

The Basic Operating Statement

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- In many assignments and exam questions it is very **Very** useful to draw up a basic operating statement first

Exercise

- Make a Basic Operating or Income statement for a market

Inputs Each Market Each Period

Selling Price	\$90
Advertising	\$1,500,000
Consumer Sales Promotions	\$700,000
Size of Sales Force \$80,000 each	6 salesmen
Dealer Promotions	\$300,000
Share of Total Product Development \$1,800,000	\$600,000
Market Research \$20,000 each	6 reports

Inputs Converted to Expenses

Selling Price, P	\$90
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$700,000
Size of Sales Force SF \$80,000 ea	\$480,000
Dealer Promotions DP	\$300,000
Share of Product Development	\$600,000
Market Research \$20,000 each	\$120,000

Key Performance Outputs

Variable cost per unit, V	\$30 per unit
Direct materials, labor, etc.	
Quantity Sold, Q	80,000 units

Selling Price, P	\$90
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$700,000
Size of Sales Force SF \$80,000 ea	\$480,000
Dealer Promotions DP	\$300,000
Share of Product Development	\$600,000
Market Research \$20,000 each	\$120,000
Output: Variable Cost per Unit	\$30
Output: Quantity Sold in units	80,000

- Convert the Input Decisions and Output information into a Basic Operating Statement

Simple Operating Statement

Quantity sold Q in units	80,000
Revenue = $P \times Q = R$	
Total Variable Cost = $CoGS = V \times Q$	
Gross Profit Margin = $G = R - CoGS$	
Markup on Price $Mp = (P - V) / P$	
Total Promotion Expense, $T = AD + CP + SF + DP$	
Profit after Promotion, $M = G - T$	
Research & Development R&D	
Net Profit $Z = M - R\&D$	
Return on Sales = $ROS = Z / R$	

Simple Operating Statement

Quantity sold Q in units	80,000
Revenue = $90 \times Q = R$	7,200,000
Total Variable Cost = $CoGS = 30 \times Q$	2,400,000
Gross Profit Margin = $G = R - CoGS$	4,800,000
Markup on Price $Mp = (90 - 30) / 90$	66.67%
Total Promotion Expense, T $T = AD + CP + SF + DP$	2,980,000
Profit after Promotion, $M = G - T$	1,820,000
Research & Development R&D	720,000
Net Profit $Z = M - R\&D$	1,100,000
Return on Sales = $ROS = Z / R$	15.28%

Simple Operating Statement

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Profit after Promotion, $M = G - T$	1,820,000

**Marketing Contribution
or
Profit after Promotion**
Not in MKT 210

- Marketing Contribution**
- The contribution marketing makes to cover the non-marketing costs or general operating costs of the business.
 - Operating Expenses
 - Research & Development (R&D)
 - Administration salaries
 - General Overheads e.g., offices, telephones

Marketing Contribution

- Marketing Contribution, M
- Often called the Profit after Promotion Expenses

Marketing Contribution to Profit

- Contribution that Marketing makes to cover general administrative, research and development costs.
- On the Operating Statement it is the profit after expenses for the period's marketing effort (all 4 P's) are subtracted but before the general administration, research and development expenses are deducted.

Simple Operating Statement

Quantity sold Q	80,000
Revenue = 90 x Q = R	7,200,000
Total Variable Cost = CoGS = 30xQ	2,400,000
Gross Profit Margin = G = R-CoGS	4,800,000
Markup on Price Mp = (90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
T = AD+CP+SF+DP	
Profit after Promotion, M= G - T	1,820,000

Marketing Contribution or Profit after Promotion is very useful to Marketing Managers

Simple Operating Statement

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Revenue = 90 x Q = R	7,200,000
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Gross Profit Margin = G = R-CoGS	4,800,000
Markup on Price Mp = (90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
T = AD+CP+SF+DP	
Profit after Promotion, M= G - T	1,820,000
Research & Development R&D	720,000

Simple Operating Statement

Quantity sold Q	80,000
Revenue = 90 x Q = R	7,200,000
Total Variable Cost = CoGS = 30xQ	2,400,000
Gross Profit Margin = G = R-CoGS	4,800,000
Markup on Price Mp = (90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
T = AD+CP+SF+DP	
Profit after Promotion, M= G - T	1,820,000
Research & Development R&D	720,000
Net Profit Z = M -R&D	1,100,000

Simple Operating Statement

Quantity sold Q	80,000
Revenue = 90 x Q = R	7,200,000
Total Variable Cost = CoGS = 30xQ	2,400,000
Gross Profit Margin = G = R-CoGS	4,800,000
Markup on Price Mp = (90-30)/90	66.67%
Total Promotion Expense, T	2,980,000
T = AD+CP+SF+DP	
Profit after Promotion, M= G - T	1,820,000
Research & Development R&D	720,000
Net Profit Z = M -R&D	1,100,000
Return on Sales = ROS = Z/R	15.28%

