

Operational Financials

Are you flying blind?

Do you know your business's numbers?

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What numbers are you using?

Starting out

Operate out of a checkbook -
Checkbook financials

File business taxes

Tax accounting financials

Running your business

Operational financials
Real time, data driven
Know your numbers

Restaurants

Prime Costs

Food & Beverage purchases, Labor

Plate Costs

Total cost of the menu item

You start your business



Put money into a checking account



Checks, debit card, perhaps a credit card and your company is on its way!

Tax Accounting Financials — Lack actionable detail, not timely

Corporation Income Tax Return 1120, 1120c, 1120s

Then comes the time to file your taxes, you hand your accountant:

- 1) Shoe box of receipts
- 2) And/or bank and credit card statements

1120		U.S. Corporation Income Tax Return		OMB No. 1545-0023	
Form Department of the Treasury Internal Revenue Service		For calendar year 2019 or tax year beginning _____, 2019, ending _____, 20 _____		2019	
		Go to www.irs.gov/Form1120 for instructions and the latest information.			
A. Check if:		Name		B. Employer identification number	
1a Consolidated return (attach Form 991)		TYPE OR PRINT		C. Date incorporated	
b Life/monthly consolidated return				D. Total assets (see instructions)	
2 Personal holding co. (attach Sch. PH)					
3 Personal service corp. (see instructions)		City or town, state or province, country, and ZIP or foreign postal code		E. Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change	
4 Schedule M-2 attached <input type="checkbox"/>					
Income	1a Gross receipts or sales	1a			
	b Returns and allowances	1b			
	c Balance. Subtract line 1b from line 1a			1c	
	2 Cost of goods sold (attach Form 1125-A)			2	
	3 Gross profit. Subtract line 2 from line 1c			3	
	4 Dividends and inclusions (Schedule C, line 28)			4	
	5 Interest			5	
	6 Gross rents			6	
	7 Gross royalties			7	
	8 Capital gain net income (attach Schedule D (Form 1120))			8	
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9	
10 Other income (see instructions attach statement)			10		
11 Total income. Add lines 3 through 10			11		
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (see instructions attach Form 1125-E)			12	
	13 Salaries and wages (less employment credits)			13	
	14 Repairs and maintenance			14	
	15 Bad debts			15	
	16 Rents			16	
	17 Taxes and licenses			17	
	18 Interest (see instructions)			18	
	19 Charitable contributions			19	
	20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			20	
	21 Depletion			21	
	22 Advertising			22	
	23 Pension, profit sharing, etc., plans			23	
	24 Employee benefit programs			24	
	25 Reserved for future use			25	
	26 Other deductions (attach statement)			26	
	27 Total deductions. Add lines 12 through 26			27	
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.			28	
29a Net operating loss deduction (see instructions)	29a				
b Special deductions (Schedule C, line 24)	29b				
c Add lines 29a and 29b			29c		
30 Taxable income. Subtract line 29c from line 28. See instructions			30		

Tax Accounting Financials — Lack actionable detail, not timely

Form 1125-A (Rev. November 2018) Department of the Treasury Internal Revenue Service		Cost of Goods Sold ▶ Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065. ▶ Go to www.irs.gov/Form1125A for the latest information.		OMB No. 1545-0123	
Name				Employer identification number	
1	Inventory at beginning of year	1			
2	Purchases	2			
3	Cost of labor	3			
4	Additional section 263A costs (attach schedule)	4			
5	Other costs (attach schedule)	5			
6	Total. Add lines 1 through 5	6			
7	Inventory at end of year	7			
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return. See instructions	8			

- 1) Accountants lump all purchases into 1125-a #2 PURCHASES
 food, supplies, bathroom,....
 Sometimes if you have it broken out might be itemize on
 1120 line #26
- 2) Typically the accountant will take your payroll for the year and
 lump it into 1120 line 13 "Salaries and wages", do need to
 breakout officer salaries
- 3) No detail of your prime costs
- 4) Done once a year, and six months after the fact

Know your numbers

Much like flying a small plane in clear weather, you have instruments but you really don't use them.

Follow the rivers, interstates, altitude not a problem.

You know O'Hare is to the west of downtown Chicago.

No worries. Just cruising along.

