Disclaimer

The contents of this presentation are intended to convey general information only and not to provide financial or any other advice or opinions. No action should be taken in reliance on the information contained on this presentation and I/we disclaim all liability in respect to actions taken or not taken based on any or all of the contents of this presentation.

An independent financial advisor should be contacted for advice on specific financial issues.

Financial Objective of a Business

is to ?
[type it into the chat window]

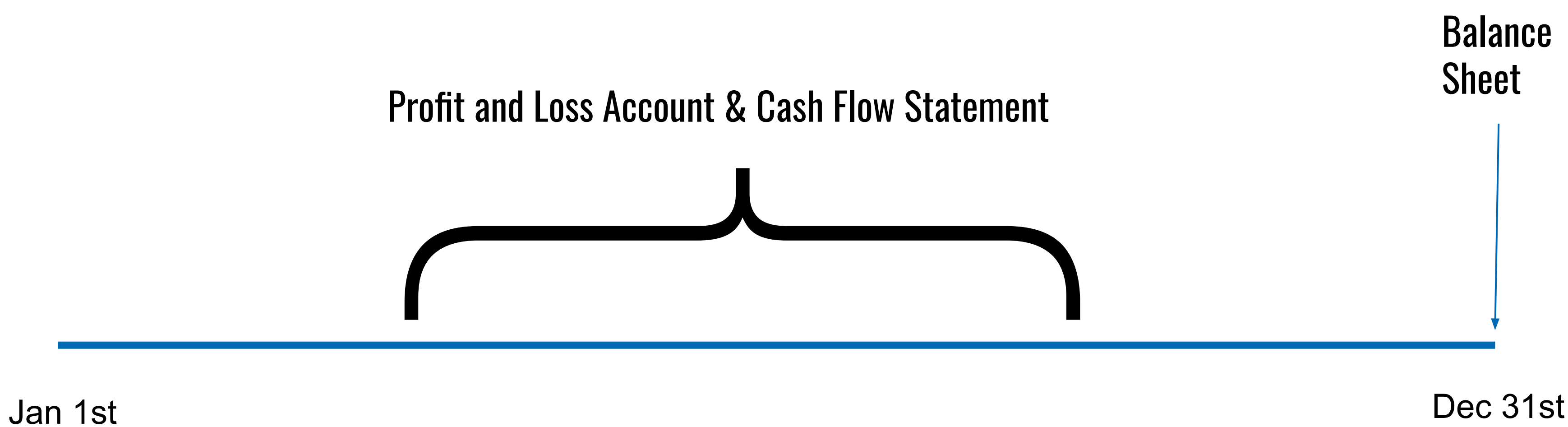
Maximise shareholder return.

Over time companies try to make profits and avoid losses. The profit and loss account show us success or failure in this respect.

Accounting

Consist of 3 main financial statements.

- Balance Sheet (snapshot of financials)
- Profit and Loss Account (revenue and profits)
- Cash Flow Statement (cash in and outflows)



Balance Sheet

Shows a company's financial position at the end of an accounting period. Distinguishes between Assets (uses of funds) and Liabilities (sources of funds).

Assets are resources the company controls. Normally added to the Balance Sheet at original cost minus any erosion of value. **Fixed Assets** are long term resources. **Current Assets** (stocks, debtors, cash) are short term and can be converted into cash within 12 months.

Liabilities are what a company owes to others. **Current Liabilities** are due within 12 months. Current liabilities subtracted from current assets equals **Working Capital**.

Shareholders Funds are amounts (directly or indirectly) the shareholders have provided. DOES NOT equal company valuation.

Balance Sheet Example

Fixed Assets	
Intangible	£100
Tangible	£100
Current Assets	
Stocks	£ 80
Debtors	£ 50
Cash	£ 20
Current Liabilities	
Creditors	(£100)
Tax	(£40)
Long-term Liabilities	
Loan	(£10)
NET ASSETS	**£150**
Capital and Reserves	
Share Capital	£ 10
P&L Account	£140
SHAREHOLDERS' FUNDS	**£150**

These two always balance

Profit and Loss Account

This summarises a company’s performance over a time period (in most cases 12 months). Showing how much of the earnings a company has paid to shareholders and how much is retained (which is where the entry on the balance sheet comes from).

