Learning Tip #1

Dear MIH participants,

I hope you have had a restful and rejuvenating season since we last saw you at the Making It Happen training! To help you remember all the material we covered in the training, we will share some financial tips with you at various points of the coming year. Below is the first learning tip, specifically geared towards helping you prepare and plan for the upcoming season! It describes the difference between net income and profit margin, and why they matter. One of our consultants, Julia Shanks, from Julia Shanks Food Consulting (http://www.juliashanks.com), wrote Tip #1.

We hope you take a brief moment to read this and think about your sales goals and projected profit margin for this upcoming season. If you need any assistance with this, or any other financial tasks, please let us know! We are here to help.

**Tip #1**

**Net Income** (also referred to as net profit) is calculated as total sales revenues minus total operating expenses* and is detailed on the income statement. It provides insight into how much profit is available to invest in the business (by making capital purchase or improvements) and pay the farmer (if they haven’t already taken a salary).

In the training, we mentioned a success strategy to set a net income goal for the year, and then use this number to determine the sales and expense targets needed to meet this goal. This allows you to concretely understand what it would take for the business to earn an income goal that provides security and a high quality of life.

*Total expenses do not include debt principal repayment and purchases in capital equipment.

**Profit margin** is calculated as the percentage of net income relative to total revenue. As a formula it is written: Profit Margin = Net Income/Revenue. It enables easy comparison of profitability from one year to the next. By looking at the profit as a percentage of revenue, you can easily understand how efficiently the business operates compared to previous years.

As you look at these numbers, consider whether the business generates enough cash to satisfy your financial needs: pay yourself, grow your business, and withstand unexpected expenses. Also consider that you may crave the occasional luxury (new Carhartts or a dinner out) and the capacity to enjoy a vacation every once in a while. Further, the net profit also gives an indication of how much debt financing the business can afford. The monthly loan payments certainly cannot exceed the net profit, or you will run into cash flow problems; better still, profits after paying the debt service should still leave breathing room for the above.

To reaching your goals —

The Carrot Project