

Know Your Numbers Drive Your Business



Profitability and the 5-Line Income Statement

The 5 Drivers of Profitability

Every element in the 5-Line Income Statement includes levers you can pull... *if you know how*



Your levers

Revenue

- Optimize production quantity, quality, price
- Focus on price per unit

Variable Costs

- Optimize inputs, labor, systems
- Focus on cost per unit

Fixed Costs

- Choose intentionally *(once set, hard to change)*
- Focus on incremental savings



Know your numbers

Gross Margin = **Gross Profit** ÷ **Revenue**

Net Margin = **Net Profit** ÷ **Revenue**



Example gauges – How do you compare?

Gross Profit Margin (Efficiency)

Low Moderate High
<25% | **25-50%** | **>50%**

Net Profit Margin (Efficiency)

Low Moderate High
<7% | **7-15%** | **>15%**

Important Note: Illustrative sample ranges only. Margins vary significantly by industry, business model, geography and other factors.

Quick Check

- | | |
|--|---|
| ☐ Do I know my margins? | ☐ Where can I gain efficiency? |
| ☐ Are they improving over time? | ☐ Are final products or inputs wasted? |
| ☐ What drives my costs? | ☐ Where should I focus? <i>(start with one or two)</i> |

5-Line Income Statement

Revenues

– **Variable Costs** *(Cost of Goods Sold)*

= **Gross Profit**

– **Fixed Costs** *(Overhead)*

= **Net Profit**

Important!

Avoid unsold final product and wasted inputs to increase profitability

Your operation's levers of profitability

	Top Categories	Goal	Control Levers
Revenues		 <i>per unit</i>	
Variable Costs		 <i>per unit</i>	
Fixed Costs			

Where do final products or inputs go to waste?	Can I reduce waste in any areas?

How frequently do I review my numbers?	How frequently should I review my numbers?

Where should I focus? <i>(start with one or two)</i>	What's my next step?

Resources

- Talk with your AgWest Relationship Manager
- AgWest Peer Financial Benchmarks
- AgWest Financial Management education resources *(videos, templates and more!)*

Focus on trends over time and comparison to similar operations.

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