The Secret to Increasing Your Profits
An Introduction to Break Even Analysis

Breaking even? That seems so mundane. No one wants to just break even. We want to make a profit! A huge profit!

Breaking even can be misinterpreted. It is not a goal. Making a profit is the goal. But without understanding break even points, you are left without a path to follow for success.

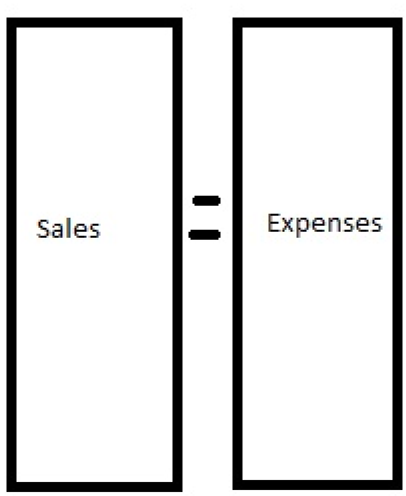
Looking at break even points before you start a venture or early in the venture's life can give you insights on how to structure your prices and costs. Such an examination may even lead you to abandon the effort prior to risking your capital.

This book begins with how to compute a break even point. But it does not stop there. How do you determine your prices? Should you lower your costs? How do increased sales help you?

Business people are interested in making a profit. And in aiming for that goal a key tool is determining your break even point. What sales do you need to achieve to get to the point where everything after that is profit? This book shows you how to make that calculation. You will not only understand how to determine your break even point but you will pick up additional information along the way on how to operate your business to maximize your profit.

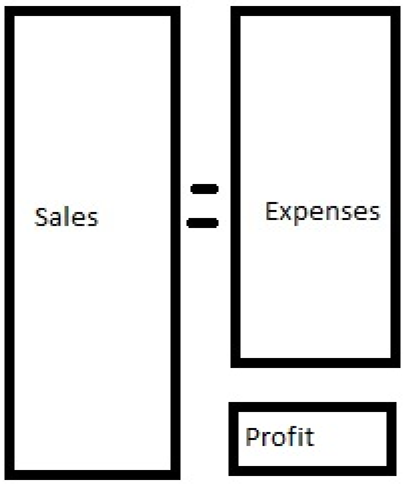
What does it mean to break even? Your break even point isthe point at which your income equals your expenses. At that point you are “even”: your sales equal your expenses. Beyond that you will make a profit. Before that point you are at a loss.

To show this visually, look at the diagram below. It shows sales and that they are equal to expenses.

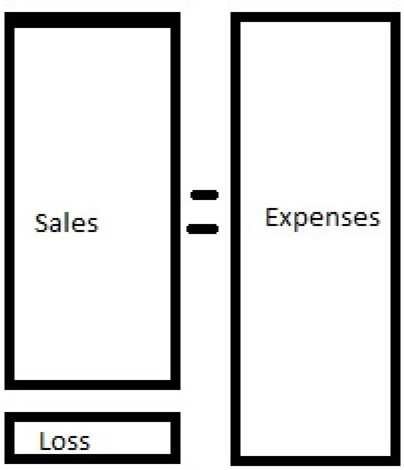


Sales can also be referred to as revenue. Expenses can also be designated as costs.

After break even is achieved, additional sales will result in profit. If that is not the case, then your business venture is in real trouble! We will discuss that in a moment.



Before achieving break even, you are in a state of loss.



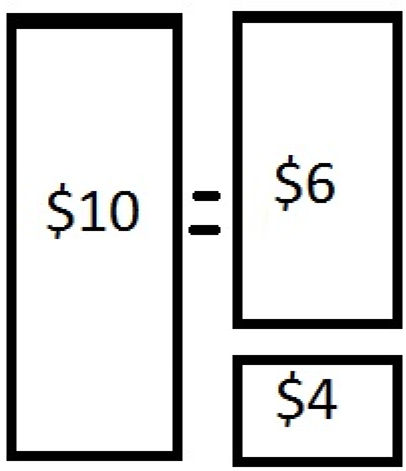
To explore break even points, let's take a look at a chicken dinner.

Imagine that you are hosting a chicken dinner to raise money for your club. You will conduct it in the local hall which you can use for free. Fortunately a fast food chicken diner is across the street and when a guest buys a chicken dinner you can run across the street to get one. No waste! No cooking! No mess!