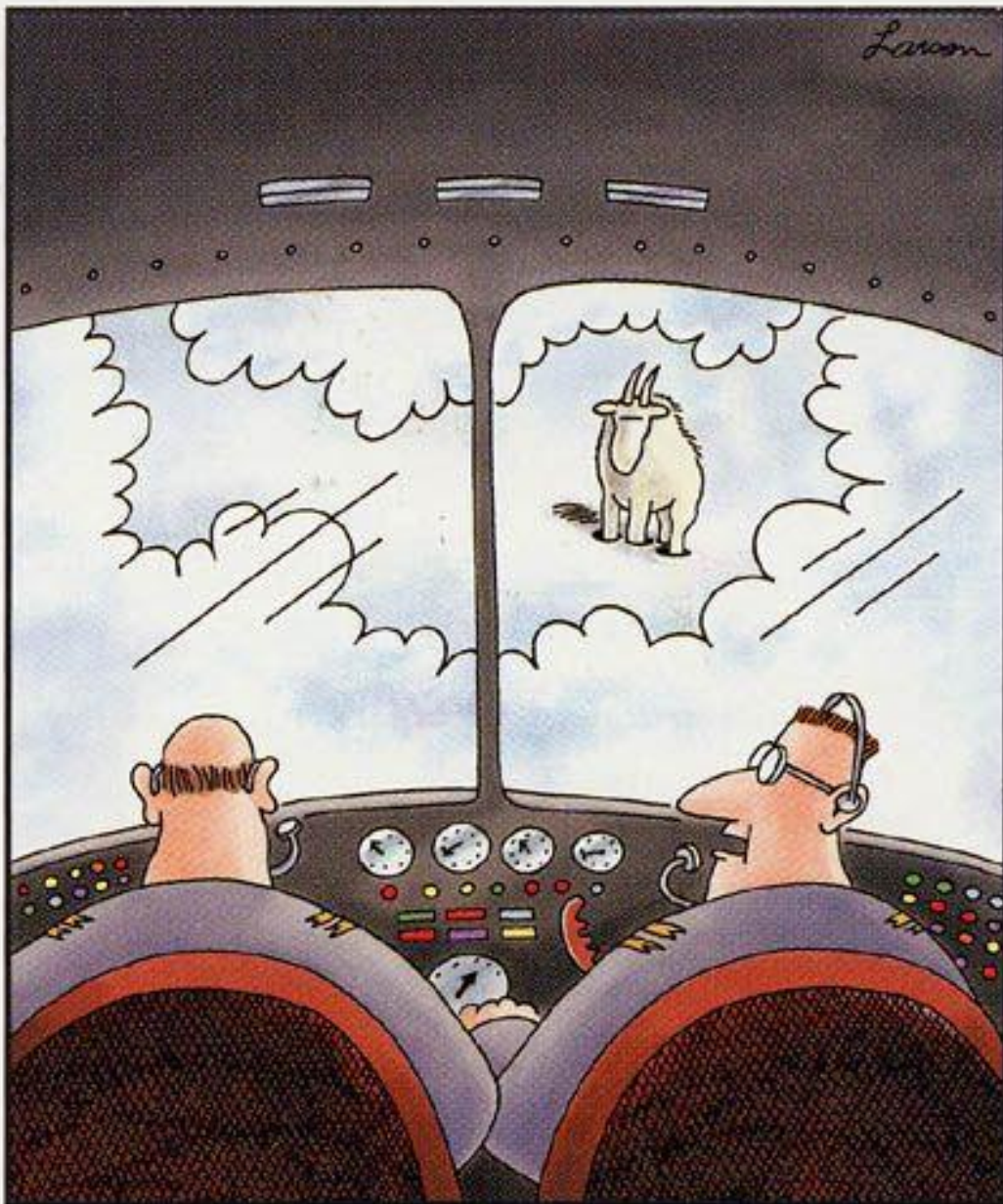


Know your numbers

But then the fog rolls in and it becomes a white out.

Suddenly you are **flying blind**.

Running your business without knowing your numbers,
is like **flying blind**.



"Say ... what's a mountain goat doing
way up here in a cloud bank?"

Operational Financials

Operational Financials are the timely financial details you need to know to operate your business.

Start your business; you are working out of a checkbook. End of the year, you hand your accountant a shoebox full of receipts and a bank statement. A couple of weeks later, the accountant hands you a tax return to sign and look to see if you made any money last year. He tells you depreciation and amortization are noncash items, so removing them, cashwise, you made a little money.

Are my menu prices too low? Are my servings too large? Did I spend too much on labor? Could I afford the raise I gave my #2? Did I pay too much for my food purchases? Too much given away to third party services? A) the tax return is six months too late to make changes, and B) not enough detail to know what to change.

