Profit Per What?
By Kelli Hoskins, Master Business Coach

If the ultimate goal of any business is to make money, why is it that so many businesses are not profitable? The No. 1 reason in my opinion is because the person running the business does not focus on profitability. From what I have observed time and time again, they focus on everything but profitability. Most business owners are busy, there is no question... but are they busy doing the things that will increase profitability? That's kind of a rhetorical question because if you go back to my first question, that answer must be no because many businesses are not profitable, or not as profitable as they could be.

So, why start with profits? Because, if your business is not profitable, nothing else matters. That's right, nothing else matters. Too often I see people working in a business, servicing customers, producing and selling product, putting out fires, and hoping that as a result of all their busy activity, there's more cash in the bank at the end of the month than at the beginning. EVERYTHING you choose to do or choose not to do in your business impacts your profit margins, therefore everything impacts the overall profitability of your business.

Before you can have a profitable business, you must know how to measure your profit margins, but more importantly, you must know where they need to be to guarantee your profitability. I heard a profound statement many years ago that I have made the focus of every business I am involved with... he who has the lowest overhead and the highest profit margins wins.

The first indicator to your level of profitability will be how much you measure. You can't improve what you don't measure. So what should you be measuring... profit per what? For a business to be profitable at the macro level (Financial Reports), it must also be profitable at the micro level (Products/Services). And it's important to note that not all products or services are equal when it comes to how they each contribute the overall profitability of a company. So, how do you measure profitability at the micro level... or if you are familiar with Jim Collins book '<u>Good to Great</u>', how do you define your economic denominator?

Every business has an economic denominator, the one indicator against which we can measure the likely hood of profitability. For a retail business it may be profit per transaction, for a service-based business it may be profit per employee, for a business in the construction field it may be profit per job. Here's what I always bring it back to... profit per direct labor hour. How many hours of direct labor does it take me to produce product, sell product, service customers and how much money am I making (gross and net profit) for each of those hours I am paying for. Why? Because for most businesses, the ability to make money is directly tied to the effectiveness of the employees who work for that company and that in turn is directly tied to the amount of hours it takes to produce, sell and deliver on individual products or services. How many direct labor hours does it take to produce, sell and deliver each product or service you provide to your customers and where can you make the most gross profit per direct labor hour? These are the products and services you'll want to build your business, your marketing, your sales and your team around.

This all sounds good in theory, however I hear many business owners say... “that's great, but I don't have time to figure that out”... yet those same business owners have enough time to do the busy tasks day after day, week after week without guaranteeing profitability. REMEMBER... everything you choose to do or choose not to do in your business impacts your profitability.