



**ADVANTEXE**

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# Building Financial Literacy Shouldn't Cause the Sunday Scaries

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It's Sunday afternoon and instead of relaxing with friends or reading a great book, you are terrified for the week ahead. You have a presentation to pitch a new internal idea on Monday, you are giving performance reviews for the first time as a new manager on Tuesday, and the sales team has asked you to join them to develop and present a proposal to a huge new prospective customer on Thursday. Plus, you still have all your other work!

One of the reasons that you are not looking forward to the week ahead is that you feel you are lacking financial literacy skills. Financial literacy being defined as the ability to understand, at a detailed level, how your company, your customers, and your competitors make money.

To help the readers, I've taken some of the content and [business simulation](#) data from our award-winning [Business Acumen programs](#) and consolidated the key points as a useful learning tool. Here are five things you need to know about financial literacy to avoid the Sunday Scaries:



# Introduction

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Revenue (also know as Sales or Sales Revenue) is how much money the company has generated by selling products/services to customers at a price. Revenue always sits at the top of the Profit & Loss Statement (P&L), which is also known as the Income Statement.

In a very simple example taken from our Zodiac Pro business simulation, if Zodiac, Inc sells two products (ZG1000 and ZG2000) and their prices and volume look like this, then they have generated \$106,300,000 in revenue.

Product	Net Price	Units Sold	Revenue
<b>ZG1000</b>	\$100	685,000	\$68,500,000
<b>ZG2000</b>	\$120	315,000	\$37,800,000
<b>Total Revenues</b>			\$ 106,300,000

# Revenue

COGS is how much it costs you to physically make the products that have been sold. The math is similar to revenue but here we are focused on how much it costs to make the products including materials, packaging, and other physical attributes.

As I continue the example, you see how COGS is calculated. In this case. The COGS is \$1,788,000,000.



## Cost of Goods Sold (COGS)

Product	COGS per unit	Units Sold	Total COGS
ZG1000	\$ 52.00	685,000	\$ 35,620,000
ZG2000	\$ 57.20	315,000	\$ 18,018,000
<b>Total</b>			\$ 53,638,000



Business leaders love Gross Margin because it provides your first insight into the profitability of a business and its products. You get Gross Margin by subtracting the COGS from Revenue. Gross Margin is one of the most important metrics in all of financial literacy.

In the example below, the total Gross Margin for this business is 49.5%. Another way of thinking about Gross Margin is for every one dollar of revenue the company makes, they create 49<sup>1/2</sup> cents of profit. Every industry has its own benchmark of Gross Margin averages. In Retail, the Gross Margins are a lot smaller and in tech they can be enormously high.

# Gross Margin

Product	Gross Profit Per Unit	Units Sold	Total Gross Profit	Gross Margin (%)
<b>ZG1000</b>	\$ 48.00	685,000	\$ 32,880,000	48%
<b>ZG2000</b>	\$ 62.80	315,000	\$ 19,782,000	52%
<b>Average (weighted)</b>	\$ 52.66	1,000,000	\$ 52,662,000	49.5%



Revenue tells you how much money in sales was generated and Gross Profit (the revenue less the cost of goods sold) tells you how much money you are making on each unit sold before you account for the Operating Expenses of the business. The Operating Expenses are the expenses of operations and include things like Marketing, Sales, Administration, R&D, Manufacturing, and much more.

Continuing with the example, the Operating Expenses of this business are the following and total \$26,279,750.

<b>Marketing</b>	\$ 10,000,000
<b>Sales</b>	\$ 10,000,000
<b>Research and Development</b>	\$ 1,500,000
<b>Production</b>	\$ -
<b>Overhead Expenses</b>	\$ 2,126,000
<b>Depreciation</b>	\$ 2,756,250
<b>Total Operating Expenses</b>	\$ 26,382,250
<b>Operating Profit</b>	\$ 26,279,750



# Operating Expenses



Profit, (also called the bottom line or net income) is the difference between revenues and all expenses. In our example we know:

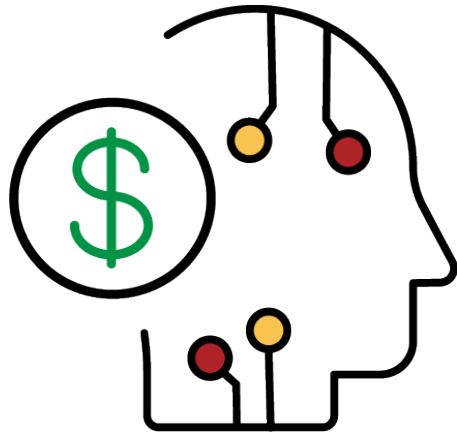
<b>Revenue is</b>	<b>\$ 106,300,000</b>
<b>COGS is</b>	\$ 53,638,000
<b>Gross Profit is</b>	\$ 52,662,000
<b>Operating Expenses are</b>	\$ 26,382,250
<b>Interest is</b>	\$ 2,490,000
<b>Taxes are</b>	\$ 4,995,848

When you subtract the Operating Expenses, the Interest, and the Taxes from the Gross Profit you are left with a **Profit of \$18,793,903**

# Understanding Profit

In summary, figuring out how a business makes money is really not that hard and certainly shouldn't give you the Sunday Scaries. Hopefully these simple tools can give you the confidence you need to understand some of these foundational elements, models, and approaches to making the right business decisions.

Building financial literacy gives employees the skills and confidence to understand how a company makes money and how their decisions can affect company performance.



## Summary



# About Advantexe

Advantexe Learning Solutions is an award-winning, global training and performance consulting organization specializing in **Business Acumen, Business Leadership, and Strategic Business Selling.**

We partner with you to build the skills your managers and leaders need to execute their business strategies and achieve improved business results for your organization. Our integrated learning methodology results in a measurable and lasting impact on the business includes skills assessments, dynamic learning engagements powered by **computer-based business simulations**, sophisticated reinforcement tools that help ensure immediate application of new skills and measurement tools to drive maximum ROI of training investment.

**Contact us today!** To learn more about Advantexe, please contact Jim Brodo - [james.brodo@advantexe.com](mailto:james.brodo@advantexe.com) or call 610-828-8707.

