

# Business Resource Services

## SOLUTIONS

for meeting the

ASBDC Core Competencies

for Professional Business Consultants

Offered by

Profit Mastery University



A CORPORATE SUPPORTER OF



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The purpose of this document is to illustrate how the Profit Mastery University (PM) curriculum provides the training needed for SBDC Counselors to be able to meet specific Core Competencies as set by the ASBDC Board of Directors.

### **Introduction:**

Over the last 25 years, the Profit Mastery financial training curriculum has been taught to over 500,000 business owners, managers, and counselors on four continents in at least eight languages.

The keys to the success of this curriculum are built around the following:

1. A presentation style uniquely combining information, motivation, and humor.
2. A case-study approach.
3. Delivery formats that include live on-site and web-based streaming video
4. A unique, seven-step approach distilled from both years of business banking experience and working with thousands of business owners.

For the last seven years, portions of this material have been presented at Small Business Development Center state and national conferences with overwhelmingly positive response. Consistent comments and evaluations focus on the innovative nature of the program, which energizes what has always been thought to be a boring topic, but one that is critical to business success and the primary cause of business failure.

This curriculum is now available online in a streaming video format 24/7/365. This program takes approximately 16 hours to complete and is offered to SBDC counselors at a discounted price. It is also strongly suggested that they offer this program to their clients. This puts both counselor and client "on the same sheet of music" and gives the counselor the ability to coach the client through the implementation process of integrating these new financial tools into the day-to-day operational activities of their business through extended/long term counseling engagements.

The Core Competencies are listed below.

Those addressed by Profit Mastery are printed in red.

The blue text details the curriculum and resources contained in the program.

### **1. Business Planning, including Strategic Planning and Business Plan Development**

The Consultant/Counselor will be able to:

- a. Identify and assess the critical business issues facing the existing business client based on inputs such as client interviews, financial statements, operating information and external customer/market data.

Section 1 of the Profit Mastery curriculum is entitled "Introduction to Profit Mastery: Creating a Foundation for Change." In the resource area of this section there are two business diagnostic tools. The first is the "Errors of Omission Checklist" and it covers four areas of risk for business owners, including liability, control, fringe benefits, and tax concerns, incorporating a total of 22 questions with accompanying risk factors.

The second tool is called the BIZ FIT Test. This is a checklist consisting of 158 professional management practices in the five key areas of human resources, marketing/sales, operations, financials, and executive challenges. Clients that complete this assessment are shown their businesses strengths and weaknesses and provided a blueprint of how a well managed company operates. It is suggested that clients retake this assessment semiannually and use the progress chart to track their management improvement. This is an excellent diagnostic tool for SBDC counselors who are attempting to determine what the management and operational challenges are in a prospective business client, and it provides hands on management activities to meet those challenges.

- b. Assess the start-up client's readiness and needs
- c. Identify and convey to the client the basic steps and considerations for starting or buying a business or franchise **and selling, transferring or liquidating a business or franchise.**

Profit Mastery offers a great resource of information for the SBDC Counselor who is consulting with a client contemplating a business transition. This information is contained in the Resource area of Section 6: Banks and Transitions and includes:

  - "All Pilots Gotta Land...Better To Do It Before You Run Out of Gas"
  - "Considerations in Estate Planning," a three page article on transition planning
  - "The Estate Planning Checklist for Business Owners," a three page comprehensive checklist that lays out the steps to prepare for transition.
  - "What's your Business Worth?" a five page review covering:
    - Who determines the value of a business
    - The difference between value, worth and price
    - Why you would need a valuation
    - What determines value
  - "Valuing Your Closely Held Business," 14 pages of instruction for the business owner attempting to value their business, including:
    - Approaches to Calculating Value
      - The Asset Approach
        - Book Value
        - Adjusted Book Value
        - Liquidation Value
        - Reproduction value
      - The Earnings approach
        - Rate of Return/Capitalization Rate
        - Risk and Return
        - Discounted Future Earnings
    - Business Valuation Worksheets
    - Present Value of \$1
    - Business Pricing Grid, Influences on Value
- d. Identify available resources and tools including government regulations and services available via multiple sources.
- e. Assist in developing a strategic plan using tools such as a SWOT analysis, Porter's 5-Forces or other strategic tools.
- f. Identify different types of business plans and the purpose and use of each

- g. **Understand the components of a business plan and be able to explain/demonstrate them to a client.**

After a Counselor has completed the PM curriculum, the resource material in Section 6:8-14 includes a Sample Loan Proposal which incorporates and details all the elements of a well organized Business Plan, including:

- Corporate Data
- Description
- Loan request
- Repayment
- Operational Information
- Employment
- Source of Supply
- Management
- Marketing and Distribution
- Competition
- Facilities
- References
- Financial Information

SBDC Counselors have described this information as more comprehensive than the business plan resources that they have previously offered their clients.

