

Will your business growth bring more profits?

Question: My business has not been growing but it seems as though I add more people and equipment without increasing my net profit. What am I doing wrong?

Answer: Let's see what happens in a typical company as the business grows. Suppose that a company is netting \$50,000 on total sales of \$1,000,000 (a 5% net profit). If this company has a 40% gross profit (on items sold), a \$100,000 increase in sales should add \$40,000 to the bottom line. I say "should" because the increase in sales may cause the need for more equipment, space, or inventory. Perhaps this company should take a closer look at managing how the company grows. Growth for growth's sake can be financially unhealthy. A better way to increase net profit might be to increase the gross profit on all or most of the items sold. A 4% increase in the selling price would add \$40,000 ($\$1,000,000 \times 4\%$) to this company's bottom line if the price increase doesn't cause a loss of customers.

Suppose this company sells a top quality product and provides excellent service. These are major facts in the competitive world. If 30% of the current customer's account for 70% of the total sales, they are probably dealing with the company for reasons other than just low prices. Sell these customers on the fact that a slight increase in prices is necessary to maintain the quality of product and service that they expect and deserve. Good customers would like the company to be around in the future and should appreciate and understand the need for increasing prices.

When you add equipment or increase your staff, you have increased the level of sales at which you can break even. If your company is now feeling the need to increase its capital investment, perhaps your manager should look first at increasing the price for which the product or service is sold. Just maybe.

For more information about growth and profit, contact us at (888) 388-1040.

NOTE: This article is written to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Members: American Institute of Certified Public Accountants, Minnesota Society of Certified Public Accountants

Willmar Office

331 Third Street SW, Ste. 2
P.O. Box 570
Willmar, MN 56201
Phone: (320) 235-3311
Toll-Free: (888) 388-1040

Benson Office

1209 Pacific Avenue
Ste. 3
Benson, MN 56215
Phone: (320) 843-2302

Morris Office

401 Atlantic Avenue
Morris, MN 56267
Phone: (320) 589-2602

Litchfield Office

820 Sibley Avenue N
Litchfield, MN 55355
Phone: (320) 693-7975

St. Cloud Office

2351 Connecticut Avenue
Ste. 110
Sartell, MN 56377
Phone: (320) 252-7565
Toll Free: (800) 862-1337

www.cdscpa.com