The ticket price is $10. We buy the chicken dinner for $6. And we have hired a band for $200.

How many people have to attend for us to break even?

For each ticket sold we incur a “chicken dinner” cost. This is a variable cost. It varies with the amount of ticket sales. The amount that is left over after subtracting the variable cost is the contribution margin. The ticket price, the variable cost and the contribution margin is shown below.



Every time that someone buys a ticket, I run across the street and buy them a chicken dinner that I bring back to the hall. After taking the $10 and giving $6 to the chicken stand, I am left with $4. I have to collect enough $4’s to pay for the band. At that point I have broken even.

The band charges $200. I have to have $200 left over after paying for chickens to pay for the band. That means that I have to sell 50 tickets. Fifty (50) tickets times $4 is $200.

The mathematical formula is “Cost of Band” divided by “Contribution Margin Per Guest”.

The cost of the band is a fixed cost. It does not vary by the number of people that show up for the dinner. If 200 people come the band charges $200. If no one comes, the band still charges $200.

The formula for breaking even is Fixed Costs divided by Contribution Per Unit.

Just as a side point: You can see that if we have not contribution margin we will never break even. Or if we sell every ticket at a loss we will even do worse than that!

The key to understanding break even is understanding how costs behave. In our example every time we sold a ticket we incurred a variable cost: the cost of the chicken. The cost of the band is a fixed cost. It remains the same no matter how many people buy tickets (or do not buy tickets!)

The difference between the sales and the variable cost is the contribution margin. That is the money that is left in your hot little hands by making a sale. That is what you are going to use to cover your fixed costs, in other words, to pay the band.

As a business owner, you should focus on Contribution Margin.

Now that we know how to break even, let's begin to discuss how to make a profit!

The difficulty of determining the break even point is that costs do not all behave the same. Some costs vary with more activity such as more sales. Some costs are fixed such as the rent. Many costs are the combination of the two and are referred to as mixed.

Here is the performance of our chicken dinner at break even:

Sales	$500
Variable Cost (Chicken)	$300
Contribution Margin	$200
Fixed Costs (The Band)	$200
Profit	0

When we sell one more ticket, the contribution margin ($4) goes right to profit.

Sales	$510
Variable Cost (Chicken)	$306
Contribution Margin	$204

Fixed Costs (The Band)	$200
Profit	$4

That is an important observation. Making one more sale results in profit increasing by the contribution margin for that item.

Focus on contribution margin. Sales can be misleading! Many business people look at the sales total and imagine that those sales go entirely to profit. Part of the increased sales are however absorbed by variable costs. It is the increase in contribution margin that increases profit.

Imagine that you are organizing your high school reunion. A ticket to the event is $100. The costs for the dinner, tax and tip is $91. You are left with only $9 to hire the DJ and decorate the room. Just prior to the event 10 more people sign up. The decorating committee is excited because when those checks arrive they think that they have $1000 to add to the decorations. No! There is only $90 more. By focusing on contribution margin you can better control your operation.

In our chicken dinner example, one more sale increases profit by $4. Using contribution margin can help us make better decisions.

For instance someone suggests that if you hire a more popular band, ten more people will come to the dinner. The more popular band charges $250, $50 more. Someone might think that would be a good idea. Ten more people would mean $100 more in sales and the increase in the price of the band would be only $50, a net increase of $50.

That analysis is incorrect. Ten additional ticket buyers would indeed increase sales by $100. But after paying for the chicken, contribution margin would go up only $40. This would not be enough to cover the additional price of the band. In fact we would lose $10.

Four Ways to Make a Profit

There are four ways that we can increase profit:

Increase the quantity of sales
Decrease variable costs
Decrease fixed costs
Increase price

To compare scenarios, let's lock down our chicken dinner example. Our baseline will be that 60 people attend at $10. Our chicken costs will be $6 a plate and thus the contribution margin is $4. The band charges $200. With these parameters our profit is $40.

Strategy 1 - Increase Sales

A word of caution. The dollar sales is the product of quantity times sales price. Saes income on a company's income statement can go up two different ways: with the increase of sales volume or the increase in price (or a combination of the two). When a company reports that sales are up, is that because they are charging more or because they or selling more things?

