I constantly receive emails and telephone calls from numerous clients and readers of my newsletter indicating that;

- Retail diesel prices shot up, again; help!
- "Several week ago, we experienced a 15.5¢ a gallon increase in fuel", and;
- It's impossible to pass the fuel surcharge on (quick enough) to catch up with the escalating cost of diesel fuel.

What can I do? How can I control my cost and still make a profit when things, such as the cost of diesel fuel, is beyond my control? This is a very valid question and there is no easy answer.

Diesel costs have risen 14 straight weeks since it's November 29 price of $3.162 a gallon to over a 96.7¢ a gallon increase since last year at this time. Crude oil reached $105.44 a barrel on March 7, 2011 and it doesn't appear there's any "light at the end of the tunnel".

The Kiplinger Report has indicated that crude oil will approach $110 a barrel by the summer driving season. Tough times are leading more fleets to retreads?

Additionally, I received many telephone calls stating; "why, when sales go up, do my profits go down?" I thought about his question for a long time, and then I recognized that profits are probably the most misunderstood quantity of running a business; **because there are so many ways to calculate profits.**

Profits equate to cash in the bank; it's something that's left over after paying Uncle Sam. However, restated another way, profits must be the first item of expense. When a company budgets their expenses, many times, profits are so unimportant that they do not budget for them. **As owners, we must recognize that running a successful business means that profits must be your first item of expense.** Can you control fuel spikes? No! **But, there are certain things that you can do to control fuel cost.**

1. Implement a driver accountability program-when speeds go up, fuel costs go up.
2. When speeds go up, maintenance and time costs go up.

So, implement a pro-active program to:

- Reduce driver fuel abuse;
- Reduce maintenance costs;
- Monitor time pressure, and;
- Monitor out of route miles;

The speed of a truck and the attitude of a driver can cost/save your company fuel dollars. All of the above are components of controlling fuel costs.

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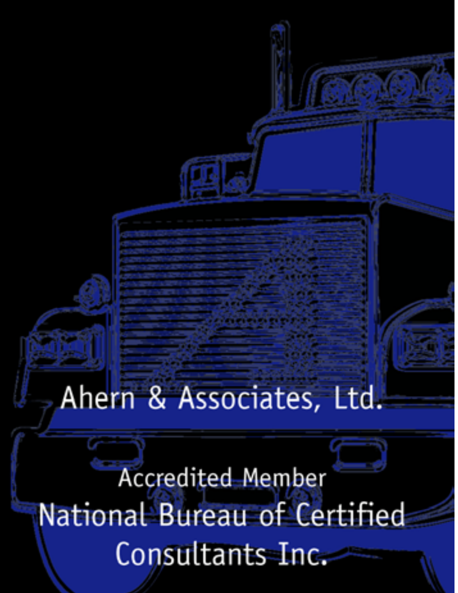
Improve Profitability



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April 8, 2011

My point, you can control certain internal expenses. When times are tough, you need to focus on expense reduction. I always advise my clients that; to find hidden profits, you must do a financial review of your expenses for the last 3 years.

I have found many clients have improved their profits by 15% - 20% or more, just in this one step. It's so simple, yet many business owners don't apply these principles. **Step 1** is to review your profit and loss statements for the current interim year and the previous 3 years;

- These statements should have your expenses broken down extensively, and;
- They need to be very similar expenses, so that you can make a comparison across the board from year to year.

Next, you need to make a table with these figures;

- **On the left hand side**, write total expenses.
- **Below revenues,** list the expenses that your company incurs.
- **Under the expenses**, have a total expense item;
- **Below that**, income (or loss) before taxes.
- **Then**, provision for taxes.
- **Net** income (loss).
- **Retained earnings**; beginning and ending.

This is your first table.

You will now make four other columns;

- Second year;
- Third year;
- Fourth year with columns of the previous years from your profit and loss statements.

However, for each expense item, you need to calculate the percentage of revenue that each expense costs. For many of you, your current software system should be able to provide these figures to you, automatically.

Step 2: this is where you make the comparison. This requires table 2. **Again, list all of your expenses on the left side of the table. At the bottom of the column, add revenue at 100%.** This is a dollar figure of, either your average revenues, or an interpretation of a figure as the total revenues for a hypothetical year. **You will want a total item, an optimal return item**, a percentage of revenues item, total cost item and a profit before taxes item; **in all of the columns**.

The balance of the table will have 3 columns. What this is going to show you is over a 3 year period, each expense item had a particular year when it was at its lowest, as a percentage of revenue. **The second table will illustrate what the expenses were for each of the lowest years.**

The intent of this exercise is to get your mind in motion! You need to ask yourself some "hard nose" questions. **The first question must be;**

1. Your company achieved low expenses once, why can't you do it again?
2. Why couldn't the lower expenses be duplicated?

If you do this exercise properly, your profits should increase. This is what; I refer to, as controlling expenses. **Of course there are always things such as fuel that will throw an expense item totally out of whack**, in any given year. **However, there is not anything that will throw each and every expense out of whack, the year it was the lowest.** For example; when the market started to change, why did many companies lose money? **In many instances, they didn't adjust their expenses to their revenue quick enough.**

I have clients that improved their profits by 15% - 20% or more without increasing their revenue. They did this by controlling their expenses.

As fuel continues to spike, what you need to do is a review of all your expenses for the previous 3 years;

- Make sure that they're detailed expenses.
- Compare them to your current expenses, and;
- **Begin setting expense controls for the next time period** – that time period can be one year, 6 months, or a quarter, based on your lowest percent expense year.

Make it known to all of your managers what you're doing. Bring them into the calculations; let them set the new budget limits, again based on the lowest year. **Involve your managers in determining why that expense was lowest in that particular year and how it can be duplicated.**

In closing, in many of the reviews I conduct for my clients, the first question I always ask the owner of the company is; "do you make profits your first item of expense?" You would be surprised the answers I receive!

The best analogy I can provide is; think of a large circle, cut into a whole pie with the whole pie being total expenses;

- All the expense pieces must add up to less than 100% of revenue, and;
- **When this exercise is done actually or mentally, the first item in the pie expense must be a percentage for profits.**

Why is this important? We expense out a percentage for payroll, rent, insurance, cost of goods; in fact, all of our expenses. **Why we neglect to expense out our profits, in the beginning,** mystifies me, but it happens all the time.

Next week, I will discuss what your financials tell you and what to look for as part of expense reduction.

QUOTE OF THE WEEK: "Goodwill is the one and only asset that competition cannot undersell or destroy" **(Author: Marshall Field)**