The tax system is not intended to be the tool to run your business. This was brought to light in the late eighties with the advent of Activity Based Costing (ABC). ABC directed us to more precisely appropriately allocate the activities that went into making a product or service, the cost of goods sold (COGS). In a restaurant setting, your labor and food purchases make up some 2/3 thirds of your expenditures of the business. Plus, these two elements are controllable. Don't have a lot of control over the amount of rent you pay, but you can manage your food cost. Find a less expensive source, buy in larger quantities at a discount, perhaps lesser quality, substitute product, don't serve as much on the plate are some of the options.

Operational financials are timely and zero in on the critical elements to control your business. Often called your KPIs, key performance indicators. To be a successful entrepreneur, you need to know your numbers. Have to be able to know where to spend the money that it will count the most. To be able to have the data available to you to know if your decisions are resulting in profitable business. Not knowing your numbers, you are flying blind.

We start with all the variable costs that go into producing a product or service, typically materials and direct labor. Materials consumed would be your purchases for the period plus or minus the change in inventory. Direct labor would be the labor related to producing the product or service. Including the fringe benefits. Typically this would be the payroll less the non-direct labor employees (office staff, owners, sales, distribution, etc.)

Revenues less COGS (materials and direct labor) would give you your gross profit. Typically these elements are controllable and with timeliness very effective in managing the profitability of your business.

Operational Financials

The expenses to operate the business, commonly referred to as SG&A (Sales, General & Administrative) expenses comprise of activities like sales and marketing that are not part of the direct activity of producing a product or service. General overhead like depreciation, rent, utilities, cleaning supplies, laundry services, etc. In the short term, these expenses are considered fixed. Administrative expenses like insurance, paying interest on loans, professional fees, owner or executive salaries.

The attached chart shows the average wage at one restaurant went from \$10.50 an hour to over \$14.00 per hour, a 33% increase. With labor at a 30% number and it increases 33%, that would mean the restaurant would have to raise menu prices 10%, be more productive, and/or reduce staff just to break even.

In a 2016 embezzlement survey by HISCOX, a specialty insurance company, 80% of embezzlements occurred at small companies. At restaurants, food goes missing out of the walk-in, drinks are over poured at the bar, waiters give away free food to get bigger tips, the list goes on. Knowing and tracking your numbers provides you the data to spot shrinkage in your operations.

Operational Financials - P&L

INCOME

\$ 100,000 100%

Cost of Goods Sold (COGS)

Purchases - materials going into product \$ 45,000 45%
 Raw materials, including changes in inventory
 Supplies
 Packaging, freight in

Direct Labor - making product or service \$ 20,000 20%
 All payroll expenses (including benefits) of those producing

Total COGS: what it actually costs to make product or service **\$ 65,000** 65%

Gross Profit \$\$\$ & % to sales

\$ 35,000 35%

Sales, General and Administrative Expenses (SG&A)

Sales \$ 5,000 5%
 Advertising and promotion
 Internet & marketing
 Sales people, commission
 Travel entertainment
 Distribution

Administrative \$ 10,000 10%
 Officer and other office salaries
 Licenses, dues, subscriptions
 Insurance
 Interest & Financing, CC expense

General Overhead \$ 12,500 13%
 Office expenses & supplies
 Indirect labor, other contractors
 Monthly services
 Computer, phone, internet
 maintenance & repairs
 Depreciation (noncash expense)
 Occupancy (rent, utilities)
 Office
 Manufacturing

Total SG&A: **\$ 27,500** 28%

NET OPERATING INCOME

\$ 7,500 8%

other income and expenses

EBITA (Earnings before interest, taxes, amortization)

\$ 7,500 8%

Cash from operations
 Contribution

Breakeven = Fixed expenses divided by gross profit %

Restaurant - Operational Financials

Typical Restaurant (full service)

Cost Structure

	<u>% Revenue</u>	
Food	30%	
Labor	35%	rising with min wage
SGA	10%	
Supplies	7%	
Occupancy	12%	
(rent & util)		

=====

Net Profit 6%

Prime Costs

Food (30%) & Labor (35%) full service restaurant
Quick Service Restaurants (QSR) labor is closer to 25%
Totaling some 65% of revenue
Variable and controllable
Rent & salaries are not controllable

Breakeven

What sales level do I need to start making money?

Breakeven = Fixed Costs divided by Gross Profit %

Restaurant - Operational Financials

What period to track over?

- 1) Taxes are 12 months of numbers and typically not available to you until four months after the fact
Way too late!

