



Helping entrepreneurs build the businesses of their dreams

## Cost Analysis Case Study

### The Business Need

A successful manufacturing firm considered it vital to understand the relationship between strong year over year's sales and weak net profit. With challenges associated with the firm's financial recordkeeping, it was difficult to know at a glance how best to resolve the challenge. It was critical to create and put in place a system that would help them understand and manage their financial performance.

### Freda Thomas Consulting's Cost Analysis Approach

In order to understand what led to their weak net profit, Freda partnered with a highly skilled bookkeeper and CPA who put in place accounting software to help them capture and analyze three years of historical financial data. Thomas and team discovered that the manufacturer was spending on average 40% of gross sales to cover the cost of raw goods. Thomas identified new raw good suppliers with lower price points to help reduce the cost.

### Results

Over a three month period, this manufacturer had in place a systematized approach to documenting the company's financial performance. As well, they were able to reduce the cost of raw goods from 40% of gross sales to 17% of gross. This decrease in expenses helped them to realize a 23% increase in net profit. With a stronger net profit, their cash flow improved. Stronger cash flow served as working capital to help grow their business.