- h. **Effectively assist clients to develop a business plan**

By following the detailed bullet points in the above outlined plan, a Counselor will be able to incorporate all of the financial information learned in PM, along with their own assessment of the Clients operational activities to develop a business plan that will guide the owner to a profitable future. This document can also act as a loan proposal to a funding source, as an informational piece for additional investor partners, and to provide an overall focus for the ongoing operations of the client.

- i. **Effectively assist clients in implementing their business plan**

- j. **Develop an action plan with activities and next steps with the client**

At the end of every section of the Profit Mastery curriculum there is an Action Steps page. As counselors complete each section with their clients, it is strongly encouraged that these Action Steps sheets be filled out, including the specific action to be taken, who is responsible and the completion date. At the end of the course these Action Steps are to be compiled and organized into an implementation plan that both the client and counselor will have in writing. This provides the follow-up information necessary for the counselor to coach the client in the implementation process.

## **2. Financial Analysis**

The Consultant/Counselor will be able to:

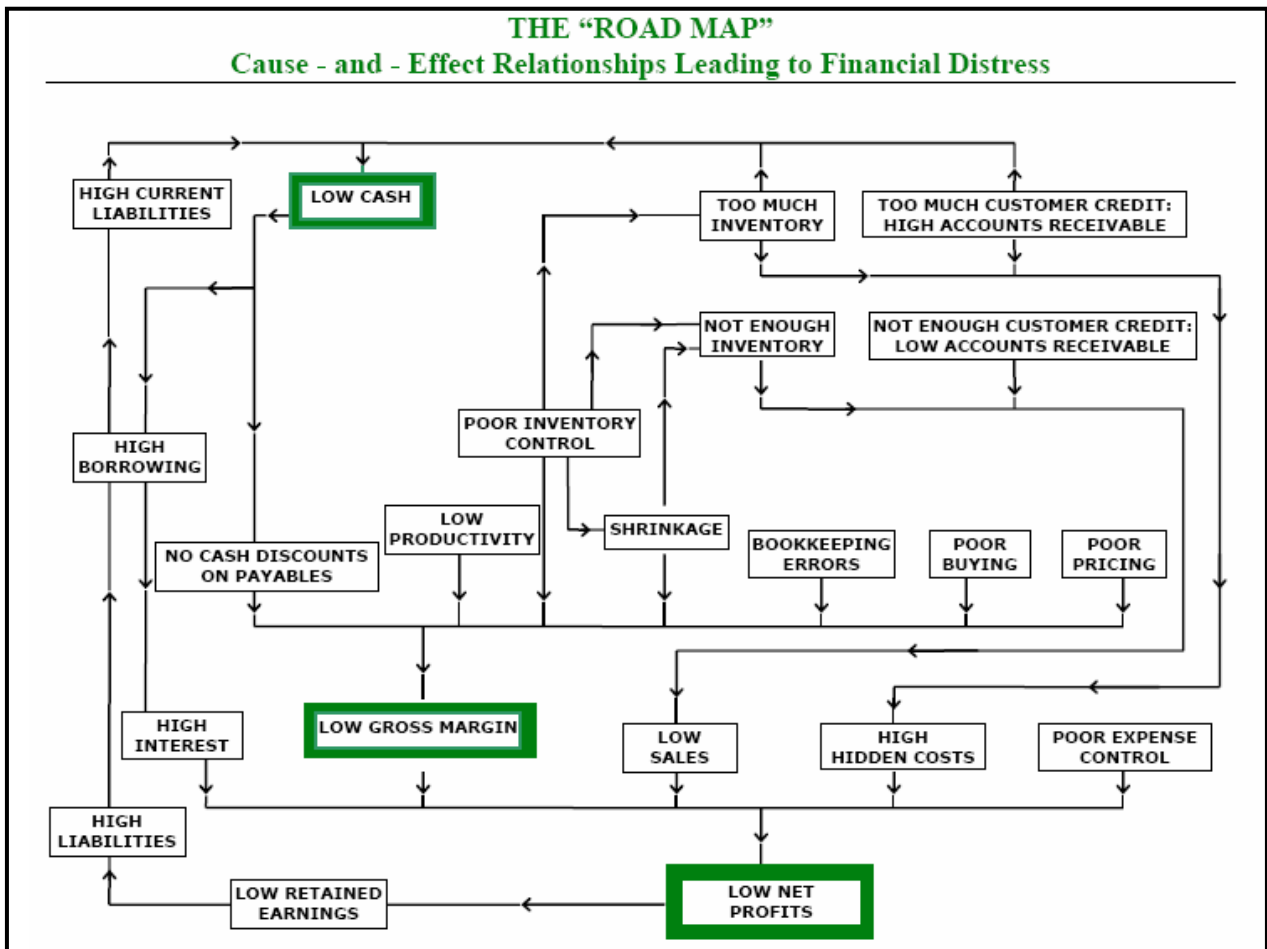
- a. **Identify businesses costs.**

Section 3: Price-Volume–Costs focuses on identifying business costs and then categorizing them into fixed and variable expenses in order to effectively use the tool of Break-Even analysis. This is covered in pages 3:4-7. Costs are also identified in Section 2: Financial Position with the use of “The Road Map” tool. This graphic illustrates the flow of money through a business and has as a teaching component “High Hidden Costs.” These costs are outlined on page 2:29 and include breakage, theft, obsolescence, handling charges, excess labor, and other costs that directly affect business profitability.

- b. Determine what the gross profit margin is and relate to the client why it is important. Gross profit margin is one of the most important topics covered in the PM curriculum. It is Ratio #4 in the Ratio Analysis Spreadsheet "The Scorecard" in Section 2: Financial Position. Once the 14 ratios on the Scorecard are completed, these ratios are then used on the Road Map to show the cause and effect relationships leading to financial distress in a business. Low Gross Margin is the most important symptom on the Road Map and careful attention is paid to the causes of Low Gross Margin, including no cash discounts on payables, low productivity, poor inventory control, shrinkage, bookkeeping errors, poor buying, and poor pricing. In the case study these total over \$80,000 of available profits for the business owner, should management efficiencies be applied.

