

Do The Math!



Less Can Be More—Or More Can Be More

By Jay Goltz

Business is very different than a lot of other endeavors. If you want a really big house, you buy a really big house. If you want to lose weight, you eat less. If you want more leisure time, you spend less time working. If you want to make more money at your job, you need to work more hours. There is a pretty simple correlation between what you want and what you have to do to get what you want. Business is far different. In business, you have to figure out what to do and how to do it. Two people with the goal of making \$100,000 can choose two very different paths.

Let's do the math! It's not about your top line; it's about your bottom line. You could get your gross sales to \$2 million a year and end up with a total profit of 5 percent (including your salary), leaving you with \$100,000. It would probably be difficult to do everything yourself. You would probably have 20 to 30 employees, including people doing selling, management, and buying. Your time is not spent in any one area; you are overseeing the entire organization. You also have the opportunity to raise your income significantly if you raise your bottom line to 10 or 15 percent.

On the other hand, you could run a smaller operation. Low overhead. Do most things yourself. Your sales might only be \$500,000 a year. You do all the selling, management, and buying yourself. You have a small staff, say four or five people. You keep things lean. Your overhead is 20 percent, and you are personally "earning" every dollar you make. You really don't need a sales person because you are dealing with a limited number of key accounts. You are basically making the same 5 percent as the big guy, but you are also paying yourself (instead of others) to do sales, management, the buying, and other administrative tasks. You are busy. There are no long lunches for you. There are also fewer employee headaches—75 percent fewer to be exact.

Which approach is smarter? That depends. Do you like being a one-man show? Do you have the type of personality that allows you to delegate? If you wanted to, could you be putting more business through? Do you get more satisfaction from dealing with customers or running an organization? These are mostly personal lifestyle questions. Then there is a whole other set of

questions: do you want to make more money? Is there a lot more business out there to get?

If you are running the one-man show, it is going to be difficult to grow a business much larger unless you bring in more staff. There is no right or wrong answer to this. Each option has its own advantages, disadvantages, and set of vulnerabilities. If you run a bigger

Let's do the math:

LARGER BUSINESS

Gross Sales	\$2,000,000
Overhead + Materials + Salaries	\$1,900,000
Your Net (5% of sales)	\$100,000

SMALLER BUSINESS

Gross Sales	\$500,000
Overhead 20%	\$100,000
Materials + Salaries	\$300,000
Your Net	\$100,000

operation, you might be more vulnerable if the economy takes a big hit and you may start losing money. If you run a smaller operation, you might be more vulnerable if something happens that makes you unavailable to work for a while. In addition, the loss of one or two customers can leave you in a bit of trouble.

While there is no right answer, there probably is a right answer for you, depending on your ability to find business, your production facility, your management ability, and your financial position. Bigger is not always better. Lower overhead is not always better. The only thing that is always better is having a bigger bottom line. There are \$300,000 businesses that make more money than \$10 million businesses.

High production doesn't always mean high profits. High profits mean high profits. Sometimes the means doesn't justify the end. ■

Jay Goltz owns Artists' Frame Service in Chicago, which employs over 80 people at its main framing operation. He has received many business honors and is known for his straight talk on succeeding in business.