In this section, the meaning of increase sales is selling more tickets to our chicken dinner.

Our baseline is that we have sold 60 tickets. Let's sell 10% (six) more and see what effect that has on profit.

The new figures are below

	Increase	Base
Sales	660	600
Variable Cost	396	360
Contribution Margin	264	240
Fixed Costs	200	200
Profit	64	40

Our profit increases $24.

Ticket sales increased 10% and our profit went up 60%.

Here are the mathematical facts that we can extract from this example.

Sales, variable costs and contribution margin expand (and contract) proportionately. When sales go up 10%, variable costs go up 10% and contribution margin goes up 10%. Imagine that these components are all part of a balloon. When the balloon expands, all of its components expand proportionately.

But why did profit go up 60%?

The increase in profit is determined by what is known as operating leverage. Operating leverage is the ratio of contribution margin to profit.

In our baseline, the operative leverage is $240 to $40 or 6 to 1. So when contribution margin increase by 10%, profit increases by 6 times that, or 60%.

Strategy 2 - Decrease Variable Costs. Another strategy to increase profit is to decrease variable costs per unit.

Our base line figures are:

	Total	Per Unit
Sales	600	10
Variable Costs	360	6
Contribution Margin	240	4
Fixed Costs	200	
Profit	40	

Let's purchase a cheaper chicken for our guests. We will buy the $5 chicken. Based on 60 people attending, our financial results are now:

	Total	Per Unit
Sales	600	10
Variable Costs	300	5
Contribution Margin	300	5
Fixed Costs	200	
Profit	100	

This reduction in variable cost changes our cost structure. Now our contribution margin will be $5 per ticket sold.

Our profit increase significantly. We cannot derive any mathematical relationships for the increase because we altered our structure.

We run some risk in this strategy. If we are taking advantage of a lower cost for a similar dinner, we will not offend our clientele. However, if the quality is inferior we may jeopardize our reputation and future sales.

And the reduction in variable cost was significant. If we are operating a mature establishment, how much could we hope to reduce our variable costs?

We are of course cost conscious. But focusing solely on variable cost reduction may leave us vulnerable.

Strategy 3 - Reduce Fixed Costs

Our bank offers to play for 10% less. Let's find out what impact that has on profit.

	Baseline	Fixed Cost Reduction
Sales	600	600
Variable Costs	360	360
Contribution Margin	240	240
Fixed Costs	200	180
Profit	40	60

Our profit goes up the equivalent of the fixed cost reduction. Any reduction in fixed costs goes directly to profit! A dollar less for fixed costs is an immediate dollar increase to profit.

In economic downturns, major retailers close stores and reduce management. Fixed costs saved go directly to profit.

Some fixed costs are more easily eliminated than others. Leases, insurance expenses, electricity: these can take time to reduce through negotiation, renewal and process redesign. But one fixed cost is more easily eliminated - employees! Thus the workforce take the immediate brunt of bad economic news.

Strategy 4 - Increase Price

Let’s increase the price of a ticket. Our current $10 ticket is very reasonable. Our guests should not flinch with a 10% increase to $11.

Here are the results:

	Baseline	Price Increase
Sales	600	660
Variable Costs	360	360
Contribution Margin	240	300
Fixed Costs	200	200
Profit	40	100

Profit jumps by 150%! This occurred through what would be considered a modest price increase. Our operation is not disrupted with changing dinners or shortchanging the band.

When predicting the effects of a price increase we note the ratio of sales to profit. In our baseline this ratio is 15 to 1. Thus a 10% increase in price leads to a 150% increase in profit.

Small increase in price lead to very substantial increase in profit. In a company that has a 5% profit margin, a 1% increase in price will result in a 20% increase in profit.

The Danger of Reducing Price

We may be enticed by the idea of actually reducing prices to attract more customers. With more customers we expect to compensate for the reduction in price and in fact increase profits.

Let's examine that situation.

We will reduce our price 10% from $10 to $9.

	Baseline	Price Reduction
Sales	600 ($10 Ticket)	540 ($9 Ticket)
Variable Costs	360	360
Contribution Margin	240	180
Fixed Costs	200	200
Profit	40	(20)

This is if the same number of people attend, sixty. But to get back to $40 profit, 20 more people will have to attend. That is 80 guests total, an increase of 33.3%. And that is to just get back to where we were profit wise.