The Profit Mastery curriculum also provides resources that specifically help the business owner improve their gross margin. This is in section 3R: 21 entitled "Planning for Profitability" and provides six possible causes for low gross margin and 14 specific action steps that a business owner can take to improve their gross margin.

The graph below shows a sample of the Road Map.



c. **Determine what sales volume is needed to Break-Even.**

Section 3: Price-Volume-Costs of the PM curriculum covers the following: understanding Break-Even analysis, using an income statement as a management and profit generating tool, knowing how costs behave in a company, and understanding the impacts of changes in price, volume, and costs.

The curriculum uses a unique 'cup' illustration and covers how to create a management income statement, dividing costs into variable and fixed, calculating a contribution margin percentage and using that contribution margin to calculate Break-Even. The content covers the four ways to improve profits which include sell more units, increase price, decrease variable costs, and decrease fixed costs. One of the key teaching points of the curriculum is the concept of treating profit as a fixed cost, thereby driving the profit planning process. The section then moves to calculating Break-Even in units and finishes with an exercise in raising and lowering price and how that affects required revenue. Resource pages 3R: 4 and 5 offer counselors worksheets that enable them to immediately apply Break-Even analysis to their clients' operations.

An additional resource of the curriculum is a series of articles beginning with "Know Thy Costs... And Manage the Creepers" which begins on 3R: 8 and finishes on 3R: 17. These articles further articulate the importance of knowing Break-Even and its application for pricing scenarios and expansion analysis.

The graphic below page shows an illustration of the 'Cup' visual



d. **Track and forecast cash flow.**

Section 4: Cash Flow of the PM curriculum covers the following: creating a projected income statement and related cash budget, understanding what the forecasts can tell us about the future of a business, and learning to use the information to make better decisions and management choices.

