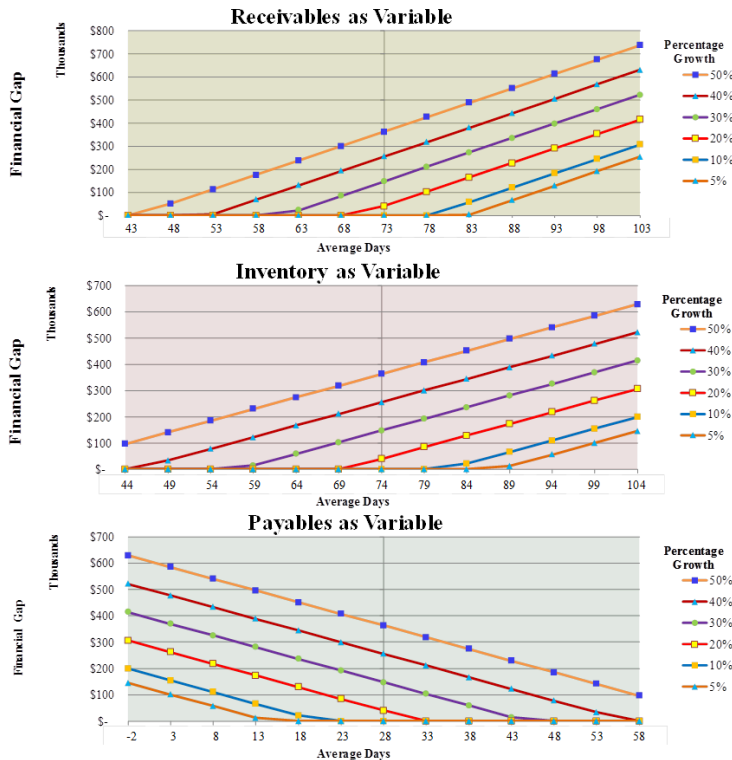


Profit Gap Tutorial

Financial Gap Analysis

Profit Gap has expanded the usefulness of the Financial Gap Analysis that was taught in the Profit Mastery University class. As discussed in the class, operational efficiencies are assumed to stay the same as those reflected on your current balance sheet. However, as growth gets more aggressive, this assumption may require adjustment, so Profit Gap adds the elements of varying efficiencies. These charts plot the variation in operational efficiencies at various growth levels. In this case, Profit Gap demonstrates how the variable changes in Receivables, Inventory, and Payables will affect your Financial Gap.



These charts illustrate how the Financial Gap changes for your company when some of the Assets (Receivables & Inventory) or Liabilities (Payables) are changed to show the impact at various Growth levels. The X-axis represents average days with the center being your company's current average for that metric.

Tutorial

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1) Top Chart: Receivables as Variable

This chart shows a family of curves that reflect your Financial Gap at different growth rates for your business when you vary Receivables, the average time that it takes to collect what is owed to you by your customers. Receivables are typically measured in days. The Average days is on the X-Axis and the Y-axis being the Financial Gap. On your report, the center of the horizontal X-Axis represents your company's current Receivable performance. The Average days are then varied in ± 5 day increments.

The lower your receivables the more money you will have to fund growth. With this sample company at a planned growth of 40%, a decrease in Receivables of 10 days from 73 days to 63 days would represent a lowering of the Financial Gap from \$270,000 to \$130,000, a \$140,000 improvement. If the specific growth rate is demonstrated on the chart, you simply extrapolate between the lines as all the lines have the same slope.

2) Middle Chart: Inventory as Variable

This chart shows a family of curves with different growth rates when you vary the Inventory, the average time that it takes to consume your inventory or how long it would be before you run out of Inventory if you bought no more inventory. Inventory is typically measured in days, the Average days shown on the X-Axis and the Y-axis being the Financial Gap.

On your Profit Gap Report, the center of the horizontal X-Axis is your company's current Inventory performance. The Average days are then varied in ± 5 day increments. The lower your inventory, the more money you will have to fund growth. With this sample company, a 15 day decrease in Inventory to 59 days of a planned 40% increase in sales would represent a lowering of the Financial Gap from \$270,000 to \$110,000, a \$160,000 improvement.

3) Bottom Chart: Payables as a Variable

This chart shows a family of curves with different growth rates when you vary the Payables, the average period of time you take to pay your suppliers for your COGS. The Average days is indicated on the X-axis and the Y-axis being the Financial Gap. Payables are typically measured in days. The center of the horizontal X-axis represents your company's current Average Days. The Average days are then varied in ± 5 day increments. The higher or longer you take to pay your suppliers, the more money you will have to fund growth. With this sample company an increase in Payable Days of 10 days from 28 days to 38 days of a planned 40% increase in sales would represent a lowering of the Financial Gap from \$270,000 to \$170,000 a \$100,000 improvement.