The formula to determine the increase in sales quantity needed to compensate for a price reduction is

$$\frac{\text{Price Decrease \%}}{\text{Contribution Margin Ratio - Price Decrease \%}}$$

In this situation the solution is:

10%/(40% - 10%) = 10%/30% = 33.3%

A more dramatic example would be if we reduced prices 20%. The needed increase in volume to get back up to the same profit would be calculated as:

20%/(40% - 20%) = 20%/20% = 100%

A 100% increase in attendance. From 60 guests to 120 guests. Just to stay even if we reduce our price to $8 a ticket.

Break Even in Sales Dollars

We have solved for break even in terms of the number of tickets to be sold. We can also computer break even in terms of sales dollars.

To do this we must understand contribution margin ratio (CMR). This is the ratio of contribution margin to price. In our example, our ticket price is $10 and our contribution margin is $4. Thus our CMR is 40%.

With that we can compute our break even sales dollars.

The formula is:

Break Even Sales Dollars = Fixed Costs/Contribution Margin Ratio

In our example this results in

$200/40% = $600

Multiple Products with Multiple Prices

Most ventures are not limited to a single product.

When selling multiple products with various cost structure, how do we compute our overall break even point for each product?

We will assume that we have a premium chicken dinner that we offer alongside our regular chicken dinner.

The price structures are:

	Regular	Premium
Price	10	12
Variable Cost	6	7
Contribution Margin	4	5

The bank charges $200. In our past experience we have learned that for every five regular dinners we sell, we sell a sixth premium dinner. Thus for every six dinners, five are regular and one is premium.

To compute the breakeven point we work with bundles. In our example a bundle is composed of five regular dinners and one premium dinner. The question is “How many bundles do we have to sell?”

A bundle produces $25 of contribution margin (five regular dinners at $4 contribution margin each and one premium dinner at $5 contribution margin).

If we divide the band fee of $200 by $25 we realize that we need to sell eight bundles to break even. Eight bundles represents 40 regular dinners and 8 premium dinners. That combination provides $200 contribution margin (40 X $4 = $160 plus 8 X $5 = $40 for a total of $200).

Of course our prediction of the mix might be off. If we have never conducted a dinner, it is a pure estimate. If we have a track record of dinners, we may discern a trend.

In your organization, the product mix may be extensive. A computer program or spreadsheet can do the number crunching.

Every Business is a Chicken Dinner

Business writers describe it as a business model. It is meant to describe the architecture of a business. How it purports to make money.

Young entrepreneurs are asked what theirs is. They speak about it as if they had constructed some new contraption that works beyond the laws of physics.

Those that have not given much thought to it are left up short when the banker brings it up. They think that they have been caught in some blunder as if they had decided to fly without a flight plan.

Most entrepreneurs who venture into business have not given it another thought. They are consumed with the passion of starting and growing their venture. They do not have to describe their formula for success beyond "It's obvious!"

Why should an entrepreneur be concerned about what model his business is based on? Isn't it just a convoluted blueprint for "Let's make some money!" Casting a model around the idea seems to portray the business as nothing more to be dissected with sterile gloves.

The discussion of business models may have distracted the business community from identifying basic myths about the business of business.

I contend that the overriding format of commerce is straightforward - every business is a chicken dinner. I have referred to it to business people to highlight how a business makes money and a profit. It is part old fashioned wisdom mixed with terminology that we can all understand. It is not only a description. It is a framework that focuses a business owner's attention and that can be repeated readily and scaled from neighborhood commerce to nationwide operations.

This model does not exclude others. It is rather a foundation that must be accepted before a business can fine tune.

There are many uses for this model:

Information system: The model arranges information into categories that can be used to shape the business.

Diagnostic tool: The model is so simple that it clearly shows a business where they are out of kilter. This requires no special knowledge or training. In fact it is simpler that reading a balance sheet.

Business philosophy: The model is business. As a viewpoint, it will guide your thinking, focus your attention and determine your priorities.

The Every Business is a Chicken Dinner is the result of years of study. That is not the kind of study where a basic premise is refined or the process tested on thousands of subjects. It is not reviewing hundreds of journal articles or visiting with hundreds of CEOs.

