

# The Truth About Profit

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Should you or your colleagues at work understand profit even if you aren't measured on it? Should employees at all levels care about your organization's profitability? Does having an understanding of finances help employees make the right decisions? Of course the answers are "yes". Ensuring financial profitability is everyone's responsibility. The organization you work for is only successful if it makes more money that it spends. It is only a viable place to work and a long-term source of income if it is profitable. Fundamentally, your ability to have a job and a promising future is dependent on your organization's profitability.

No matter what position you hold, you influence your organization's profitability. Whether you influence revenue generation or expense management, you impact your organization's profitability. Your efforts have an indirect if not direct effect on the development, production, sourcing, pricing, or sales of your organization's offerings. You have influence on the operating and capital expenses incurred by your organization. The degree to which you collaborate with others, encourage others, help others, promote a can-do-attitude, ensure quality, and work with efficiency has an impact. Whatever you choose to do or not do has an impact.

So how much do you know about profit? Employees generally know that profit is the amount of money left over after subtracting expenses from revenues. Many understand that if your organization earns a net profit margin of 10 percent, it earns \$10,000 to use as it deems appropriate for every \$100,000 of revenue that it takes in. Some appreciate that the \$10,000 that remains becomes available to invest in people, facilities, new equipment, and better products. A few even recognize how important it is to return money to the shareholders who put their resources at risk to help the organization succeed. Yet these understandings only scratch the surface of what there is to know about profit.

If you aspire to be successful in business or non-profit organizations, there is little that is more important than understanding finances and how to be profitable in particular. Even in nonprofits the need for money doesn't go away. Staff needs aren't always fulfilled by volunteers. Equipment, supplies, and facilities aren't always donated. Where people are needed to distribute goods and provide services, an economic incentive is often required to ensure workers are available and give their best effort.

If you weren't a finance major in college, seek to gain a deeper understanding of financial management. Know how your and your team's contributions impact profit. Learn about the key financial metrics that your organization tracks and considers most important. Even if you are not measured on financial metrics, appreciate the importance of them to the organization. Realize that if you want to sell an idea or take on more responsibility that your ability to impact your organization's key metrics will make you and your ideas more valuable.

To kick start your interest in learning more about how to impact your organization's profitability, here are five points about profit that many people don't understand:

- You have to spend money to make money, but not all expenses have a positive impact on profitability. Not all incremental expenditures drive incremental revenue, reduce other expenses, or improve the organization in an important way. Be very discerning about how you spend your organization's hard-earned money. Realize that if your organization earns a 10 percent profit margin, every \$10,000 of incremental expense that doesn't go toward generating its associated \$100,000 in revenue means that your organization must make another \$100,000 in revenues to offset it. While a \$10,000 discretionary expense might not seem like much, it takes \$100,000 in revenue to offset it.
- Who you spend your money with is important too. Some people think that a company that provides local employment is more important than where the company is headquartered. People buy foreign goods and services thinking that because the goods are produced locally that their money is going to a local cause. Realize that while

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local expenses are being covered and jobs are better than no jobs, the profit is going somewhere else. If you don't think that is a big deal, consider you are making just enough money every month to pay for your family's expenses with nothing left over to put into savings. After years of work, all you would have done is pay for your expenses. You would have nothing left for retirement. You would have nothing left to invest in new business ventures, hobbies, or your family. Where the profit goes is very important as it represents the money available for future investment.

- Making a profit is honorable. With the exception of money made through illegal and unethical means, businesses who are profitable don't deserve to be disrespected for being so. Government leaders, unions, and other organizations target profitable companies as if they were evil empires. Yes, some companies should give more money back to the communities they profit from, but being profitable doesn't make them criminal. Their profit comes from the hard work and good decisions of people. It is the result of the strategies, investments, and efforts that deserve to be rewarded, not punished. Even people who think companies should work solely for the good of their communities and the environment need to recognize that without a profit there is nothing left to invest in the world they cherish.
- Profit is the true barometer of business success. Anyone can record revenue. Children can produce things and sell them below cost. Anyone with money can start a business and lose their money. Any organization can become competitive in the marketplace by cutting their prices. Anyone can outsell their competitors by discounting their products. Successful organizations are those that figure out how to create enough value that customers will pay more for their offerings than their competitors'. They create enough value that they sell their offerings substantially higher than what their offerings cost to make. Profit is the true measure of value creation. It is the barometer of longevity. It is the sum total of an organization's capabilities, efforts, investments, and strategies.
- You might be very busy. You might be working 60+ hours a week, but busyness doesn't equal productivity or more importantly—profitability. Know what activities drive profit. Know what calls, meetings, projects, and tasks contribute to the decisions and actions that produce profit. This isn't to suggest that you only focus on tangible and tactical tasks. Strategic activities like business planning, process improvement, training, and coaching/mentoring impact profitability. They create competitive differentiation in very tangible ways. Just be careful about spending time on activity that doesn't contribute to profitability. Studies find that people spend a significant amount of time on non-value adding activity. Activities that don't add value include asking for and generating reports that aren't used, recreating work that has been done before, performing manual work that could be automated, reviewing decisions already made, and overcoming issues that could have been prevented.

In summary, consider profit your financial measure of success. The amount of money you make that is above the amount of money you spend represents your value add. It represents your financial stewardship and net-worth. It represents your return on effort. It represents your future ability to invest in your people, yourself, your organization, your community, and the world in which you live.

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