It also covers the importance of understanding and visually demonstrates why profits don't necessarily correlate with cash, understanding impacts of seasonal ups and downs on a business and finally, understanding how management efficiencies can have a positive impact on the financial future of a business. The section includes a cash flow analysis that requires the student to fill out a month by month profit plan and cash budget.

The student is required to borrow and repay enough money to fund the business and the exercise clearly shows how a business that only makes \$43,000 in net profit for the year can borrow and repay \$220,000 on their line of credit. The cash budget graph illustrates the seasonality of revenues in the case study and how cash flow is affected.

e. **Know the effect of delayed collections on cash flow.**

The case study is based on an accounts receivable collection period of 60 days. During the analysis portion of the case study, students are shown the effects of reducing collections from 45 days and then to 30 days, which has a dramatic effect on cash flow. The total need for borrowing is reduced to \$75,000 and the company ends the year with a cash surplus of \$93,200, a dramatic turnaround from the \$7,400 in the original 60 day case study.

f. **Know the difference between margin and markup.**

This important differentiation is covered in several areas in the curriculum. The first is in Section 1:9 in a quiz. Question #3 states "You have an item that costs four dollars. You want to get a 26% gross profit margin. The question is, what do you have to sell it for?" In the video presentation in Section 1, Chapter 2 the answer to that question is presented along with the most common wrong answer, which is the answer someone gets when they use a markup calculation to determine gross margin. This question specifically highlights the difference between markup and margin. This issue is once again reviewed on page 1:12. Finally, an article on page 1R: 26 entitled "Markup versus Margin, Clarifying the Issue" once again provides a clear explanation of the difference between the two.

g. **Know how to monitor gross, operating, and net profit margins.**

One of the key teaching points throughout PM is the focus on accurate and timely financial information, promptly reviewed and then acted upon. When a counselor is working with a client that does not have accurate and timely financial information, often it is because they do not fully realize how that information can so dramatically impact the profitability and cash flow of their operation.

By taking a client through PM, the client learns how to monitor gross, operating and net profit margins, and how to calculate the ratios that make those margins true management tools. Even more importantly, Profit Mastery teaches an owner how to improve those margins through a more professional approach to the financial management of their business.

h. Know how to estimate minimum cash (working capital) reserves.

Section 5: Manage Growth teaches the following: understanding why growth costs money, forecasting what a business will need in the way of additional resources to grow, understanding how better management can free up cash to fuel growth, and answers two critical questions: How much does a business need to borrow and when can it be paid back?

The curriculum enables the Counselor to teach their clients to be “balance sheet managers” by first identifying the sources of money to grow, and then completing a case study that shows the effect of growth on the borrowing needs of the business. The use of ratios taught in Section 2 is then applied to the case study to show the effect on the balance sheet of various levels of projected growth. The final chapter of this section shows the effect of managed growth and the reduced risk to the business by a diminished need for outside borrowing. "The Sponge Technique" article on page 5R: 3 provides a comprehensive checklist of ways to squeeze the balance sheet to improve cash flow.

The graphic below illustrates the ‘Financial Gap’ calculating process.

		Percent of Sales*			Percent of Sales*
Cash	\$36,000	4%	Note Payable	<b>\$126,000</b>	Financial Gap
Accounts Receivable	\$162,000	18%	Accounts Payable	\$135,000	
Inventory	\$234,000	26%	Accruals	\$63,000	7%
<b>Total Current Assets</b>	<b>\$432,000</b>		<b>Total Current Liabilities</b>	<b>\$324,000</b>	
Equipment	\$225,000	25%	Long Term Liabilities	\$140,000	
Land/Building	<u>120,000</u>		Total Liabilities	<b>\$464,000</b>	
Total Fixed Assets	<b>\$345,000</b>		Net Worth	\$313,000	(old NW = \$286,000)
Total Assets	<b>\$777,000</b>		Total Liabilities and Net Worth	<b>\$777,000</b>	
<b>Balance Sheet Ratios</b>					
	<u>At \$600,000</u>		<u>At \$900,000</u>		
Current	2.18		1.33		
Quick	1.0		.61		
Debt-To-Worth	.95		1.48		

i. Know how to use business ratios and industry averages.

