

Am I going to make a profit today?

BY DON STALLINGS, CPA, CVA, CFFA

The number one reason a business does not make a profit is because the manager/owner does not understand what it takes to make a profit.



For example, if a company's break-even margin is 25 percent and you are selling your product or service at a 20 percent margin there is no way you can make a profit. It sounds unbelievable

that anyone would do this, but in fact this is exactly what happens millions of times each day in this country.

The problem with traditional financial information such as financial statements is that a lot of times this information is very outdated when you finally get it. If you are

lucky you might get a final financial statement by the twentieth of the month following the end of the reporting month. Even this is not soon enough because if there is a problem two thirds of the next month has already passed before you have the information to correct it.

One of the best solutions to this is to use summarized daily financial result reports. Procedures for compiling the information needed to produce this report can be put in place so that the report can be easily and quickly compiled. For example, I have developed a business plan that is summarized as follows:

	Annual		Per Day
Sales	\$1,000,000	100%	\$4,000
Cost of Sales	700,000	70%	2,800
Gross Margin	300,000	30%	1,200
Labor	100,000	10%	400
Facility Costs	20,000	2%	80

Other Costs	80,000	8%	320
Total Costs	200,000	20%	800
Net Income	\$ 100,000	10%	\$ 400

Assuming your average product or service sells for \$1,000 you know you have to sell four units each business day to achieve your sales goal and you have to buy that item for \$700. You know how many people you are working each day and what they are making, so you should be able to easily tell what your labor cost is. You know labor cannot exceed \$400 per day in order to achieve your goal. Since your other costs are fixed in nature there is not a lot you can do about those. From this model you know you need to focus on sales, the cost of what you buy and your labor costs. When you think about your business and develop expectation models such as these it becomes sim-

ple. You have to focus on the important things and let everything else take care of itself. A simple daily report comparing your expectations to actual results can be compiled using this format.

Many of you are probably saying, "My business is not that simple" or "I farm and that model won't work for me." I understand your thinking, but with a little tweaking simple models like this can be used to manage any business effectively.

In summary, develop expectations and measure results. It can be that simple to know if you are going to make a profit today! **DB-J**

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