It was simple to derive.

I was teaching basic accounting. I needed a ay to convey basic business principles in easy to understand language.Every Business is a Chicken Dinner

Opportunities with pricing are often overlooked by businesses.

Imagine a rock concert. Rock promoters can take advantage of price to significantly increase profits. And inexperienced promoter would sell each seat for the same price. Local community groups fall victim to this. They price their admission on one price with the idea that if you want a good seat you'll show up early. But patrons would gladly pay more for the option of not having to fidget for the best location.
But let's take this one step further. How about selling the exact same seat for various prices. this is common in the hospitality business. The room you stay in at a hotel was rented out at a different price to another guest the night before. They may have purchased it on one of many online reservation systems. Or they are a member of AAA.
Recently the 99 cent Store increased their prices from the standard 99 cents to 99 cents plus 99/100 of a cent. The change is almost undetectable to the customer. But the effect on the bottom line is significant.
While working at one of the large accounting firms I heard that one partner was famous for saying "If the clients are not complaining about our fees then we're not charging enough!"
If no one is complaining about your prices, maybe it is time to reevaluate what you are charging. At what point do people wince?
Some people in some situations want to spend the most for an item or service. What opportunity are you providing them to do so?
Most businesses just starting out make the mistake of charging too little. They are not yet confident of their worth. Or they are relying on magical math by which they think that a lesser price will result in more sales.
These business people imagine that they can increase prices over time. But when is a good time? Instead the business flanders and gasps for air as it is starved of cash.

If the customer is not complaining about the price, then you're not charging enough. If your customers are complaining too much, find new customers.
Startups do not charge enough for their product or service. Entrepreneurs are under the impression that low prices will build market share and at some point their company can transition to prices that will sustain the business. price is an area that is not explored fully enough by proprietors, developers and consultants. When faced with the alternatives of good, cheap or fast, business owners will gravitate to cheap. This ignores that fact that in today's automated, mechanized world you cannot be the low cost leader. It is physically impossible. You are competing in a global economy where a less expensive alternative is a click away.

In today's challenging economy we can see how these strategies play out. We see that when faced with hard economic times.
Companies immediately cut fixed costs. The easiest of those cuts were employees. When compared with other fixed costs such as utilities and lease, personnel costs are most vulnerable. And when we look at restoring employees, those costs do not come out of sales, they come out of profits. If you're a $50,000 employee and the company's profit margin is 5%, your existence is going to have to result in $1,000,000 in sales for your position to be a break even proposition.
apple continues to reduce the variable costs of it's components while increasing their features and charging premium prices.
Let me present a formula for determining how many more things you will have to sell to make up for a price reduction.
Here it is
Page 20 Figure 1
If we sell tickets fro $10 and our chicken dinners cost $6 across the street, our contribution margin is $4. Our contribution margin is 40%.
If we reduce our price 10% ($10 down to $9) here is the math.
10%/(40%-10%) or 10%/30% = 33.3%
We would have to increase our sales by a third to remain even.
Let's look at a more dramatic situation. Instead of paying $610for dinners, we pay $8. When we reduce our price by 10% look what happens
10%/(20%-10%) or 10%/10% = 100%
We have to increase volume by 100% to stay even. We have to double our sales! So much for thinking that putting things on sale is such a good idea.

You have seen how powerful pricing is. Pricing for profit should be a significant activity in your organization or business.
Pricing is a frame of mind. We are not upset to find that the person who booked our same hotel room a week before did not pay the same that we did. It might have been that they paid less because they have a rewards card that accumulated points from previous stays. We may be regretful that we did not plan better but we do not necessarily cry foul.
In developing our pricing we too can utilize a system of price variation.
Let's look at our chicken dinner. How can we sell the same ticket at different prices?
We can initiate a discount. Now before you remind me about how negative I am about sales, this can actually be a method to increase your prices.

