

Profitability a Factor in Business Continuity

For a business to exist for the long term, it must make money. Yet other values also can influence whether a business stays in business.

“I am surprised sometimes by the number of business owners who never have taken the time to determine if they are profitable at a basic level,” says Glenn Muske, the North Dakota State University Extension Service’s rural and agribusiness enterprise development specialist. “There is money in the bank, so the assumption is that he or she must be doing OK.”

Yet money in the bank and making a profit are two different things. So how does a business owner tell if he or she has a profitable business?

“From my experience, one time this difference appears is when it is time to pay taxes,” says Muske. “The money in the bank may be inadequate to pay the tax bill.”

Beyond that, owners must consider other financial items, such as whether the business can afford to:

- Pay the owner for his or her time spent working in the business
- Pay the owner for the time spent managing the business
- Pay the owner for the risk he or she is taking (or whether the owner is getting a return on his or her investment)
- Create a pool of funds to help maintain and replace the building and equipment
- Build a fund that will pay for growth and expansion if that is desired

While all of these items are beyond the basic profit definition, the business owner must consider them when determining profitability.

“If your business is not even covering your costs, and you are completely tracking business income and expenses, it is easy to tell that your business must make changes to survive,” says (Insert name and title) of (Insert county). “It is harder, though, without good records, to determine if you are covering these other items that may influence whether you continue to operate the business.”

But what about the other reasons a business owner has for starting and operating a business? Motivators can include filling a local community need, being able to spend time with family, the joy of being one’s own boss, the ability to do something the owner wants or have a lifestyle he or she desires. Perhaps the owner wants to begin bringing other family members into the business as an introduction to entrepreneurship and even as a means of transitioning a family business to the next generation.

“Those are important for the owner to consider as well,” says Muske. “While they don’t pay the bills, they are reasons why an owner might take a slightly smaller salary or discount his or her return on the risk/reward ratio.”

Thus profit becomes only one distinguishing factor when considering business continuity. Certainly, other financial aspects must be factored in, but the more subjective aspects also must be a part of the equation.

As your business looks toward the future, take a complete look at the financial picture and be clear about what else the business is providing you and others.

For more information, contact your local Extension Service office at [insert phone number and email address]. Also visit NDSU's small-business support website at www.ag.ndsu.edu/smallbusiness and sign up for the monthly newsletter. Or check out Facebook at www.facebook.com/NDSUextsmallbiz or Twitter at @gmuske. Another online resource is www.eXtension.org/entrepreneurship.

You also can get help from your local chamber of commerce, as well as the Small Business Administration and its related organizations, such as the Small Business Development Centers and SCORE.

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For more information, contact glenn.muske@ndsu.edu or call (701) 328-9718. You also can visit our website, www.ag.ndsu.edu/smallbusiness.