

The Profit Model

DO YOU KNOW HOW YOUR BUSINESS MAKES MONEY?

By Nate Riggan, CPA

Many business owners I talk with have succeeded primarily because of their instincts, or because they had a great product or service, or they were great salespeople. Many of these same business owners would admit that numbers aren't their "thing," and they have a hard time communicating how they plan to increase profitability, or better yet, have consistent profitability. The secret lies in how businesses make money.

Just as a good recipe makes a great meal, a thorough understanding of how to maximize profitability in your business will lead to consistently better results. The answer isn't to lower costs, nor is it to necessarily increase revenues. **The answer lies in the underlying mechanics of how a business operates.**

All businesses use assets to produce their product or service; people, machinery, square footage, etc. We call the utilization of these assets **Productivity**. This is the first of three key areas that drive consistent profitability. Maximizing the capacity of your people, machinery, or square footage creates the greatest amount of revenue. If these assets are not in full time use, and if you are not measuring productivity, you are leaving money on the table.

The second of three key areas we call **Realization**. Realization is the profitability of your product or service, and determines whether you will work "harder" or "smarter" while producing the company's revenue. Many business owners unknowingly work harder without the understanding that this area is the most sensitive and most valuable in producing profitability. From rework, to performing the job in the same amount of time you intended, realization is a key to your profitability. Our experience tells us this is the most important of the three **Profit Model** metrics.

The final area we call **Leverage**. One of the key ingredients of a good return on investment is the amount of revenue an asset can produce over a specific period of time. Most often, leverage is measured in terms of a return on the cost of the service or product, but it could also be measured on the amount of revenue produced per visit, per sale, or per person. This third **Profit Model** metric expands revenue production with the same amount of cost.



Can you explain how you will increase your profitability in terms that can be implemented in your business? In our Outsourced CFO program, we uncover the **Profit Model** of your business so that you can increase profitability, by working smarter, not harder.

..... **Contact us today for a free consultation @ 509.924.2506**