



From Behind the Desk



Profit First

82%

*of businesses that fail are a
result of **CASH FLOW PROBLEMS***

Do you treat profit as “whatever is left over” or do you plan for it as an up-front expense?



PROFIT – (or lack thereof). For purposes of this article we will be discussing net profit, not gross profit. Net profit, minus taxes, is what you get to keep; it's what you can put in the bank. While we have seen a number of businesses over the years with pretax net profits in excess of 30%, we view them as something of an anomaly when compared to the vast majority of businesses out there.

So, what was your profit (as a percentage of revenue) last year? What is it year to date this year? What was it supposed to be? The year to date this year could be more or less than last year because of a number of factors, one of which is that you don't have a complete business cycle with which to compare it to. You always want to be comparing “apples to apples”.

If your profit was better than it was supposed to be then good for you, if not there is a pretty good chance that you didn't engineer the profit percentage you wanted into your business formula. You are therefore treating profit as a “residual” that is, whatever is left over, which is good in the case of profit or bad in the case of a loss.

In simplistic terms, profit engineering is treating profit as the first item of expense. You can do this by establishing a realistic profit percentage, and reverse engineering everything else back through your business formula.

Cogent Analytics believes in strengthening the small-mid sized businesses that are the backbone of this country.

"From Behind the Desk" is a series designed to offer our expertise in key areas that business owners are challenged with every day.

These emails are not a solicitation and are meant to provide insight and information relevant to business ownership.

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Sounds simple? Not so—you actually have to have the proper operating infrastructure in place and a number of what we will call “business tools” and the knowledge of how to use them. However, it is absolutely achievable with careful planning, diligence to the process, and adherence to the overall plan.



Cogent Analytics is a business management consulting firm committed to integrity and transparency. We deliver powerful solutions to privately held businesses to help ensure long-term growth and sustainability.

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