Design Company Example
Design Company Statement

Profitability

Brought to you by **Eric Degen, CPA, CGMA, LPBC, CMEC**

Email: edegen@titanbdg.com **Phone:** 973-601-3275

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RETURN ON ASSET INVESTMENT INDICATORS

Return on Asset Investment is the fundamental measure of the earnings power of a business and a good measure of the earnings achieved by management using the asset investment at their disposal. Your performance in this indicator compares to that of your peers in the industry as follows:

Return on Asset Investment

Industry		Your Company
BOTTOM 10%	35.8 %	20.0 %
25%	43.1 %	
MEDIAN	46.3 %	
25%	48.3 %	
TOP 10%	51.4 %	

Your Return on Asset Investment (ROAI) performance is substantially below the average for your industry and it should be improved if you are to remain competitive and viable in your industry. ROAI measures the earnings power of your firm and it should be frequently compared to similar firms in your industry.

Return on Asset Investment is an effective indicator of a firm's earnings on debt which must be greater than the cost of debt if the company is to increase return on owner's equity through the use of borrowed money. The spread between earnings on debt and cost of debt is an important predictor of the future viability of a firm.

COST OF DEBT

Assumed 6 %

Spread Between Earnings on Debt and Cost of Debt

Industry

BOTTOM 10%	30.8 %
25%	38.1 %
MEDIAN	41.3 %
25%	43.3 %
TOP 10%	46.4 %

Your Company

14 %

Now

BOTTOM				TOP
10%	25%	MEDIAN	25%	10%

The spread between earnings of debt and cost of debt for your company is well below the average for your industry and this may indicated future cash flow and survival problems. Increasing your ROAI will improve the spread between earning on debt and cost of debt and corrective action should be taken.

LOAN PERFORMANCE PREDICTION

Due to inadequate cash liquidity (see the Liquidity Report), it is unlikely that your company will be able to successfully meet new loan payment obligations.

RETURN ON ASSET INVESTMENT IMPROVEMENT WORKSHEET I

The effectiveness of some of the methods of ROAI improvement suggested below is dependent on your percentage of variable costs in your total expenses and your accurate estimate of it is important for this analysis.

Percentage of Variable Costs

Assumed 60 %

Method 1

Price Increase needed

Assumed 10 %

results in ROAI of 47 %

Gross Margin

COMPANY CURRENT
56.4 %

NEW ESTIMATED
60.4 %

	10%	25%	MEDIAN	25%	10%
Industry Indicator	48.9 %	59.0 %	66.4 %	72.9 %	77.0 %
Price Increase needed	N/A	6.3 %	29.6 %	61.0 %	89.1 %
Resulting ROAI	N/A	37.0 %	99.9 %	184.6 %	260.7 %

Your Gross Margin is near the bottom for your industry and this may indicate that it is possible for you to implement a strategy for increasing your price. Although a price increase may lead to lower demand, your current Gross Margin provides an indication that higher prices may be in order.

Method 2

Unit Sales Increase needed

Assumed 10 %

results in ROAI of 32 %

Assets to Sales

COMPANY CURRENT
39.7 %

NEW ESTIMATED
36.1 %

	10%	25%	MEDIAN	25%	10%
Industry Indicator	38.2 %	25.3 %	23.1 %	21.7 %	20.3 %
Unit Sales Increase needed	3.9 %	57.4 %	71.9 %	83.5 %	95.7 %
Resulting ROAI	24.7 %	88.9 %	106.4 %	120.4 %	135.0 %

Your performance in the Assets to Sales ratio is near the bottom for your industry and this may indicate that it is possible for you to implement a strategy to increase sales without major investment in new assets and/or reduce some assets without loss of sales. You should carefully consider actions that might be taken to increase your sales volume or reduce unproductive assets as this might improve your Sustainable Growth Rate.

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RETURN ON ASSET INVESTMENT IMPROVEMENT WORKSHEET II

Method 3 **Variable Expenses Decrease**

Assumed 10 % ***results in ROAI of*** 35 %

Many entrepreneurial firms find that it is possible to decrease variable expenses. Variable expenses are those costs that change with your volume of sales and include such items as direct labor, shipping and telephone expenses. You should carefully evaluate your variable expenses to determine if any may be reduced to improve your performance in Return on Asset Investment.

Method 4 **Fixed Expenses Decrease**

Assumed 10 % ***results in ROAI of*** 30 %

Fixed expenses are those costs that do not vary with your sales volume and include such things as property taxes, depreciation and salary. You should carefully evaluate your fixed expenses to determine if any may be reduced to improve your performance in Return on Asset Investment.

Method 5 **Amount Invested Decrease**

Assumed 10 % ***results in ROAI of*** 22.3 %

Asset Investment to Sales ★★★★★

COMPANY CURRENT
37.0 %

NEW ESTIMATED
35.8 %

Now New

BOTTOM TOP

	10%	25%	MEDIAN	25%	10%
Industry Indicator	49.6 %	45.7 %	44.2 %	42.4 %	39.4 %
AI Decrease needed	N/A	N/A	N/A	N/A	N/A
Resulting ROAI	N/A	N/A	N/A	N/A	N/A

Your asset investment related to sales is among the lowest for your industry and this might indicate that it would be very difficult for you to reduce your asset investment. As you review your assets for potential reduction, you should carefully consider the need for each asset to support your sales.

OVERALL EFFECT

The results of the methods of ROAI improvement shown above are based on the assumption that each of them is applied separately, whereas a combination of them could be both more realistic and effective. If you find it possible to implement all of the above methods at the rates specified, the overall effect of that will be as follows:

Resulting ROAI	98 %
Resulting Spread Between Earnings on Debt and Cost of Debt	92 %