Normally published profit and loss accounts contain a lot less information about a business than an internal profit and loss report (sometimes called management accounts).

Profit and Loss Example

Revenue	£200
Cost of Sales	£100
Gross Profit	£100
Overheads	£ 50
Profit Before Interest and Tax	£ 50
Interest	£ 10
Profit Before Tax	£ 40
Tax	£ 10
Profit After Tax	£ 30
Dividends	£ 10
Retained Earnings	£ 20

Cash Flow Statement

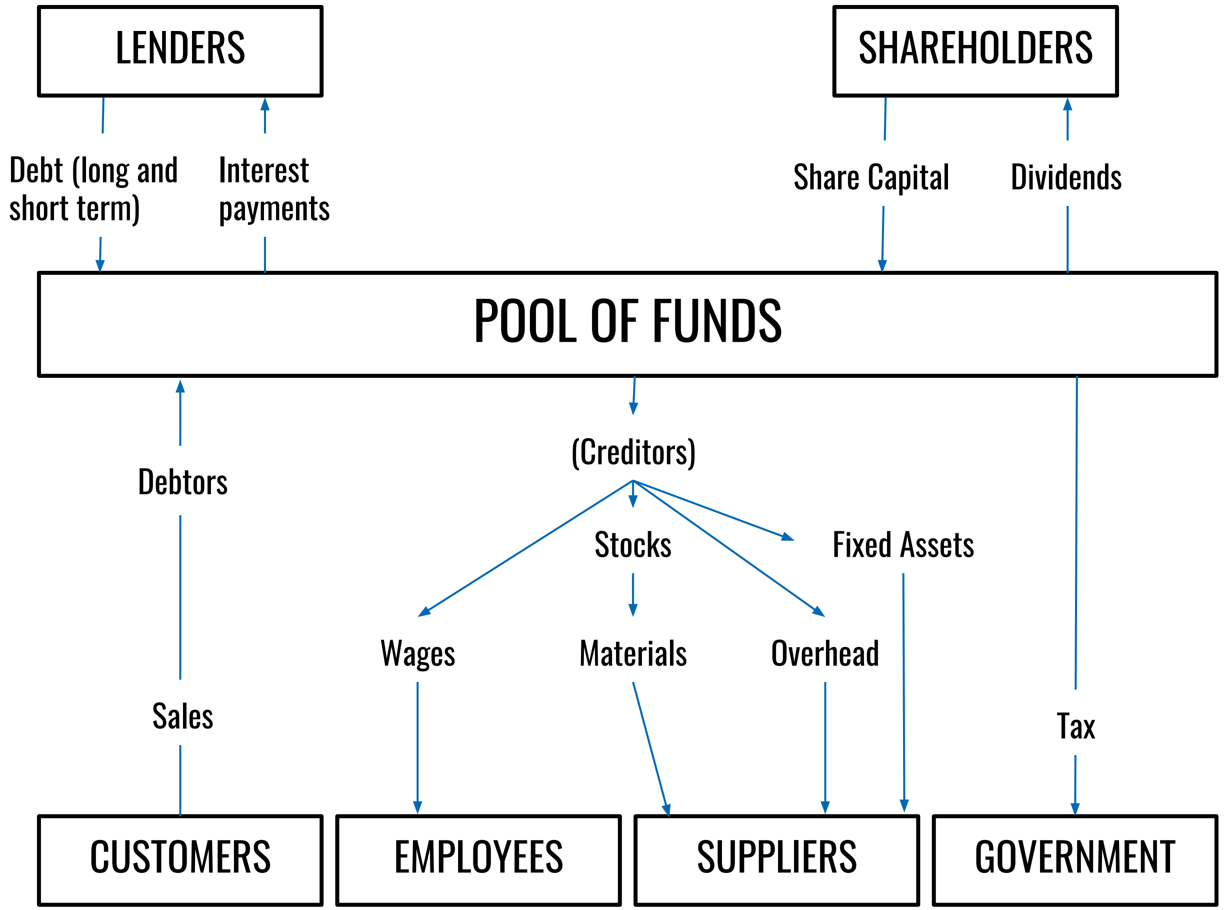
3 sources of cash in a business

- Shareholders
- Lenders
- Customers

Business spends money on 4 main categories

- Long term fixed assets
- Short term current assets
- Wages
- Taxes

Flow of Funds



Cash Flow Statement Example

<u>Operations</u>	
Operating profit	£ 50
Add: Depreciation	£ 10
Less: Increase in Working Cap	(£ 10)
Less: Interest, Tax and Dividend	(£ 20)
<u>Investing</u>	
Purchase of Fixed Assets	(£ 15)
<u>Financing</u>	
Proceeds from long term borrowing	£ 15
<u>NET INCREASE IN CASH</u>	<u>£ 20</u>