Section 2: Financial Position has already been briefly discussed in 2b above. It begins with a review of how to calculate financial ratios, including:

Balance Sheet Ratios: current, quick and debt to worth,

Income Statement Ratios: gross margin and net margin,

Asset Management Ratios: sales to assets, return on assets, return on investment, inventory turnover, inventory turns in days, accounts receivable turnover, accounts receivable turns in days, accounts payable turnover and average payment period

These ratios are calculated for the case study company and placed onto the Scorecard. Industry averages are determined from a simulated industry data page and added to the Scorecard. A comparison shows the company's weakness and underperformance to their industry. The Roadmap tool is then employed to show where both cash and profits are leaking out of this business, and then a Profit Mastery Assessment is completed showing the opportunities for improvement in both cash and profits.

Particular attention is paid to the Working Capital Cycle in this section. In the case study, cash is turned into inventory which sits 86 days, then it is sold, which turns into accounts receivable which sits for 45 days, and finally returns back to cash after 131 days, all the while only generating .3% net profit for the company.

Counselors who complete this section now have tools to enable their clients to perform an in-depth financial analysis of their businesses and to begin managing them more professionally, and be able to quantify in real dollars the payoff of improved efficiencies.

**j. Effectively convey all of the above concepts to clients.**

By having this curriculum in an online streaming video format, the counselor has several options available to them to convey the above information to their clients. First of all, after completing the curriculum themselves, they will have their Participant's Guide workbook which contains notes and resource materials to enable them to effectively counsel with their clients on all of the PM concepts. In addition however, they will also have the ability to refer their clients to the online PM curriculum and have their clients go through the course as well. Some counselors are sitting with their clients and using this educational resource as an opportunity for more in-depth, one-on-one time with their clients.

**k. Understand and effectively convey to clients key financial management issues including costs, cash flow, break-even, gross profit margin, forecasting, business ratios and industry averages, and financial statements.**

The Profit Mastery curriculum prepares the Counselor to do all of the above and do it efficiently and professionally. The financial management tools that Profit Mastery provides Counselors enables them to consult with a client at a much higher level of financial proficiency and provide a level of service to a more sophisticated, larger client that has the potential for delivering greater economic impacts. This curriculum is available in an online format for both counselors and clients who wish to take the course themselves.

### **3. Accounting**

The Consultant/Counselor will be able to:

- a. Reconcile a bank statement.
- b. Be able to teach a client how to hire and pay an employee in the specific State/Region.
- c. Be knowledgeable and have a basic understanding of electronic and paper recordkeeping systems.

d. **Cash basis vs. Accrual basis of accounting**

Section 4: Cash Flow covers of these two types of accounting methods. On page 4: 1 key terms are provided that clearly define the difference between the two methods. As students build their cash flow analysis, accrual-based accounting policies are utilized in the profit plan and cash-based accounting is utilized in the cash budget. This provides the student with a clear illustration of the characteristics of both.

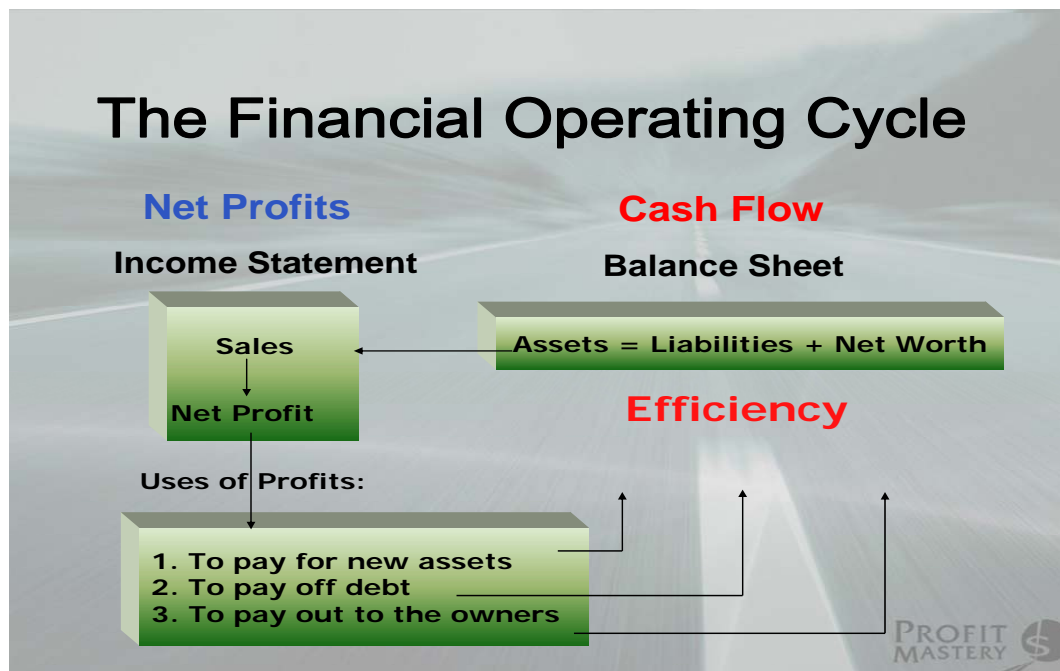
Further reinforcing this information is the article on page 4R: 1-4 entitled "Cash and the Weak Link Theory: What Banks Learned about Testing Financial Strength."

