|  |  |  |  |
| --- | --- | --- | --- |
|  | Example 1 |  | Example 2 |
| Sales |  | Sales |  |
| Cost of Sales |  | Cost of Sales |  |
| Gross Profit $ |  | Gross Profit $ |  |
| Gross Profit % |  | Gross Profit % |  |
| Variable Costs |  | Pay yourself (profit) |  |
| Fixed Costs |  | Variable Costs |  |
| Profit (What is left over) |  | Fixed Costs (What is left to spend) |  |
|  |  |  |  |
|  |  |  |  |



PAY YOURSELF FIRST – WORKSHEET

How you run your business will dictate how successful you are. When it comes to controlling cost and spending, there are two different financial models that you can use. One will lead to more $$$ in your pocket, one will lead to more $$$ in other people’s pockets. Which one are you currently using?

**Example 1** leads to owners working hard in their business and paying everyone else but themselves. The 1st 5 years of business rarely ever shows a profit because less focus is given on financial discipline.

**Example 2** leads to owners getting paid for the work they do and uses cost cutting initiatives to control spending in order to PAY YOURSELF FIRST.

Take a closer look…..

Fill in the numbers below with your business information to identify how you can start paying yourself first. You can choose to do this exercise for either one month, one quarter, or one year. (Definitions follow)

1. What costs can you put behind paying yourself?
2. What costs can you TRULY afford?
3. Calculate how much sales your company needs to pay yourself.

(from example 2, take your “Pay Yourself” amount and divide it by your gross profit %).

For example, if you sell $10 and your cost of sales is $8 to produce that sale, then your gross margin is $2 or 20%. If you want to pay yourself $7,000, then you will need to sell $35,000 worth of products/services. $7,000/0.20 = $35,000.

Calculate your PAY YOURSELF FIRST sales number now.

Amount you want to pay yourself $\_\_\_\_\_\_\_\_\_\_\_ (A)

Your gross profit %\_\_\_\_\_\_\_\_\_\_\_\_\_\_(B)

Your breakeven sales amount just to PAY YOURSELF FIRST \_\_\_\_\_\_\_\_\_\_\_\_\_\_(A/B)

1. Is this what you expected? Was it higher? Lower?
2. How much more in sales do you need in order to pay your variable costs? Your fixed costs? Once you understand how hard you have to work for your sales and how much sales $$$ it takes to cover your costs, it is becomes easier to start working smarter vs harder.

# Definitions

**Sales** – This is how much you invoice your customers for the selected period. It does not have anything to do with how much your customers paid you during that period. It represents what goods/services you have provided to your customer and therefore results in you recognizing that $$$ as being earned.

**Cost of Sales**- These are the costs that directly correlate with you providing your goods/services to your customers. Cost of sales will fluctuate based on volume of sales. As a successful business, you should have a good handle on how much your material costs and/or labour costs are as a percentage or $/unit of your sales. You should always be looking for ways to be more efficient and revisiting the quality/cost component of your goods/services.

**Overhead (Variable)-** These are costs (not directly related to what you sell), but they also fluctuate based on volume of what you sell or how big your business is. Examples of variable costs might be marketing, payroll, gas, professional etc. For these costs, you need to be able to budget for them as your sales volumes fluctuate. You don’t want any costs surprises.

**Overhead (Fixed)-** These are your flat monthly costs that stay the same each month no matter what your sales volume is. Watch out for long term commitment costs like rent or vehicle leases that seem OK when your business is doing well, but that could really eat into your pocket book if your sales volume decreases but you still have to fork over for these committed costs. These are usually the costs that you can cut back on (ie work from home vs rent an office, pay an employee a km allowance vs sign a long-term vehicle lease. Pay particular attention to discretionary costs like, meal & entertainment, golf, travel, education, bonuses, memberships, employee gifts etc. These are the items that you should be cutting back on if once you have paid yourself, there is less money to spend on these items.

**Gross Profit**- This is the money you earn directly from selling your products and services.

**Profit**- This is the money you earn at the end of the day once everyone and everything has been paid for.

**Cash in Bank**- Just for clarification, cash in the bank represents a timing difference between money coming in from sales and money going out for costs to produce that sale as well as your fixed and variable costs. Cash in the bank does not mean that your company is making a profit. However, cash is the blood flow of your business and without it, your business is at risk. You should always have a cash reserve on hand in your business to mitigate any unexpected costs or timing differences in cash flow.

For more information on this subject matter, or if you would like a free consultation on how you can PAY YOURSELF FIRST, please contact me at 403-992-7261 or belynda@roadmaptoprofit.com.