We'' offer s senior discount. But it will be the standard price of $10. A regular ticket will now be $12. We'll be rewarded for being charitable but we will remain profitable.
We'll also offer ticket prices based on when the ticket is bought. The $12 ticket will be the early bird price. Tickets at the door will be $15. Again no one can complain. Get your tickets early. And the person paying a premium to get in at the last minute will be grateful that they have the chance to.
We can make our pricing more sophisticated. We might offer tickets for $12 and two for $20. Again we end up selling tickets for $10 when a couple purchase but the couple looks at us more favorable.
We could also sell ice cream bars separately for a $1 at the event. I personally do not like this strategy. I like to pay one price and not be nickeled and dimed during the event.
A word about online payments. Many organization are using online ticket sales such as Eventbrite and Paypal. These can be set to add an additional fee for the purchase. when I have been involved in selling online tickets, we as the organization absorb the cost. It is the cost of doing business. Imagine if someone paid in cash and we charged them a banking fee! As more transaction occur online we may see fewer surcharges passed on.

Every time that I see a new establishment open in the local retail district, I know that someone has invested their dreams, life savings and even more into this venture. Starting a business is extraordinarily hard. Even more frustrating is that even with the best planning, the venture has a high chance of failure.
Some failures are unavoidable. The timing was not right. The economy took the wrong turn. The Starbucks across the street moved.
But some ventures are unfathomable under the best of conditions. People regularly take their life's savings and put it into a venture that will only end in disappointment.
Hopefully the investment is manageable enough and the experience short enough that the proprietor can recover. But all too often the owner rides the ship to financial ruin.
This is not to say that you should deny your entrepreneurial spirit or shlf your dreams. We would be nowhere if it were not for those who took chances.
However, I've seen many people plunge into a business without realizing some of the most simple facts.
This does not mean that they have not planned. They have done extensive planning. they have done research, bought books on advertising and marketing and sought the advice of their friends.
I just picked up a book off the shelf "Running a Restaurant for Dummies" It isn't to the bottom of page 238 that it suggests that the reader get an accounting software program.
To me this is like opening a book on How to Run a Four Minute Mile and it's not until near the end of the book that it tells you to go buy a stopwatch.
I'm not saying that an accounting program is the secret to operating a restaurant. But maybe using Quickbooks or a spreadsheet to simulate a restaurant would be a good investment before leas

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Follow Your Passion

You and I hear that we should follow our passion. If we love to paint we should find a way to make that the driving force in our life. Even if we do not abandon our current profession to invest in a paint palette and brushes, I should at least find a way to direct my daily pursuits to relate to the world of art. when deciding on a career we can envision a much happier life if we love to fall out of bed each morning on our way to do something we love.

However many of us confuse starting a business around what we love as pursuing what we love. Thus the painter opens the art supply store, the dog over starts the pet grooming shop and the cake decorator buys the bakery. We imagine how wonderful it will be to be surrounded by artifacts of our joy at the same time we control our destiny.

The the problems begin. We no longer have time to concentrate on our painting because the customers demand our attention. Our love of dogs is diverted by bookkeeping. We cannot find anyone to hire that can decorate a cake as well as we do. So we dote over every detail and disappoint our customers with late deliveries.

Michael Gerber in his book The E-Myth explores this phenomenon. He shows that businesses fail because their owner is working in the business rather than on the business. If you are responsible for keeping the work of the business going, how can you then have the time to develop and grow the business?

This has in fact lead to a current business crisis. Many small business owners are at the age of retirement. They cannot sell their businesses. No one will buy them. They are worthless because the owner is working eighty hours a week to keep the place running. The owner never built systems so that the business would run itself. Why would anyone buy a business that required their more than full time attention? Why do they want to buy a job?

If you want to be a business owner your passion should be pursuing the role of a business owner not decorating cakes. When you can detach yourself from the work of the business, you can more clearly guide that business. And you can gain insights and implement innovations. If you have not been conditioned to accept "This is the way it has always been done" you can discover new ways of serving your customers. You can be the crusader that changes the paradigm.

Sales Oriented

The question at the job interview is “Are you sales oriented?” And of course the answer they are looking for is “Yes!” I will show how it can be the wrong strategy but for now the interviewer wants to know that you will do anything to serve the customer.

However, focusing on sales is the wrong strategy. The adrenaline rushed when the customer says Yes to a million dollar sale. Champagne corks pop. The CEO gives you a special commendation.

But the costs in executing this sale may not be worth it.

Focus on contribution margin. That is what you have left over to pay the bank - your fixed costs. It is the real measure of the productivity of the sale you just made.