Simple Operating Statement

Quantity sold	80,000
Revenue	7,200,000
Total Variable Cost	2,400,000
Gross Profit Margin	4,800,000
Markup on Price	66.67%
Total Promotion Expense	2,980,000
Profit after Promotion	1,820,000
R&D	720,000
Net Profit	1,100,000
Return on Sales	15.28%

Making a Basic Statement

An In Class Assignment

Make a Basic Operating Statement From

Selling Price per unit, P	\$80
Advertising, AD	\$1,500,000
Consumer Sales Promotions CP	\$200,000
Size of Sales Force SF \$80,000 ea	\$800,000
Dealer Promotions DP	\$500,000
Share of Product Development	\$500,000
Market Research \$20,000 each	\$100,000
Output: Units Sold Q	100,000
Output: Variable Cost per Unit V	\$25

Simple Operating Statement

Quantity sold	100,000
Revenue	
Total Variable Cost	
Gross Profit Margin	
Markup on Price	
Total Promotion Expense,	
Profit after Promotion,	
Research & Development	
Net Profit	
Return on Sales	

Simple Operating Statement

Quantity sold Q in units	100,000
Revenue = $P \times Q = R$	
Total Variable Cost = $CoGS = V \times Q$	
Gross Profit Margin = $G = R - CoGS$	
Markup on Price $Mp = (P - V) / P$	
Total Promotion Expense, T	
$T = AD + CP + SF + DP$	
Profit after Promotion, $M = G - T$	
Research & Development R&D	
Net Profit $Z = M - R\&D$	
Return on Sales = $ROS = Z / R$	

Simple Operating Statement

Quantity sold Q in units	100,000
Revenue = $80 \times Q = R$	8,000,000
Total Variable Cost = $CoGS = 25 \times Q$	2,500,000
Gross Profit Margin = $G = R - CoGS$	5,500,000
Markup on Price $Mp = (80 - 25) / 80$	68.75%
Total Promotion Expense, T	3,000,000
$T = AD + CP + SF + DP$	
Profit after Promotion, $M = G - T$	2,500,000
Research & Development R&D	600,000
Net Profit $Z = M - R\&D$	1,900,000
Return on Sales = $ROS = Z / R$	23.75%

The Basic Operating Statement can be set up as the Basic Profit Equation

Operating Statement is Profit Equation

• $Z = P(Q) - V(Q) - AD - CP - SF - DP - R\&D$

where

- Z = net profit
- P = selling price per unit
- V = variable cost per unit
- Q = quantity sold
- AD = advertising expense
- CP = consumer sales promotion
- SF = sales force
- DP = dealer promotions
- R&D = Research and Development

Operating Statement is Profit Equation

Simplified Version of

• $Z = P(Q) - V(Q) - AD - CP - SF - DP - R\&D$

is

• $Z = R - CoGS - F$

where

- R = PQ = revenue
- CoCS = VQ = total variable cost
- F = the total fixed costs for the period

- The list of inputs and outputs gets longer when doing more analysis
- Recommend using a spreadsheet

Operating Variables	period 4
Price	95
Variable Cost	26.6
Advertising	1150000
Cons Promo	700000
Sales Force	640000
Dealer Promo	940000
Market Research	150000
Share of Prod Dev Expense	600000
Version Reached	1
Customer Satisfaction	77
Sales Volume Q	72532

- **Strongly** Recommend the Use of a Spread Sheet for recording decisions and results from period to period.

Operating Variables	period 4	period 5	period 6
Price	95	95	97
Variable Cost	26.6	23.68	21.28
Advertising	1150000	1150000	340000
Cons Promo	700000	700000	340000
Sales Force	640000	640000	720000
Dealer Promo	940000	940000	930000
Market Research	150000	150000	150000
Share of Prod Dev Expense	600000	600000	600000
Variable Cost	26.6	23.68	21.28
Version Reached	1	1	2
Customer Satisfaction	77	71	76
Sales Volume Q	72532	69086	86065
Change in Sales Volume ΔQ		-3446	16979
Sales Revenue R	6890540	6563170	8348305
Change in Revenue ΔR		-327370	1785135
CoGS	1929351.2	1635956.48	1831463.2
Dollar markup	68.40	71.32	75.72
%Markup	72.00%	75.07%	78.06%
Gross Profit	4961189	4927214	6516842
ΔGross		-33975	1589628
Total Promotion	3430000	3430000	2330000
Change in Total Promotion		0	-1100000
Units sold per thousand Pr	21	20	37
Profit after Promotion M	1531189	1497214	4186842
M on sales (MROS)	22.22%	22.81%	50.15%
R&D	750000	750000	750000
Breakeven Price BEP	84.23	84.18	57.07
Net Profit	781189	747214	3436842
%ROS	11.34%	11.38%	41.17%
Profit per Unit sold	10.77	10.82	39.93

Remember

- The Operating Statement carries key information on all four P's of marketing.
- The Operating Statement answers the common questions asked by your boss