

## Management Tip: Getting to the Bottom Line

At a high level there are only two ways to grow a business: increase sales and decrease costs. Here's a simple management tip that will save you a lot of wasted effort. Before you start looking at the details of each method, you should understand the layout of a simple profit and loss statement and some basic terms your senior management team is very familiar with. These are the measurements that matter to business leaders.

### The Bottom Line Definition of Growth

Businesses are ultimately measured by owners and investors by how much profit they generate. Simply put this is how much money is left after all the costs are paid. Let's take a look at a simplified business profit and loss (or income and expense) statement.

Sales Revenue \$1,000,000

- Variable Costs (material, labor, etc) - \$500,000

= Gross Profit \$500,000

- Fixed Costs (overhead, building, etc) - \$300,000

= Profit \$200,000

- Taxes - \$50,000

= Profit after Tax \$150,000

In this example the top line of the P&L (profit and loss) Statement is \$1,000,000 and labeled Sales Revenue. The top line is always Sales Revenue, and as a result growing the sales side of a business has come to be commonly referred to as top line growth.

The bottom line of our P&L Statement is \$150,000 and indicates how much money is left after all the expenses have been paid. This is the money that the owners or shareholders have left to either put in their pocket or reinvest in the business. The money left over after all expenses are paid is commonly referred to as the bottom line.

### Summary

By looking at this example we can see that there are fundamentally only two ways to grow a business. One is to increase the top line through increased sales. The other is to increase the bottom line by decreasing costs. Top line and bottom line are terms and concepts you must be familiar with if you want to drive growth. Initiatives that impact either the top line or the bottom line are the only initiatives that matter to business leaders. Once you understand this, you can start to focus your efforts around initiatives that matter.

### About the Author

Daryl Cowie has shared management tips with 1000s of people in over 30 countries around the world. His mission is to help you and your company turn business opportunities into business realities. Sign up for his free business management home study course at <http://FreeManagementTips.com>

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