

Creating Supreme Profit Centers for Your Business

“The investor of today does not profit from yesterday’s growth.” Warren Buffet

Profit centers contribute to the capacity of a business to produce a superior return on a firm’s investments based on the utilization of its resources in comparison with alternative opportunities over a defined period of time.

We believe the primary mission of a business is long-term, sustained profitability. This is the final test in the success or failure of a company. It is the ultimate expression of the efficiency of the organization’s operations.

Pricing Your Products and Services

Many businesses try to break into new markets by undercutting prices. One of the most devastating errors made by most companies is pricing their products and services too low. Price is only a consideration in the absence of value.

In the short run, an organization can gain new customers in a price war. However, the marginal cost of each new customer acquired is exorbitant over the long run. It also brings into question the quality of the company’s products and services by their customers. Quoting prices below your required profit requirement is not sustainable.

Revenue and Expenses

Revenue minus expense equals profit. More revenue from sales does not always mean more profitability. Income is only part of the equation. A business must keep their costs as low as possible to make sure it is maximizing its profits.

Many organizations depend on revenue growth to drive the scale of their business. The real determinant of growth is creating long-term profitability through increasingly efficient operations.

The largest impact on increasing profits resides in the inflection points of an enterprise’s growth curve. These are the defining moments in setting a successful course for the future. Profits increase as a result of creating new profit centers complete with innovative systems, strategy, and services.

Cash Burn Rates

One of the most potent Key Performance Indicators (KPI) for profit centers is their “Cash Burn Rate.” This indicator shows how much cash the organization is spending each month. The “Cash Burn Rate” is the underlying component of the company’s “Break Even Point” calculation. This is

the point at which the profit center starts to contribute financial value to the business.

The “Cash Burn Rate” is calculated by taking the amount of money the business is spending each month for operations and dividing it by the total amount of cash in the bank. For example, if you spend \$100,000 on operations each month and you have \$500,000 cash in the bank, your “Cash Burn Rate” is twenty percent per month (\$100,000 cash expenses divided by \$500,000 cash available).

A company’s “Cash Burn Rate” must be watched very closely by management because it indicates when the profit center will deliver a return on its investment. It takes time to cultivate loyal and long lasting customer relationships.

Decreasing Your Cash Burn Rate

There are only three ways to decrease a “Cash Burn Rate.” The business must increase revenue via sales, raise more funds through borrowing or reduce expenses.

One of the most powerful ways to reduce your expenditures is by outsourcing operations that are not core to your business. This allows the profit center to concentrate on becoming profitable faster.

Best Accounting Practices

Start with developing consistent and well-documented procedures. Using industry best practices makes the entire process efficient and effective for everyone involved.

Determine the risks and weaknesses in your processes, and make a list of ways to improve in those areas. Build in checks and balances every step of the way.

Listen to your vendors, clients and independent contractors regarding complaints they have about your practices. This type of feedback is vital in finding omissions, misclassifications, and potential fraud.

Frequent Reviews

Review all your policies and procedures at least annually. The more frequent your reviews the better. It is imperative that you keep up with new laws, practices, and technologies in order to stay relevant in your market niche.

How We Can Help You

[Pacific Crest Group \(PCG\)](#) provides professional services that keep your business focused on your

Pacific Crest Group

Back Office Solutions for Bay Area Businesses

<http://www.pcg-services.com>

critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward-looking perspective, we provide the outsourced solutions your business needs to grow. A PCG professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.