

Case Study #1 - A Great Visual on Profit Centers

First things first! WHAT IS A PROFIT CENTER?

In simple terms, a **PROFIT CENTER** is a distinct part of your business that:

1. generates its own income and
2. has its own expenses.

Most businesses start with just one profit center. As you grow, you might add more based on different products, services, customer types, or locations. Here are a few examples of how that works:



SOCIAL MEDIA MARKETING COMPANY: THREE KEY PROFIT CENTERS

PROFIT CENTER #1



Monthly Retainer

PROFIT CENTER #2



Content Creation

PROFIT CENTER #3



Creator Marketing Campaigns

VETERINARY PRACTICE COMPANY: TWO KEY PROFIT CENTERS

PROFIT CENTER #1



Clinical & Surgical Care

PROFIT CENTER #2



Preventative Care & Pharmacy

HOW DO YOU TRACK A PROFIT CENTER?

It's a simple formula:

- **INCOME** from that profit center **minus**
- **COSTS OF PRODUCTS / SERVICE & DELIVERY** for that profit center **equals**
- **PROFIT** for that profit center

THE CASE STUDY

This client provided several services and tracked the services somewhat separately, but in a way that was NOT EASILY VISUALIZED. Here were the profit centers of this company:

- Demolition
- Lawn Fertilization
- Lawn Irrigation
- Landscaping Installation

- Mowing

Here is the visual of their profit centers's finances BEFORE we helped the client. This was for a summer month a few years back.

Income	
Demolition	9,317
Fertilization	6,824
Irrigation	39,857
Landscaping	143,614
Mowing	61,125
Total Income	\$ 260,738
Direct Job Costs	
Supplies & Materials	
Demolition	2,279
Fertilization	373
Irrigation	7,273
Landscaping	15,302
Mowing	2,298
Total Supplies & Materials	27,525
Equipment Rental	9,492
Fuel & Gasoline	14,372
Total Direct Job Costs	\$ 51,389
Gross Profit	\$ 209,349

What we observed:

1. We noticed that no labor cost was included in the direct job costs. Labor needs to be added to the direct job costs, since we had to pay workers to actually complete and deliver the work. It is part of the job's true cost.

2. When you look at profit centers *vertically*, as shown above, you don't have a helpful visual. *It doesn't help you make business decisions!*

What we did:

1. We factored in the labor costs in the direct job costs.
2. We separated out the profit centers, *including the labor costs for each center.*

The final visual (my observations below):

	Demolition	Fertilization	Irrigation	Landscaping	Mowing	TOTAL
Income	9,317	6,824	39,857	143,614	61,125	260,737
Labor Costs						
Labor Wages	3,228	3,956	12,377	27,255	19,381	66,197
Labor Taxes	247	587	1,302	3,478	3,293	8,907
Labor Workers Comp	129	99	260	790	523	1,802
Total Labor Costs	3,604	4,642	13,939	31,524	23,198	76,907
Direct Job Costs						
Supplies & Materials	2,279	373	7,273	15,302	2,298	27,526
Equipment Rental	1,056			3,892	4,543	9,491
Fuel & Gasoline						14,372
Total Direct Job Costs	3,335	373	7,273	19,194	6,842	51,389
Production Costs	6,939	5,015	21,212	50,718	30,039	128,296
Gross Profit	2,378	1,809	18,645	92,896	31,086	132,441
Gross Profit %	26%	27%	47%	65%	51%	51%

This visualization:

- **Can and will reveal hidden losses:** tracking only the totals can and will mask a failing service line. For this client, there were no areas of loss (although for other clients we did uncover some at times). There are two clear areas where there is minimal profit (demolition and fertilization), but they are such a small percentage of the business that the client didn't mind. They had very little resources allocated to these small profit centers.
- **Points to a smarter resource allocation:** with this visual you can put more resources (equipment, top talent, etc.) toward the most profitable centers for maximum return. It is very clear that the key profit center for this client was landscape installation, since it made the most income *and* provided the highest profit. But clearly irrigation and mowing were also two strong divisions.

- **Allows for a more precise pricing strategy:** you can easily see whether a specific service is underpriced relative to the labor and materials required to deliver it. Each one of these centers' estimating procedure could now be easily reviewed against industry standards to see if improvements could be made.
- **Gives you improved sales focus:** you can direct sales teams to prioritize services that yield higher profit over labor-intensive, low-profit offerings. This client already knew the landscaping division was the strongest one, but this visual gave him confirmation.
- **Provides clear accountability & incentives:** the visual allows division managers to be measured and rewarded on the direct bottom-line performance of their specific team/center. The client could now develop a bonus program for each center/division, based on the performance of that manager resulting in profit.
- **Removes guesswork from one of these three critical choices:**
 - **Deciding to Keep a Profit Center:** It gives you the confidence to retain a service line, even if its revenue looks modest on paper, because you can verify that its gross margins and cash contribution are healthy and stable.
 - **Deciding to Let Go (Drop) a Profit Center:** It removes the emotional hesitation when cutting a line. If a division drains labor, creates operational headaches, and shows consistently low or negative margins (profit), you have clear proof that it is healthy to let it go, freeing up focus for your winners.
 - **Intervening on Sudden Drops:** It acts as an early warning indicator. If a division's profitability suddenly dips month-over-month, you can immediately spot the leak and step in before it drags down the entire company's bottom line.
- **Gives you an accurate view of overhead coverage:** Clarifies how much overhead each division can realistically support. In other words, you would know exactly how much money each center will have left over to cover all of your other expenses.
- **LAST, BUT NOT LEAST = Improves the value of your company:** Investors and lenders favor businesses with clean, segmented financials that prove predictable revenue streams across independent business units (profit centers).