Efficient business operations: Sales and expense considerations

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Through our professional experiences – which span from initial group estimates to detailed month-by-month calculations pertaining to various industries, such as energy, renewables, travel retail, healthcare and professional education – we have developed a list of the key inputs that specifically highlights the most critical considerations within each parameter.

These observations and lessons learned are based on but not limited to various market-entry considerations for wind and solar projects with 100+ MW of installed capacity, the acquisition evaluation of manufacturing facilities with a potential investment attraction of EUR 25 million and a project cost rationale, which was created for medical and healthcare facilities with a set investment budget of EUR 200 million.

The list below highlights key sales and expense considerations towards efficient business operations planning:

1. **Income generation**
   The key is to understand (a) the technical ability to produce a product and/or generate services that are subject to certain factors, such as production capacity and maintenance shutdowns or number of working shifts and bank holidays, as well as (b) to consider income restricted factors, such as market growth rates, competition, inflation, related sales discounts, overall purchasing ability and customer recognition towards the product and/or services offered.

2. **Cost of goods sold (COGS)**
   It is vital to understand what constitutes direct production or services costs, especially the fixed cost elements and variable cost elements (i.e. those related to the production and/or services sales level).

3. **Personnel expenses (PEX)**
   There is a need to identify both a realistic headcount and remuneration requirements as well as to consider any potential outsourcing and seasonal variances, if applicable.

4. **Operational expenses (OPEX)**
   A business manager needs to be prudent in the following areas: setting the operational cost structure, concentrating on details by breaking down costs as much as possible and applying a higher level of inflation than would normally be anticipated to maintain an adequate level for overall cost contingencies.

5. **Taxes and related deductions**
   It is important to identify and carefully study the legislative base as well payment dates within a year because, in most cases, there will be a need for tax pre-payments quarterly, which may create a significant burden on cashflow if they are not considered in advance.

6. **Financing payments, if any**
   Set these as a separate cost element; a financing repayment schedule will likely be the last cost position set. This is because finance providers usually scour business estimates to find any possible weak points as well as to determine future income receivables, which will ultimately reflect finance terms and set the repayment schedule.

7. **Working capital**
   The importance of working capital should never be underestimated, regardless of a business's stage, be it the beginning of operations, major reinvestment or normal day-to-day operations. Based on the analysed projects, the ideal working capital should allow for uninterrupted business operations to continue for at least two years. Such a working capital level (which is sometimes referred to as a safety net) should cover all parts of the cost of doing business, including the cost of goods sold, personnel and operational expenses, tax deductions and finance arrangements. Importantly, working capital should not be misinterpreted as positive cash flow movement (i.e. the positive difference between receivables and payables). That is, a positive cash flow difference does not equal positive working capital; rather, it means that a business, at a particular point in time, generates more funds (receivables) than it needs to spend (payables).

The main takeaways from these points, which aim to help businesses prosper, especially in the short to medium term, can be summarised as follows: a business manager should (a) have a clear understanding of the key inputs, which determine business operations, (b) be accurate in setting these inputs (i.e. defining realistic sales income, being prudent in setting business expenses) and (c) closely consider allocation of the appropriate working capital level.

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