Ratios and Company Performance

Benchmark financial performance. Some useful ones are:

<u>Profitability</u>

- Gross Profit Margin: Gross Profit / Sales Margin * 100
- Operating Margin Profit: Operating Profit / Sales Margin * 100
- Return on Capital Employed: Operating Profit / Capital Employed * 100

<u>Liquidity</u>

- Current Ratio: Current Assets / Current Liabilities
- Acid Test: Current Assets (minus stock) / Current Liabilities

<u>Financial Efficiency</u>

- Debtor Days: Debtors / Sales * 365

Impact of Increasing Prices

Existing Gross Margin %

% price increase

1%	17%	9%	6%	5%	4%	3%	3%	2%	2%
2%	29%	17%	12%	9%	7%				
3%	38%	23%	17%	13%	11%				
4%	44%	29%	21%	17%	14%				
5%	50%	33%	25%	20%					
7.5%	60%	43%	33%	27%	23%	20%	18%	16%	13%
10%	67%	50%	40%	33%	29%	25%	22%	20%	17%

EG
You can put prices up by 5% and sell 20% less if your Gross Margin is 20%.

The sales volume decrease which will maintain the existing Gross Margin.

Let's Check the Maths

Existing Position

Unit Price	€100
Number sold	50
Gross Margin per unit	€20
Total Gross Margin	€1000

Price up 5%. Sales down 20%

Unit Price	€105
Number sold	40
Gross Margin per unit	€25
Total Gross Margin	€1000

Discounting

Existing Gross Margin %

% discount

1%	25%	11%	7%	5%	4%	3%	3%	3%	2%
2%	67%	25%	15%	11%	9%				
3%	150%	43%	25%	18%	14%				
4%	400%	67%	36%	25%					
5%		100%	50%	33%	25%				
7.5%		300%	100%	60%	43%				
10%			200%	100%	67%	50%	40%	33%	25%

EG
If you discount by 5% and your Gross Margin is 20% you need to sell 33% more to make the same amount of Gross Margin.

The % amount sales need to increase to maintain the existing Gross Margin.

Let’s Check the Maths

Existing Position

Unit Price	€100
Number sold	50
Gross Margin per unit	€20
Total Gross Margin	€1000

Discount 5%?
Need to sell 33% more.

Unit Price	€95
Number sold	67
Gross Margin per unit	€15
Total Gross Margin	€1005

Pricing Strategies

<u>Cost Plus</u>.
Amounts to a mark-up on costs… is widely used but rarely the most profitable.

<u>Customer Driven</u>.
Amounts to using price to achieve short-term sales objectives rather than profits.

<u>Competition driven</u>.
Amounts to using price within a game theoretic framework for strategic advantage.

<u>Value Based</u>.
Amounts to understanding the value created and then maximising its capture.

Pricing Strategies

Cost Plus.
Am
cos ... ut
rare

Customer Driven.
Amounts to using price to achieve short-term sales objectives rather than profits.

Co
Am
game theoretic framework for strategic advantage.

More and more academic research in this area.

Value Based.
Amounts to understanding the value created and then maximising its capture.


fresh
POP CORN
DELICIOUS
fresh
POP CORN
DELICIOUS
CRISP

The butter costs more than the corn and the paper bag/cup it comes in costs more than both together.

Value = Benefits - Cost

REMOVE COST OR ADD VALUE?

Remove Cost

- Machine Translation
- Workflow
- Translation memories
- Volume
- Off shore PMs
- Portal
- Reverse auctions and other horrors

Limited by the amount of cents in the Euro.

Add Value

- Integrated services
- Increased complexity
- Key account management
- Value delivery
- Consultancy
- <u>Innovate your pricing model</u>
- DON’T commoditise your own product

Limited by your creativity.