
- Travel & Entertainment
- Travel & Entertainment (Meals)
- Mileage Reimbursement
- Contributions
- Franchise Tax

Example:

- *Advertising*
 - *Employee Expense*
 - *Facility*
 - *Vehicle/Fleet*
 - *Administrative*
- } \$3,840 Total Operating Expenses

To determine an operating expense percentage from our example, you would calculate:

$$\$3,840(\text{Operating Expenses}) \div \$10000(\text{Net Sales}) = \underline{\hspace{2cm}}\%$$

Profit

$$\underline{\hspace{2cm}} = \text{Gross margin} - \text{Operating expenses}$$

Example:

$$\$4,800 \text{ Gross Margin} - \$3,840 \text{ Operating Expenses} = \$\underline{\hspace{2cm}} \text{ Profit}$$

$$\text{As a percentage, that would be: } \$960 \div \$10000 = \underline{\hspace{2cm}}\%$$

