

Gross Profit Analysis as an Easy Tool for Enterprise Analysis

Why: You want to see which enterprises, after the variable (direct) costs and risks associated with the enterprise have been factored in, produce the most income for the least additional cost and risk. In this way you assess what each enterprise contributes to covering the fixed costs of the business and the degree of risk involved in assuring that contribution.

Profit vs. Production

Gross Profit Analysis **influences your planning** by helping you:

- assess financial risk of any given enterprise
- make better use of existing assets, and
- have an enhanced awareness of fixed costs and how to manage them.

The key to survival in business is **flexibility**—being able to change enterprises and not feel locked into doing things the way you always have. The issues of debt, overhead (fixed costs), risk, and scale are all critical to consider when investing in various enterprises. Whether you are looking at two different enterprises or two different ways of doing the same enterprise, it is important to determine where your breakeven point occurs, and how much risk you are willing to take in both the short and long term.

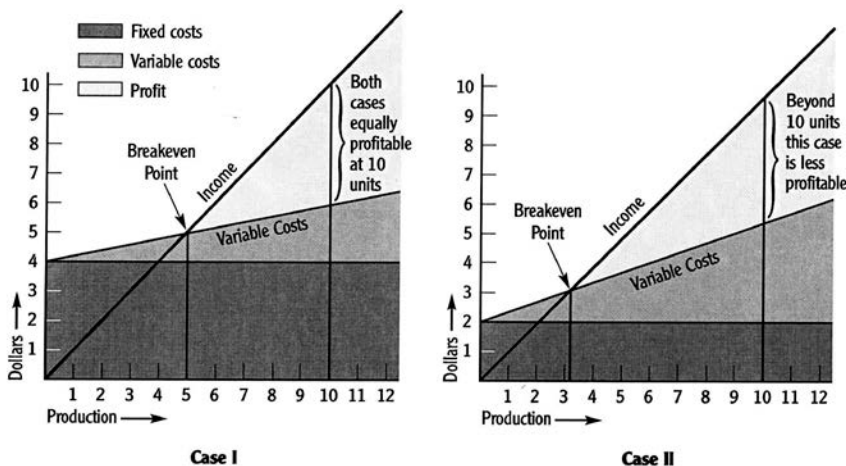
Debt, Overhead, Risk, and Scale

Exercise: Look at the graph below. These graphs can be read in two ways:

Price—The price for the product must be much higher in Case 1 (breakeven price of \$5) versus Case 2 (breakeven price of \$3.10). Case 1 then requires a price 61% higher than Case 2.

Yield—Case 1 needs to produce yields 61% higher than Case 2. The yields required in Case 1 may be unattainable.

What is the breakeven point in each case? Which is a riskier proposition for the producer? Which one allows more flexibility? Why? Which one is more profitable with higher production? Which one looks more appealing to you?



Story Problem

Milking Doe value \$150, cull \$50

150% birth rate

8 years of service

10 does in herd

Guardian dog 8 years of service

Income

_____ Kids @75# X \$1.50/lb

_____ Milk (8 mths @ .5 gal/day) @ \$6/gal

Total _____

Expenses

_____ Depreciation

_____ 1% death loss

_____ Minerals

_____ Breeding

_____ Guardian Dog Depreciation

_____ Guardian Dog feed & vet

Total _____

Gross Profit _____

Feed @ \$8/bale for 50# average = \$.16/lb

Dry Lot

Feed 3#

\$/day _____

\$/year _____

Forage w/Fence

Feed 1.5#

\$/day _____

\$/year _____

No Fence

\$0

Fence/Charger @ \$700 for 5 years service

\$ _____

Final Gross Profit

Drylot _____

Pasture _____

Gross Profit/Acre if using for dairy goats on 40 acres? _____

Formula: Carrying capacity produced for year by land (10 goats in this scenario) X GP/Goat divided by # of acres = GPA/ acre