Today begin to classify your sales not at their gross value but at their contribution margin. Sales dollars distort your accomplishment. And they give your organization a false sense of security. Instead of announcing over the loudspeaker that you made a million dollar sale, instead put out an email that you have made a $100,000 step toward paying your fixed costs.

This will create some accountability. After making a million dollar sale, people quickly forget what they had budgeted for materials, labor and overhead. By classifying this sale instead as a $100,000 step, your employees have made a commitment to showing $100,000 after the job is completed. Salespeople can point to the million dollar sale long after it becomes a loser if no one keeps track. But that $100,000 will stick in people’s head. If it evaporated someone will want to know why.

Another distortion that is created by focusing on sales is that you become less reluctant to push price. Why didn’t you charge $1,025,000? You may have thought “Why blow a $1,000,000 sale over $25,000? But that $25,000 (2.4%) would have boosted your profit on that sale by 25%! That would sure come in handy while you wait for the next sale!

CEOs that are sales oriented can easily jeopardize the profit of the company. They run the organization to maximize sales rather than boost contribution margin.

Scale

Does your business scale?

At one time you would be happy to have one location or office and the surrounding community would come to you for your service or product.

Today depending on how you organize yourself, you may have condemned yourself to a one person cell.

In the past when you wanted to expand you had to be satisfied with starting another location.

In today's world you can use technology and telecommunications to leverage your business.

you want to scale not only physically but organizationally.

Remember, if you are in the business doing the work of the business, you cannot scale. In fact over time you will be so consumed by the work of the business that you will never reach the potential that the same situation with you in another role could achieve.

We are surrounded by opportunities that scale.

Phone apps are a good example.

Your potential customer base is worldwide. Your variable costs are minimal. You do not have to replicate fixed costs to deliver your software in a new location.

I am amazed at how many people do not see this as a real opportunity. Imagine contracting with programmers and building ten apps. Launch them. Watch what happens. Improve on the good. Drop the bad. What fun!

I am even more amazed that young people are not more often taking advantage of this cyber world of business.

The pricing on these apps can also be creative. Offer a free version. Expect 99% of your users will enter and stay at this level. The 1% from throughout the world can support you very well.

Think of scalability when you start your venture. You do not want to find yourself chained to a location while you support a job-like experience rather than that of being a business owner.

When should you have an accountant?

Why?

Why do you want to have an accountant? You should know what you want because you may not find it in an accountant.

Accountants fulfill three functions.

They summarize information. They add number, they count beans. This is a good function making sure that a counting (accounting!) is underway is a big accomplishment. When you need the numbers to run the business, it's nice to know they are readily available.

Now some caution. The summarized numbers may not be of great help to the accountant to tell you how things are going. Let me put that another way. As your organization falters and crashes, your accountant may be proud of how well the summarized numbers charts your fall!

Accountants are not business consultants. They are not experienced in running a business. And they do not have much usable advice.

That being said, there are many fine business people who just happen to be accountants. The accounting profession does not train its practitioners on how to lead businesses to success.

I know that accountants are disagreeing with this. They point to the educational wing of their organizations and the number of courses and seminars that are dedicated to helping businesses.

But when students pick majors, the ones that have the spark to light up an organization go into other fields.

I know. I've seen it. Students self select themselves into the accounting profession. Years ago students interested in business went into accounting. They can now go into other business fields such as information systems.

There are two other functions that accountants perform. Doing taxes and auditing.

Get your taxes done! Don't be caught out of compliance.

And when you need an audit you'll have one.

That doesn't mean that your business is running well. It just confirms that the numbers are correct.

If you are looking for business advice, you may want to pursue another channel.

Stop While You Are Ahead

We'll imagine that your year's operation amounts to bidding, completing and selling nine projects. We have completed the profitability of each project and listed the profit for each below:

Page 37 figure 1

The net profit for the year is $100,000 If you wait to do your taxes for the company and have not kept good track of your profitability, you may imagine that your profit grew according to the following graphs:

Page 37 figure 2

If you had diligently graphed your profits real time, you have seen theis

Page 37 Figure 3

Let's now order our profit by profitability

Page 37 figure 4

And the graph looks lie

Page 37 figure 5

If we only completed profitable project, our net profit would have been $150,000. At that point we could have all gove home!