



# Profit Engineering

## ... Rethinking Your Profit

All businesses are unique,  
but they share a common  
goal, to make a profit.

# Welcome



## Cogent's eBook Series

We are glad you chose to learn more about Profit Engineering.

This eBook is one of a series of eBooks designed to help bolster the knowledge base of business owners.

All subject matter in our eBooks are the elements in business that affect your profit.

## Cogent's Profit Platform

Cogent uses a Profit Platform model that outlines four main pillars of business that directly affect profit: SALES, PEOPLE, OPERATIONS, and MEASUREMENT.

Our Discovery Process takes a systemic approach to focus in on each of these areas to uncover profit opportunities in your business.

## Cogent's Discovery Process

During Cogent's Discovery process, an expert business analyst dives deep into each of the four pillars of your business, which are reflected on the Cogent Profit Platform. Over the course of 2 - 3 days, our analyst will identify profit losses and build strategies to minimize those losses.

# Introduction

## **Profit Engineering – Rethinking Your Profit**

Profit is the ultimate goal of any business and should not be viewed as something that may or may not be left over at the end of the month, quarter, or year. It needs to be defined, planned for, structured, expected, or in other words – engineered.

An effective way to guarantee profit for your business is to “engineer” it. In profit engineering, you plan for your profit as an up-front expense. Profit is not a residual, and engineering for profit will put the business owner in control.

Profit engineering goes well beyond increasing sales. It defines every aspect of the business and sets a clear measurement of performance.

# Steps



Engineering profit consists of first, understanding it, then determining a breakeven point, followed by establishing a realistic profit percentage; and finally reverse engineering it into your business plan. Engineering profit allows business owners to take control of their financials and using them to manage their profit.



## Step One

Understand Profit



## Step Three

Determine Your Breakeven Point



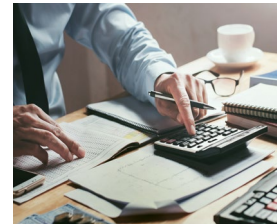
## Step Five

Plan for Profitability



## Step Two

Use Profit as a tool



## Step Four

Establish a Realistic Profit %



## Step Six

Reverse Engineer Profit





# Step One

Understand Profit

Profit is the difference between the amount earned and the amount spent when producing a product, while revenue is the amount received when selling a product or providing a service.

In the most simplistic of forms:  
$$\text{Profit} = \text{Revenue} - \text{Costs}$$

This formula represents the residual tax-based accounting definition of profit, which opens the possibility for a business to have revenue and not make a profit, and running at a loss.

At Cogent, we teach our clients how to engineer profit by treating it as your first line item of expense. The formula below is the formula Cogent uses to engineer profit for our clients.

$$\text{Sales} - \text{Profit} = \text{Expenses}$$



When you stop looking at profit as whatever is left over and begin to understand that profit is the tool that allows you to manage your debt; you gain a powerful advantage. It gives a business stronger bargaining power to control the cost of vendors, and it improves the equity value of the company.

Profit gives businesses room to deal with their taxable consequence so that one magical thing called a distribution is something business owners can pre-plan for and control.

Profit is important because it allows business owners to manage expenses, grow assets, hire more/better employees, and receive a return on their investment.

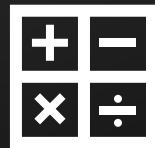
## Step Two



Use Profit as a Tool



## Step Three



Determine Your Breakeven Point

Making money does not necessarily mean making a profit, and you cannot make a profit if you do not know your breakeven point. The breakeven point is the production level, where the cost of production is the same as the revenues for a product.

Many business owners do not fully know how to read their financials or use them as a management tool. The sales reports say they are making money, but they do not see a profit. Thus, merely bringing in cash does not guarantee solvency; you also need to make a profit on the money. Knowing at which point you begin to make a profit is crucial in profit engineering.

Each business has different aspects that will be figured into a break even point, but the most simplistic formula is something like:

$$\text{Cost of Goods/Services Sold} = \text{Sales Revenue}$$





## Step Four



Establish A Realistic Profit %

Many people treat the ownership of their company as if they bought themselves a job. A business owner should be rewarded for the risk they take on with creating and building a business, just like any other investment that they make.

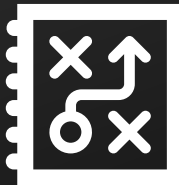
Business owners are often taught:  $\text{Sales} - \text{Expenses} = \text{Profit}$ , and whatever is left over is theirs to keep. Well, like anything else in life, if we are willing to take whatever is left over, surely that is all we will get.

When a business owner is okay with “whatever is left over,” they are treating profit as a “residual.” If they treat it as an upfront expense as taught in profit engineering, they will maximize the business’ potential to attain new levels of performance and profitability.





## Step Five



### Plan For Profitability

If a business owner structures their business and plans from the standpoint of:

$$\text{Sales} - \text{Profit} = \text{Expenses}$$

They can achieve their predetermined level of profitability by assigning specific operating budgets to each area of their business.

Doing this will enable the owner to have clear visibility into each area of the business and better manage and control different variables that directly affect profitability.

Thus, you must set a realistic profitability expectation and manage it back throughout your organization.



## Step Six



### Reverse Engineer Profit

If profit was not what you expected or hoped for; there is a chance that you didn't engineer the profit percentage you desired into your business formula.

In simplistic terms, as mentioned, profit engineering is treating profit as the first item of expense.

You do this by establishing a realistic profit percentage, and reverse engineer everything else back through your business formula (taking into account your breakeven point).

So, once you set your expected profit %, what does the business need to achieve or save to cover the "profit expense?" How does each area of your company affect the profitability and what do they need to do to help in their areas to help cover the profitability expense?



# Summary

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By engineering profit, you can take control of your business' profit while still planning for and ultimately better managing your operating expenses. If you don't do it correctly at first; your business will still be well on its way to achieving more profitability with better managed budgets. By planning for profit, engineering it, and controlling budgets, rather than hoping that there's a profit left; you have taken a major leap into sustainable, long term growth and success.

This guide is of course, simplified – the process may not be so simple. To learn more about profit engineering and a Discovery Analysis for your business, Call (833) 4MYPROFIT (833) 469-7763 or visit

<https://www.cogentanalytics.com/profitstrategy/>





Cogent Analytics is a business management consulting firm. Established in 2014, we focus solely on small to mid size privately held businesses. We deliver powerful solutions with integrity and transparency and consider it an honor to serve the American Entrepreneurs who are truly the backbone of our country.

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To learn more about Cogent's Discovery Process:

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