

The Final Score - The Big 3

How Profit, Cash and Equity give an honest assessment of your business

Do you want your business to make money? Or to ask another way, do you NEED your business to make money? The answer for most of us is, YES. Despite a long list of reasons we may love what we do, making money is one of those important elements of a business that allows us to continue operating that business.

Like most sports teams that can look up at the scoreboard at the end of a game to assess their performance, we can do the very same in our business.

Hit these 3 numbers consistently and you will have a business that will continue to thrive and provide growth and opportunity for yourself and others. Miss these 3 numbers consistently and they are a sign that your business is failing and adjustments may need to be made.

The Big Three

Profit

DID YOUR BUSINESS
MAKE MONEY

Cash

DOES YOUR BUSINESS
HAVE MONEY

Equity

IS YOUR BUSINESS
GROWING IN VALUE



Profit

Profit, simply put, is all of the money left over after everything has been paid for. Some people define profit different ways. See below for examples of profit in building:

Gross Profit = Total Revenue minus Cost of Goods Sold

(How much did you sell the home for vs. how much did it cost to build)

****TARGET GROSS PROFIT - 25-27%**

Net Profit = Total Gross Profit minus Expenses/Overhead

(How much profit is left over after ALL costs associated with running the business)

****TARGET NET PROFIT - 10-12%**

10% NET PROFIT

SALES REVENUE – 100%

COGS – 75%

GROSS PROFIT – 25%

OVERHEAD – 15%

NET PROFIT – 10%

15% OVERHEAD

SALES/MKTG – 6%

FINANCING – 2.5%

GENERAL ADMIN – 2.5%

PAYROLL – 4%

**The numbers provided above are not universal and applicable to ALL businesses, but serve as a guide for average industry standards of gross profit, overhead, net profit for builders across the country.



Cash

Cash, simply put, is how much money you have in the bank. There are profitable businesses that struggle to survive because of poor cash management. Cash is the lifeblood of your business and must be managed and maintained well to run a successful business.

Cash Sources - Future closings, commissions, rebates, etc.

(How much cash will come back to the business at closing after loan payoffs, commissions, final job invoices and closing costs)

Cash Uses - Overhead, lots, equity requirements, etc.

(How much cash is being used to run the business operations, as well as bank equity requirements, lot takedowns.)

Assess current cash position against future cash sources and cash uses to project monthly cash balances in the coming months. Review these cash projections with CFO and Leadership Team and build strategy accordingly.

****TARGET CASH BALANCES - 3-6X MONTHLY OPERATING EXPENSES**

(While this will vary from one company to the next, it is wise to maintain a minimum of 3x cash reserves)

Equity

Equity, simply put, is total assets minus total liabilities, or how much net worth/value you have in your company. A healthy company should see this number grow year over year, signaling a company that is growing in value. A struggling company will make just enough money to cover expenses (a glorified job) and will not have profit left over after all expenses are paid. This company will never increase in equity or net worth.

**Profitable
Company**

INCREASING VALUE

OR

**Glorified
Job**

BREAKEVEN BUSINESS



The Big Three - Profit, Cash & Equity

A few questions to consider:

PROFIT: What was your gross profit for each of the last 3 years? How about total overhead and expenses? How about net profit? What is a reachable goal for net profit next year? What steps will you need to take now to get there?

CASH: What is your current cash position? Do you have a cashflow spreadsheet that analyzes future cash sources and cash uses to project month by month cash balances? How often are you using this as a tool with your leadership team?

EQUITY: Determine your year end equity position on your year end balance sheet for each of the last 3 years. Is that number increasing or decreasing each year? What steps can you take to increase equity in your company?



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- NOTES -