2) Monthly?

Better

Typically weekends are substantially high revenue then during the week

Jan 2020 4 weekends

Feb 2020 5 weekends

Mar 2020 4 weekends

Apr 2020 4 weekends

May 2020 5 weekends

Jun 2020 4 weekends

And this changes each year.

Comparing May 2019 had four weekneds , 2020 has five

If you are running high labor because three weeks ago you had overtime,
if you remembered, again **too late**

3) Weekly

Monday through Sunday

Collect bills , revenue, labor hours on Monday, review with everyone on Tuesday

Fast correction of labor hours, purchasing

Keep it easy to collect data

Then add precision to it by tracking actual payroll every two weeks

Add to it your weekly food purchases numbers

Grassroots on Southport

Gross Payroll & Hours

Period End	Dept 100 Back of Hse										Dept 200 Front of Hse				PR Taxes			Total		Total		BOH%		Total		Variance			
	Reg Hrs*	Reg \$	OT Hrs	OT \$	BOH Hrs	BOH \$	Reg Hrs	Reg \$	OT Hrs	OT \$	FOH Hrs	FOH \$	HRS	Paid		EXP	Net Food \$	3net Rev\$	Food Rev	Labor %	Food buy	Food %	+/- budget	Prime %	6 Week				
														Tax															
4/14/2019	605	\$ 8,662	10	\$ 202	615	\$ 8,864	13.66	281	\$ 1,858		281	\$ 1,858	896	\$ 1,038	\$ 11,760		\$ 16,052	\$ 23,494	59.5%	50.1%	\$ 5,328	33.2%	37.2%	\$ 191	79%	90%			
4/28/2019	636	\$ 9,063	10	\$ 206	646	\$ 9,269	13.63	317	\$ 2,099		317	\$ 2,099	963	\$ 1,374	\$ 12,742		\$ 16,705	\$ 24,019	60.9%	53.0%	\$ 5,598	39.5%	36.8%	\$ 1,252	87%	86%			
5/12/2019	643	\$ 9,213	10	\$ 207	653	\$ 9,420	13.73	309	\$ 2,108		309	\$ 2,108	962	\$ 1,348	\$ 12,876		\$ 17,652	\$ 24,823	58.4%	51.9%	\$ 5,357	30.3%	35.2%	\$ (292)	79%	84%			
5/26/2019	630	\$ 9,017	1	\$ 24	631	\$ 9,041	13.59	261	\$ 1,717		261	\$ 1,717	892	\$ 1,241	\$ 11,999		\$ 15,924	\$ 22,811	61.9%	52.6%	\$ 6,538	41.1%	35.0%	\$ 1,442	87%	82%			
6/9/2019	579	\$ 8,315	2	\$ 30	581	\$ 8,345	13.55	276	\$ 1,829		276	\$ 1,829	857	\$ 1,171	\$ 11,345		\$ 14,068	\$ 20,514	64.8%	55.3%	\$ 6,279	44.6%	35.9%	\$ 1,777	92%	84%			
6/23/2019	603	\$ 8,675	15	\$ 308	618	\$ 8,983	13.81	279	\$ 1,842	4	51	283	\$ 1,893	901	\$ 1,239	\$ 12,115		\$ 18,111	\$ 25,064	54.1%	48.3%	\$ 5,640	31.1%	36.3%	\$ (156)	76%	83%		
7/7/2019	553	\$ 8,062	2	\$ 37	555	\$ 8,099	13.78	275	\$ 1,817		275	\$ 1,817	830	\$ 1,052	\$ 10,968		\$ 13,160	\$ 18,773	66.8%	58.4%	\$ 5,811	44.2%	37.9%	\$ 1,600	95%	86%			
7/21/2019	574	\$ 8,392	4	\$ 74	578	\$ 8,466	13.89	306	\$ 2,203	2	21	308	\$ 2,224	886	\$ 1,119	\$ 11,809		\$ 15,020	\$ 21,752	61.3%	54.3%	\$ 5,886	39.2%	37.8%	\$ 1,080	88%	86%		
8/4/2019	638	\$ 9,285	4	\$ 84	642	\$ 9,369	13.92	269	\$ 1,808		269	\$ 1,808	911	\$ 1,138	\$ 12,315		\$ 16,185	\$ 23,104	62.5%	53.3%	\$ 5,108	31.6%	38.1%	\$ (71)	81%	87%			
8/18/2019	564	\$ 8,211	1	\$ 11	565	\$ 8,222	13.75	261	\$ 1,765		261	\$ 1,765	826	\$ 985	\$ 10,972		\$ 10,967	\$ 16,052	80.9%	68.4%	\$ 4,923	44.9%	38.4%	\$ 1,414	105%	90%			
9/1/2019	575	\$ 8,359	0	\$ -	575	\$ 8,359	13.75	279	\$ 1,882	3	42	282	\$ 1,924	857	\$ 1,082	\$ 11,365		\$ 16,722	\$ 23,654	54.3%	48.0%	\$ 5,921	35.4%	36.9%	\$ 570	79%	87%		
9/15/2019	608	\$ 8,795	9	\$ 176	617	\$ 8,971	13.82	276	\$ 1,858		276	\$ 1,858	893	\$ 1,108	\$ 11,937		\$ 15,828	\$ 23,938	61.3%	49.9%	\$ 5,897	37.3%	38.2%	\$ 832	81%	88%			
9/29/2019	561	\$ 8,166	3	\$ 22	564	\$ 8,188	13.71	271	\$ 1,838		271	\$ 1,838	835	\$ 1,055	\$ 11,081		\$ 15,108	\$ 23,280	58.8%	47.6%	\$ 5,480	36.3%	37.0%	\$ 645	78%	85%			
10/13/2019	570	\$ 8,285	8	\$ 50	578	\$ 8,335	13.62	292	\$ 1,973		292	\$ 1,973	870	\$ 1,088	\$ 11,396		\$ 14,362	\$ 22,383	63.0%	50.9%	\$ 5,592	38.9%	36.9%	\$ 996	83%	85%			
10/27/2019	647	\$ 9,284	9	\$ 174	656	\$ 9,458	13.72	300	\$ 2,015		300	\$ 2,015	956	\$ 1,185	\$ 12,658		\$ 15,810	\$ 24,460	64.8%	51.7%	\$ 6,818	43.1%	39.0%	\$ 1,759	87%	86%			
11/10/2019	617	\$ 8,862	3	\$ 67	620	\$ 8,929	13.66	272	\$ 1,843		272	\$ 1,843	892	\$ 1,087	\$ 11,859		\$ 15,845	\$ 24,661	60.9%	48.1%	\$ 5,467	34.5%	37.6%	\$ 397	77%	81%			
11/24/2019	553	\$ 9,359	11	\$ 218	664	\$ 9,577	13.74	293	\$ 1,975		293	\$ 1,975	957	\$ 1,195	\$ 12,747		\$ 16,129	\$ 24,778	64.3%	51.4%	\$ 5,697	35.3%	37.5%	\$ 536	81%	81%			
12/8/2019	538	\$ 7,820	121	\$ 2,408	659	\$ 10,228	15.03	300	\$ 2,008	18	232	318	\$ 2,240	977	\$ 1,211	\$ 13,679		\$ 18,108	\$ 25,937	60.9%	52.7%	\$ 6,793	37.5%	37.6%	\$ 998	85%	82%		
12/22/2019	627	\$ 9,013	23	\$ 457	650	\$ 9,470	13.90	279	\$ 1,894	30	384	309	\$ 2,278	959	\$ 1,131	\$ 12,879		\$ 22,414	\$ 34,751	45.6%	37.1%	\$ 7,079	31.6%	36.5%	\$ (93)	65%	80%		

