

Business Performance Management

Part 1b

Profit per Cost

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Key Ratios

**Operational Result =
Sales - Cost of Sales - Expenses**

$$**OR = (OI - COS) - EXP**$$

We divide the equation on both sides by EXP

Key Ratios

**Operational Result =
Sales - Cost of Sales - Expenses**

$$\frac{OR}{EXP} = \frac{(OI - COS)}{EXP} - \frac{EXP}{EXP}$$

**We divide the equation on both sides by EXP
and do some rearrangement**

Key Ratios

**Operational Result =
Sales - Cost of Sales - Expenses**

$$(1) \frac{OR}{EXP} = \frac{(OI - COS)}{EXP} - 1$$

(4)

$$\frac{OR}{EXP} = \frac{GMP - CPO}{CPO}$$

$$(2) \frac{OR}{EXP} = \frac{(OI - COS)}{EXP} - 1$$

1/CPO

$$(3) \frac{OR}{EXP} = \frac{GMP}{CPO} - 1$$

$$\frac{OR}{EXP} = \frac{PR}{CPO}$$

Key Ratios

**Operational Result =
Sales - Cost of Sales - Expenses**

$$\frac{OR}{EXP} = \frac{PR}{CPO}$$

Key Ratios

**Operational Result =
Sales - Cost of Sales - Expenses**

$$\frac{OR}{EXP} = \frac{PR}{CPO}$$



$$PPC = PR/CPO$$



$$PR = PPC * CPO$$

Profit per Cost =
Profitability over CPO

Profitability =
Profit per Cost * CPO

Key ratio:
Profit per Cost

PPC

=

$\frac{OR}{EXP}$

Operational Result *OR* = \$ 3,000

Expenses *EXP* = \$ 5,000

Profit per Cost PPC = $\frac{\$3,000}{\$5,000}$ = 60%

Key ratio:
Profit per Cost

PPC

A high *PPC* is better than a lower *PPC*

PPC can become negative, then the company is making losses

The Basic Equation

The Basic Equation in **absolute figures**

**Operational Result =
(Sales - Cost of Sales) - Expenses**

OR = (S - COS) - EXP

The Basic Equation expressed with **ratios**

**Profitability =
Gross Margin Percentage - Cost per Order**

PR = GMP - CPO

The Basic Equation in key ratios

Key Ratios

$$CP = \frac{EXP}{OI}$$

Cost per Order

$$PR = \frac{OR}{OI}$$

Profitability

$$PPC = \frac{OR}{EXP}$$

Profit per Cost

$$GMP = \frac{OI - COS}{OI}$$

Gross Margin Percentage

The Basic Equation in key ratios

Key Ratios

CPO

PR

PPC

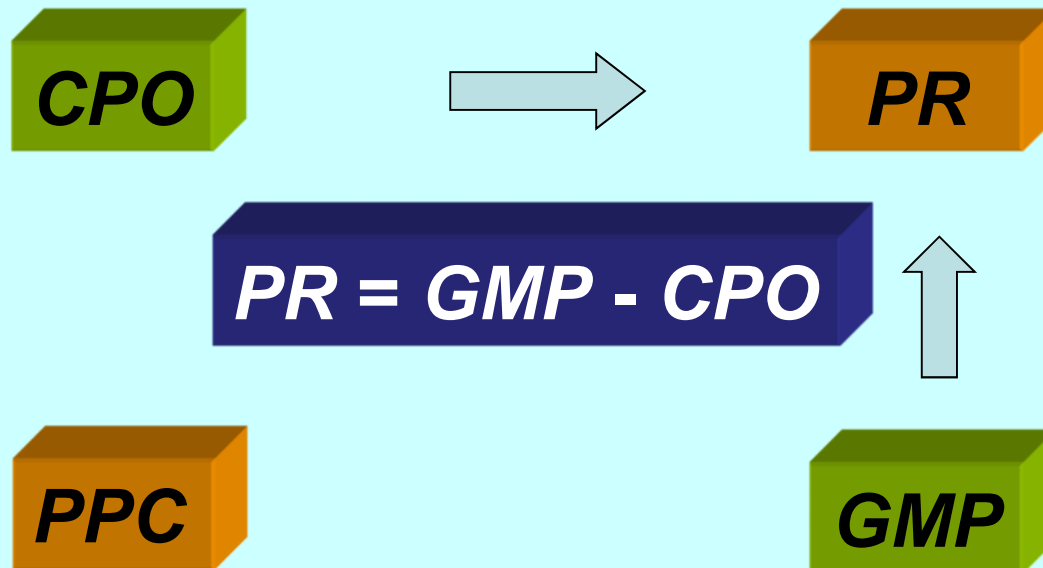
GMP

**The key ratios are not independent,
Once two are selected, the other two can be calculated**

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The Basic Equation in key ratios

