



My Net Profit Speech

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“The net profit figure that we’re aiming for in the medium term is 25% of turnover. And that’s a net profit, AFTER everyone in the business gets paid a fair market salary for their day job - including me.

Does anyone know why we’re aiming for 25%?

(Just a side note - No one will know why you’re aiming for 25%, but let them speculate or contribute if they want to).

Here’s our reasoning as responsible business owners.

We’ve done some industry research and found that globally, this seems to be what ‘good’ looks like for quality financial planning businesses. So we want to be performing at that level.

If we can get to that level and maintain it, we believe we provide stability for everyone on the team, for our clients, and for us as business owners.

As you know, periodically economies and markets go through downturns. It seems to happen about every 7 - 10 years. Whenever there’s a downturn two things happen in a financial planning business:

Our revenue drops because new leads tend to dry up for a bit while everyone decides whether the world is going to end or not.

Our ongoing revenue which is tied to our clients assets under management can fall, and we usually end up doing even more work than usual in that period, because that’s when clients need us the most.

If we’re making a 25% net profit margin and the market crashes by 50% our ongoing revenue falls by about 23% because our clients are not 100% exposed to the stockmarket are they? They’re in balanced and diversified portfolios.

Questions To Consider At End Of Year 1

So for a year or two, we make no profit at all, but everyone can be retained and paid properly during that time without worrying about their job security.

It makes us a more sound business. Does that make sense?

The final reason for us choosing a 25% net profit margin, is that to keep the business growing, we have to reinvest pretty heavily each year. 20% of the net profit gets paid in tax to the government. And from what's left we reckon that around 50% of it gets reinvested into the business. The other half gets distributed as a dividend to shareholders. Those percentages can vary a bit year on year, but as a guide that's how it goes.

This year we're aiming for a 20% net profit margin, which is actually up from 15% that we did last year. But we expect to be able to get to 25% in another two years time."