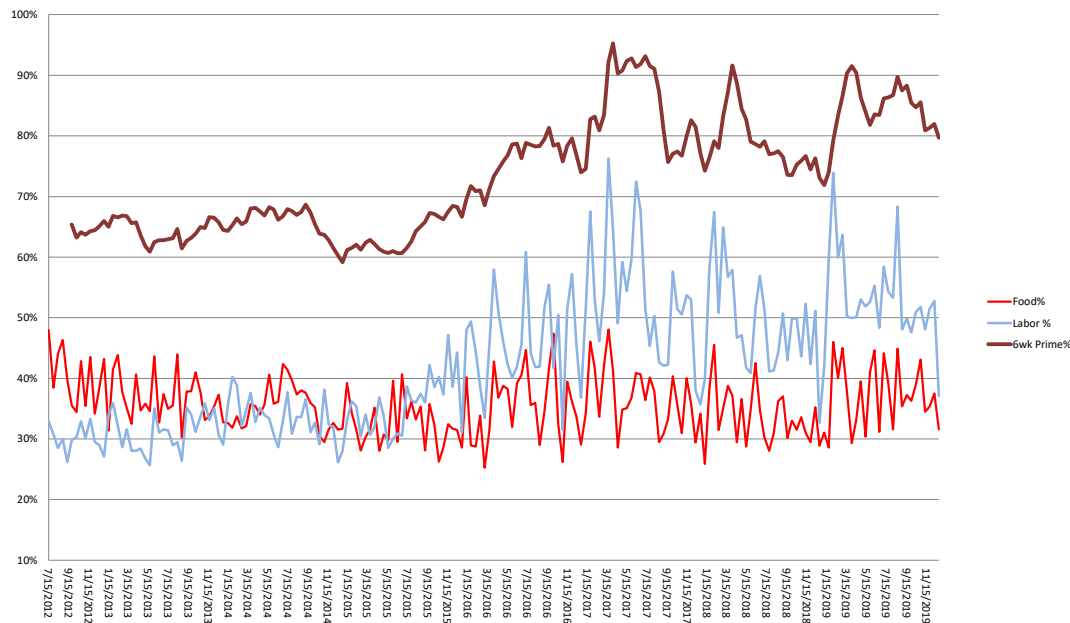
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6wkMA