- e. Provide resources for setting up a company using electronic software such as Quick Books.
- f. Assign appropriate expense categories to expenses incurred within a checking register.
- g. Create financial statements
- h. Account for A/P and A/R.
- i. Account for COGS (Beg. Inv + Purchases – End Inventory)

j. **Demonstrate knowledge of each part of the Accounting Equation**

The Financial Operating Cycle which contains the Accounting Equation: "Assets = Liabilities + Net Worth" is presented several times during the curriculum. The unique roles of the Balance Sheet and the Income Statement are outlined as well as the uses of profits, which includes buying assets, paying off debt, and paying owners. The professional management of this flow of money through a business is one of the key goals of Profit Mastery.

The graphic below illustrates the Accounting Equation and Financial Operating Cycle.



- k. **Demonstrate knowledge of invoicing and collections.**  
One of the key points of the PM curriculum is the importance of managing your accounts receivable collections. The case studies clearly demonstrate how important this is for a businesses overall financial health. Once a client is convinced of the importance of managing AR, resources are provided to tell them how to accomplish it. "Planning For Cash Flow" begins on page 4R: 8 and contains 24 action steps that specifically drive improved collections.
- l. Demonstrate knowledge of internal controls necessary to minimize theft.
- m. General knowledge of federal, state and local taxes.

#### 4. Marketing

The Consultant/Counselor will be able to:

- a. Identify and define four P's of marketing – product, price, place & promotion
- b. Identify and define the five segments of promotion – advertising, personal selling, public relations, sales promotion and direct marketing
- c. Direct clients to proper sources for market research (SBDC net services)
- d. Understand competitive strengths and how to perform a competitive analysis (SWOT)
- e. Assist clients in developing a “superior” value proposition
- f. Effectively assist clients to understand basic selling skills
- g. Effectively assist clients in developing a compelling, professional sales presentation
- h. Assist clients in developing a marketing plan consisting of a strategic plan and a tactical plan. Concise strategies will be developed for:
  - i. Products/services
  - ii. Targeting
  - iii. Positioning
  - iv. **Pricing**  
Section 3 Price-Volume-Costs teaches the effects of pricing decisions on profit. in the case study, if the price is increased 2%, volume can decrease 11% and still make the same profit. However, it also shows that if price is decreased 2% then the company must increase its revenue 14% to make the same level of profit. It continues with a further exercise that demonstrates results with price decreased by 5% and 10%. The results are eye-opening to the business owner and help drive pricing decisions that are based not solely on revenue projections, but profitability expectations.
  - v. Value proposition (Why should I choose you?)
  - vi. Distribution (Go to market strategy)
  - vii. Communication (the message and the media)
- i. Assist clients in developing and implementing an action plan
- j. Assist clients in how to do fundamental, cost effective:
  - 1. Market research
  - 2. Market analysis
  - 3. Customer research
  - 4. Competitive analysis

- k. Assist clients in developing strategies and tactics to:
  - 1. Find/acquire new customers
  - 2. Satisfy
  - 3. Grow
  - 4. Keep
- l. Internet marketing
- m. Research
- n. Newsletters
- o. Blogs and other emerging electronic and social networking tools that can be used by small business clients
- p. Relationship marketing

