



## How To Track Your Bottom Line Numbers

*The foremost rule to financial business success is developing a strong cash flow model.*

**By Ron Sorci**

OVER THE YEARS I HAVE WORKED WITH companies of all sizes in our industry. I've seen various approaches to how owners study their financial results. The levels at which they are studied vary dramatically. In this column, I will highlight some of the key benchmarks to look at during the review.

I am a strong advocate of surrounding yourself with smart, dedicated, and loyal employees in every department. This will help drive the positive financial results you desire.

### Reports To Review

Assuming you've attracted a talented team, are they achieving the profit margins you strive for?

To answer that question, you should be reviewing many reports, some daily and others monthly or quarterly.

Success stems from a strong cash flow model. This report will not only tell you if you are on course for positive finances, but also serve as major criteria to a potential buyer when you decide to exit your business.

Buyers and lending institutions study a company's cash flow more than any

other financial component.

I suggest building a foundation of financial reports and have them evolve into a working tool that enables you to make intelligent near-term decisions while giving you insights on anticipated long-term decisions ahead.

### Expenses

To establish a reasonable goal, let's use a 65% cost of goods sold number, which represents all direct expenses to run your fleet against your revenue base. Such expenses include non-officer salaries, payroll taxes, health insurance, perks, vehicle leases and vehicle depreciation. It also includes repairs and maintenance, GPS, credit card fees, commissions, workman's comp, and all expenses associated with chauffeurs and vehicles.

The next grouping is general and administrative expenses. That total should not exceed 25% of revenue. Such expenses include officer salaries, payroll taxes, perks for the officers, rent, telephone, advertising and marketing, travel and entertainment, professional fees, etc.

Therefore, if your budget (yes, you must have one) reaches the 65% and 25% levels, your pretax profit margin will reach 10%.

### Metrics

To monitor whether you are meeting all of the goals stated above, you should review:

- Cash flow report – daily
- Profit by vehicle report – should list every expense associated with determining whether the revenue is generating a profit by vehicle and also by vehicle type. This report will produce calculations showing which type of vehicle generates the highest profit. You will then be able to focus your marketing on that business segment. The report should be generated monthly and year-to-date numbers calculated as well.
- Income Statement, Balance Sheet and Cash Flow report – monthly
- Line-by-line comparison of all revenue and expense categories between current period and same period last year.
- Budget line-by-line comparisons and examination of all significant variances between budget and actual results.
- A review of your balance sheet, examination of all debt, and decisions on how to reduce or consolidate such debt.
- Consider sending out RFP requests to all vendors to reduce expenses. Every dollar saved will flow into profit. Also consider a barter arrangement with some vendors to lower cost.
- Examine all bank lines of credit and vehicle leases to lower interest rates going forward.
- Study and evaluate credit card fees. Are your discounts in line, and are you paying too much in fees?

Although many owners focus on the top line (revenue) and operational aspects of their companies, every expense line deserves close attention.

The above reports are a sample of the countless tools available to manage your business. A concentrated and consistent effort in managing your business finances will not only help you reap benefits today, but will someday help you exit the company when ready. **LCT**

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