

ASSESSING THE PROFITABILITY OF YOUR PRODUCTS



As a manufacturer, it's essential to have a clear understanding of the profitability of your individual products, not just your overall company profitability. By assessing the profitability of each product line, you can optimize your strategies and make informed decisions to increase your bottom line. Here's an easy-to-follow guide to help you assess the profitability of your products.

Understand the Numbers

Start by analyzing the direct labor, material and other costs associated with each product. This will help you determine the actual costs incurred for producing each item. It's important to isolate these costs for accurate assessment.

Allocate Indirect Costs

Develop a reasonable methodology to allocate indirect costs such as rent, insurance and administrative expenses. These costs are not directly tied to a specific product but still contribute to the overall manufacturing overhead. Allocating them appropriately will provide a clearer picture of the profitability of each product line.

Analyze Costs and Profit Margins

Once you have the cost information, you can calculate the profit margins for each product line. Understanding the actual costs and profit margins will help you

identify which product lines are more profitable and which ones may be losing money.

Identify Surprising Results

You might discover unexpected insights during your analysis. For example, a product line that you've heavily invested in marketing might not be as profitable as you initially thought. On the other hand, you might find that a product line you considered less significant is actually more profitable. Take note of these findings for further evaluation.

Assess Contribution Margin

For product lines that are losing money, it's crucial to determine their contribution margin. Contribution margin is calculated by subtracting variable costs from the revenue generated. Even if a product line is not profitable on its own, a positive contribution margin means it can help cover the company's fixed costs and contribute to overall profitability.

Uncover Potential Opportunities

Analyzing and understanding the profitability of each product line enables you to identify potential opportunities for increasing profits. By focusing on the most profitable product lines, you can allocate resources more effectively and make strategic decisions that enhance your company's performance.

Consider Software Solutions

Tracking product-specific cost information can be challenging but there are software solutions available, such as Enterprise Resource Planning (ERP) systems, that can automate the process. These tools streamline data collection and analysis, making it easier for you to assess profitability accurately.

If you find implementing a cost-effective solution challenging, your [BMF Advisor](#) can assist with setting up a reliable system to track and analyze product-specific costs.