liq@20%

6wk

Grassroots Prime costs
Food + Labor over Total Revenue

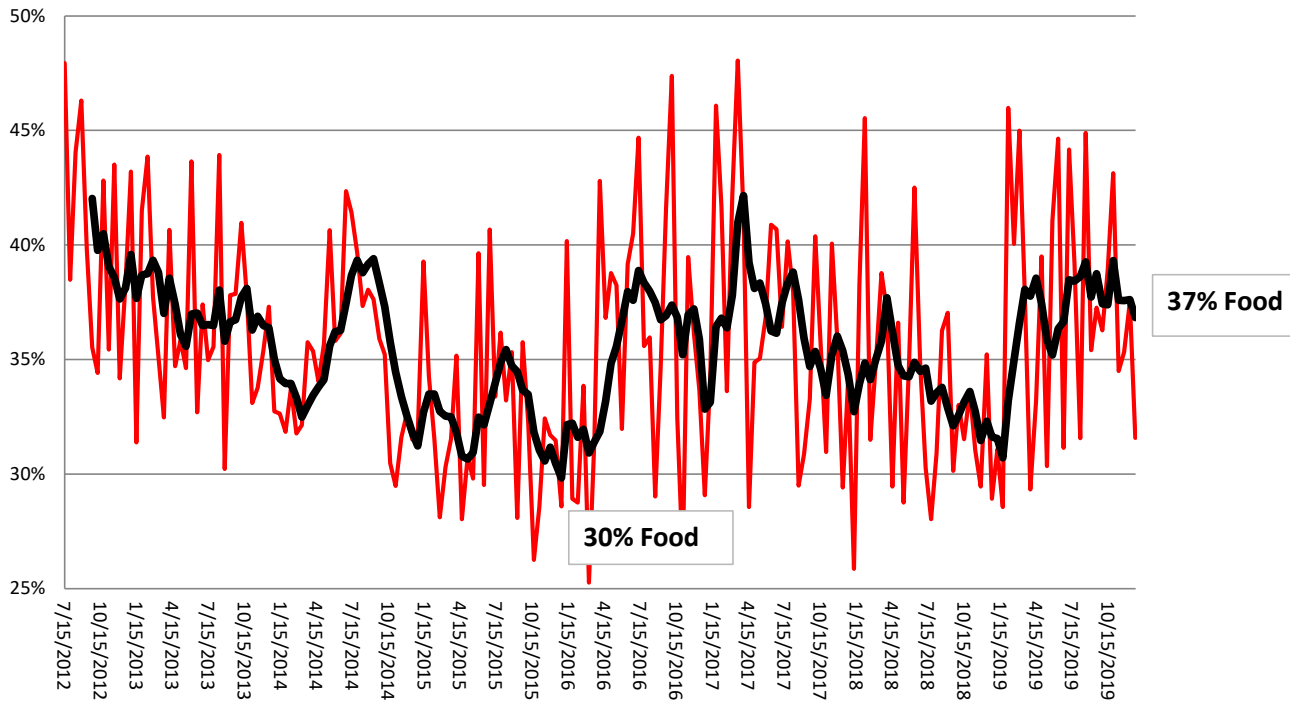


bi-weekly
tracking
with actual
payroll

Prime
Costs
6 week
moving avg

Grassroots Food Costs

Food Buy / Food Revenue
6 wk moving average



Restaurant Hourly average \$/Hr