## 5. Assistance with Access to Capital

The Consultant/Counselor will be able to:

- a. Identify financing sources to include:
  - i. State and local loan/economic development programs
  - ii. Federally sponsored programs
  - iii. Banks
  - iv. Internal methods of financing – bootstrapping
  - v. Initial public offering, funding using an LLC
  - vi. Angel investing groups
  - vii. Venture capital
  - viii. Equity capital
- b. Identify and define financing strategies
- c. The factors considered for project/loan approval via each financing vehicle
- d. **How to convert an unfundable project/proposal to one that is fundable**  
 The entire Profit Mastery curriculum focuses on improving a business's "bankability". The "Seven Steps to Fiscal Fitness" which are introduced at the beginning of Section 1, when properly applied to a business does convert a project or proposal to one that is fundable.  
 These seven steps include:
  - 1. Plan Properly
  - 2. Monitor Financial Position
  - 3. Understand Price-Volume-Costs
  - 4. Manage Cash Flow
  - 5. Manage Growth
  - 6. Properly Finance a Business
  - 7. Plan for Transition
- e. Understanding how to effectively combine a myriad of financing programs – investors, banks and government loans when necessary to fund the project
- f. **Understand and demonstrate a fundable loan proposal**  
 One of the key aspects of the Profit Mastery curriculum is its ability to enable the business owner to look at their business through the eyes of a banker, specifically one being asked to loan the company money. The entire curriculum is based around the premise that if the company is properly prepared when the loan proposal is presented, there is a significantly higher likelihood that the loan proposal will be approved. As described in 1g above, Section 6:8-14 includes a detailed Sample Loan Proposal including:
  - Corporate Data, Description, Loan request, Repayment Schedule, Operational Information, Employment, Source of Supply, Management, Marketing and Distribution, Competition, Facilities, References and Financial Information.
 This sample loan proposal is a great aid in the process of preparing a fundable loan proposal.

- g. Assist in developing the loan proposal to include two year month to month financial projections

Section 4: Cash Flow teaches the Counselor and business owner how to create a month by month profit plan and related cash flow forecast for a 12 month period. This process can be

applied to a second-year to complete a two-year cash and profit projection.

- h. Time value of money
- i. Capital budgeting
  - i. Payback period
  - ii. NPV and IRR
- j. Amortization schedules
- k. Leases
- l. General knowledge of credit reports and credit scoring

## 6. FOUNDATIONAL SKILLS

The Consultant/Counselor will be able to:

- 6. Communication skills
  - a. Active listening
  - b. Effective client interviewing using open ended questions
  - c. Creative problem solving
  - d. The ability to handle difficult people
- 7. Consulting/Counseling Techniques
  - a. Display knowledge and use of effective consulting/counseling and coaching techniques
  - b. Assist client to set goals within an action plan
  - c. Understand how to develop a standard consulting/counseling session outline that serves as a diagnostic tool for effectively assessing the client
  - d. Identify consulting/counseling tools/resources and how they would be used  
As stated in 1a above, the "Errors of Omission" checklist and the BIZ FIT assessment provide a counselor with excellent assessment tools, and more importantly a blueprint for improvement for a clients business operation. The Ratio Scorecard and Profit Mastery Assessment create a basis for establishing diagnostics, goals, plans to achieve those goals and follow-up.
  - e. Understand and demonstrate when team based consulting/counseling would be used
  - f. Understand how to use SBDCNet, any web-based client database, such as WebCATS, Center IC, EDMIS, etc. and consulting/counseling resources and how to develop effective documentation
  - g. Demonstrate understanding of identifying high growth/high opportunity clients and how to engage the state/region-wide services available  
PM enables a counselor to provide a valuable resource to high growth/high opportunity clients by providing them tools that will drive improved financial performance with increased profits and cash flow, and ultimately, preparing them to take advantage of business opportunities that create economic impacts in a community.
  - h. Demonstrate an understanding and awareness of Cultural diversity
  - i. Understand and comply with the State/Region Code of Professional Conduct:
    - i. Conflict of interest policies
    - ii. Client confidentiality requirements
    - iii. Ethics
    - iv. Educational or host organization policies (*to be covered by College or host organization*)
    - v. Introduction to core competencies