Title:
Identifying Profit Centers.

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Summary:
The books you keep as part of the administration of any business will undoubtedly include a profit & loss calculation, (or P&L). This, of course, is of central importance as it tells you if you're making money or going nowhere fast!Profit, Books, Money, Bills

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Article Body:

The books you keep as part of the administration of any business will undoubtedly include a profit & loss calculation, (or P&L). This, of course, is of central importance as it tells you if you're making money or going nowhere fast!

Let’s presume you're business sells a range of products and/or services and that you are in fact trading profitably. Have you ever taken this process several steps further and identified just what products make up the lions share of those profits?

When business people do this analysis, they are often very surprised at the results. Here is a case in point.

Bill runs a small suburban motel. When he first began his business he simply offered rooms and nothing else. After several years he now offers a mini bar in each room as well as meals in a restaurant, and laundry services. Bill appreciates that his guests wanted these facilities but he feels that they cause him a lot of extra work. He always simply assumed that his major profit centre was the accommodation. After all it contributed over 75% of the revenue. On the advice of his accountant, Bill conducts a profit center analysis and is amazed at the results. He finds that while his rooms bring in the most income, they do so at the lowest margin. It is in fact the room mini bars which generate the most profit, followed by the laundry service. As a result of this knowledge, Bill now has no problems improving and promoting these ancillary services to all his guests, knowing that they are earning him disproportionately high profits.

How to Identify Profit Centers.

To get a good result, (output), your information, (input), needs to be complete and accurate. So the first step is to list down all the product lines that you sell, e.g.; rooms, room alcohol, food & beverage, laundry. Then take each one in turn and dissect all the cost factors that go into it. For example the laundry would look something like this:

1) Plant & machinery depreciation
2) Labor
3) Materials, (e.g.; washing powder)
4) Administration time

Now, being very pragmatic, assign an associated cost to each of these factors per unit, (in this case - per kilo of clothes perhaps). Add this up and you have your baseline cost per kilo of providing a laundry service. Now simply look at what you charge per kilo and subtract the cost. The difference is your potential profit per kilo. Express this as a percentage of the cost, and there is a calculation of the profitability of one of your income streams. Take it a step further and multiply the profit per kilo by the number of kilos you plan to wash this coming year, and you will have a profit expectation expressed in $ terms.

Why not try this exercise with your business?