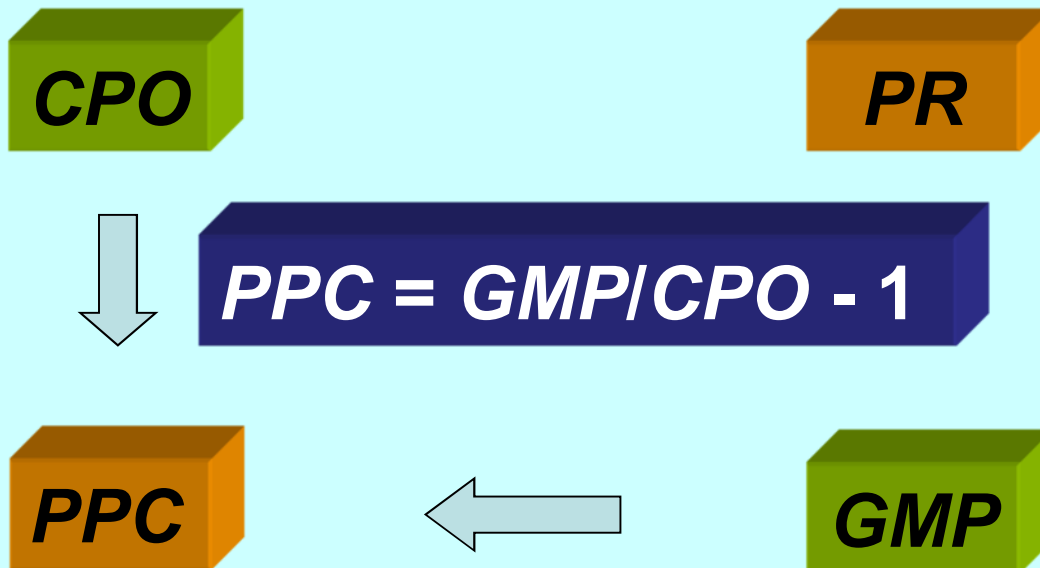
Key Ratios



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The Basic Equation in key ratios

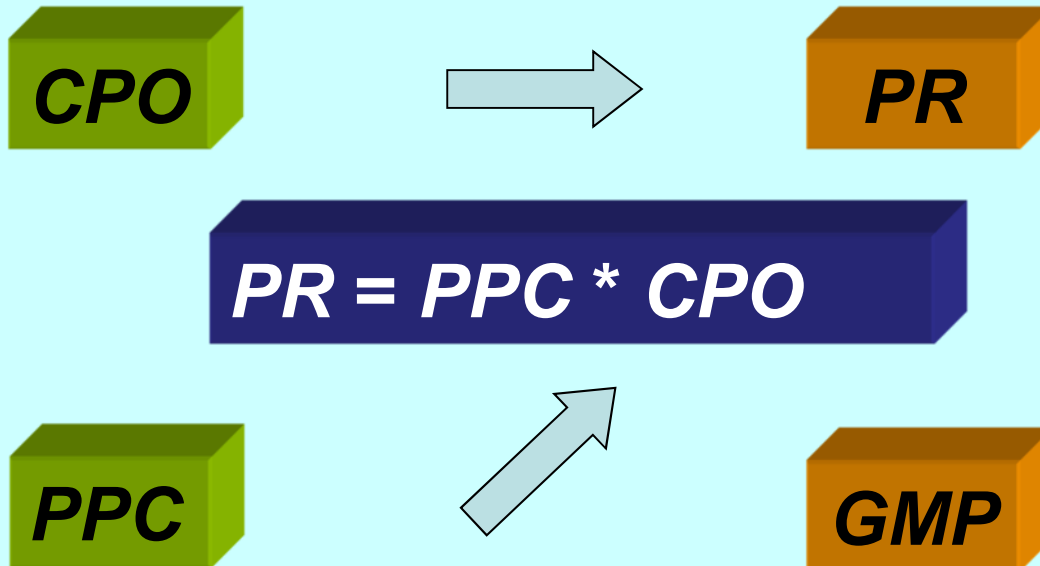
Key Ratios



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The Basic Equation in key ratios

Key Ratios

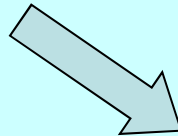


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The Basic Equation in key ratios

Key Ratios

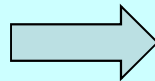
CPO



PR

$$GMP = (PPC + 1) * CPO$$

PPC



GMP

The key ratios are not independent,
Once two are selected, the other two can be calculated

Summary

Cost per Order *CPO*

Profit per Cost *PPC*

- 1 Both Key Ratios are related to the operational result and profitability of the company. They are determined by margin, order income and operating expenses.
- 2 Out of the four ratios *CPO*, *PPC*, *PR*, and *GMP* you have the **freedom to choose two**, the other two result from the two chosen.
- 4 We can express the basic equation for the operational result using profitability and the key ratios *CPO* and *PPC*