

PROFIT LEAKAGE IN PRIVATELY OWNED BUSINESSES

The Privately Owned Business Market

Our ongoing research shows that 9 out of 10 privately owned Businesses have profits that leak undetected. This adds up to an average of more than 10% of revenues.

We call this “Profit Leakage”.

How do these results affect you?

What is Profit Leakage?

Profit that is available to you now, from money that is already circulating in your Business.

Thexton Armstrong has identified 8 core areas where profits leak from in every Business.

- Pricing
- Cost Reduction
- Productivity
- Staffing Levels
- Debtors
- Stock Control
- Sales and Marketing
- Business Growth

Thexton Armstrong has developed its own Profit Leakage Calculator; a fast and effective way of determining where and how much profit and cash is leaking from your Business.

The Profit Leakage Calculator will help identify in your Business how much profit is leaking, which areas the profits are leaking from, and what can be done to fix it.

A Thexton Armstrong Business Consultant then works with you to recover those leaked profits, using our Business Success Programme. We can help you to make your Business stronger and more profitable so that you have a valuable asset for you and your Family.

Where does your business fit...? Rescue, Improve or Grow?

Rescue

- You feel like the 'WORKER' in your Business
- You're not earning much money
- Sometimes having to put more money in
- The Business is basically you
- Most time spent working IN the Business putting out fires
- Focus: Juggling Cash

Improve

- You feel like the 'OWNER' in your Business
- Your Business makes money but not enough
- Mostly have stable cash flow
- Well established Business 10+ years
- You'd like to have more time to work ON the Business
- Know that there are improvements that should be made to the Business
- Focus: Stability and Staff

Grow

- You feel like the 'DIRECTOR' of your business
- Your Business is making good money
- You have excellent cash flow
- The Team is running the Business
- You have time to work ON the Business
- Focus: Strategy and Planning

David Thexton, Managing Director of Thexton Armstrong;

"Our Consultants are meeting with Business Owners across Australia and New Zealand every day. They are seeing first hand how many opportunities are being missed to improve profitability and cash flow just from existing operations alone.

The results and conclusions of this study are based on 132 Profit Leakage diagnostic sessions with Small & Medium Size Business owners in New Zealand and Australia.

For many privately owned Businesses that are performing poorly, we find it's not the economy that is causing this, it's actually Profit Leakage."

Conclusions

Every single Business leaks profits!

Regardless of the Industry, size of the Business or state of the Business, we found Profit Leakage in every single Business we surveyed!

Determining factors

- The value of Profit Leakage is higher as the revenue of the Business increases (\$380,000 / 8%*).
- Profit Leakage as a percentage of revenue is higher within Businesses with lower revenues (\$115,000/16.6%*).
- The most Profit Leakage was identified within the Service industry (\$243,000 / 11.5%*)
- Profit Leakage was identified within Trade Businesses to be (\$143,000 / 10.6%*)
- The state of the Business has less of an impact on Profit Leakage as a percentage of revenue. However, Businesses in a "Grow" stage do show a lower Profit Leakage compared to Businesses in a "Rescue" situation. (\$150,000 versus \$ 200,000).

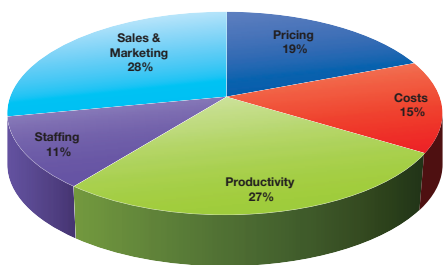
* percentage of Gross Revenue

Overall

Profit Leakage across the board averages at \$190,000 (11,5% of Gross Revenues)

The highest amount of Profit Leakage was identified within Sales & Marketing (\$54,000) and Productivity (\$52,000). The least amount of Profit Leakage was found in Staffing however on average this was still \$21,500.

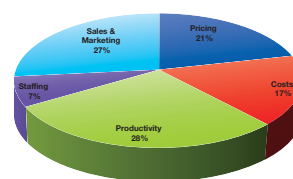
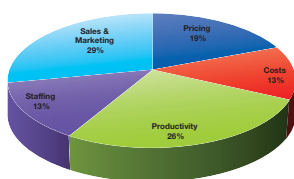
The Chart provides an overall insight into Profit Leakage in five key Profit Leakage areas.



Conclusion - every single Business leaks profits!

Regardless of the Industry, size of the Business or state of the Business, we found Profit Leakage in every single Business we surveyed!

The results broken down by industry, revenue and state of the Business.



1. Industry

Service

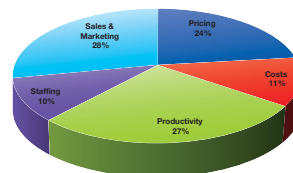
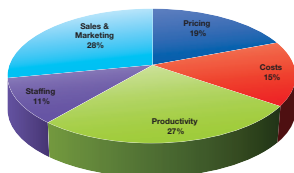
- Profit Leakage 11.5% of revenue
- Profit Leakage value \$242,000

Trade

- Profit Leakage 10.6% of revenue
- Profit Leakage value \$143,000

Production

- Profit Leakage 12.7% of revenue
- Profit Leakage value \$169,000



2. Revenue size

Average revenue \$ 4.6M

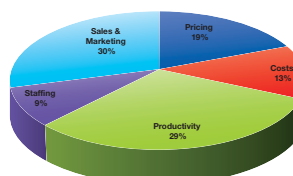
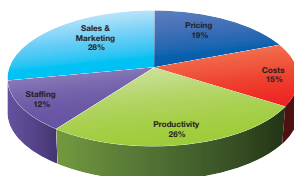
- Profit Leakage 8% of revenue
- Profit Leakage value \$380,000

Average revenue \$1.5M

- Profit Leakage 10.4% of revenue
- Profit Leakage value \$156,000

Average revenue \$700K

- Profit Leakage 16.6% of revenue
- Profit Leakage value \$115,000



3. State of the business

Rescue

- Profit Leakage 12% of revenue
- Profit Leakage amount \$200,000

Improve

- Profit Leakage 10% of revenue
- Profit Leakage value \$200,000

Grow

- Profit Leakage 13% of revenue
- Profit Leakage value \$151,000



**“Thexton Armstrong can help
you make your Business
stronger, ensuring it becomes a
valuable asset for you and your
family now and in the future.”**

Research notes and justification

This publication is based on Profit Leakage diagnostic sessions that were conducted in the course of 2011/2012 from 132 Small & Medium Enterprises in New Zealand and Australia. The average Business turnover was \$ 1.5 million (60% <\$ 1.25 million) with a minimum turnover of \$ 300,000 and a maximum turnover of \$ 8+ million. The staff size of the participating Businesses was between 3 and 50 people. 75% of Businesses employ less than 10 full time staff. The 12 largest Businesses have a workforce of more than 25 full time staff.

Thexton Armstrong uses the Profit Leakage Calculator™ in this ongoing investigation. The Profit Leakage Calculator™ is a model based on actual performance numbers and is actively used by Thexton Armstrong Business Consultants internationally to support and assist privately owned Business Owners. The Profit Leakage Calculator™ identifies how much is leaking across eight core areas in which profits leak from every Business.