

IN 2 MINUTES

It's all a question of Margin

With 2022 over, it is now time to do the maths and take 2023 as a certainty.

Inflation, rising production costs and rising interest rates are macroeconomic indicators that all companies in general will have to take into account from January onwards!

This is how we share one of the many testimonies they send us:

"I am buying/producing more expensive and I can't reflect that in my selling price! I don't know to what extent I should increase the selling price of my product and/or service so that I don't lose customers!"

Joseph, 4/1/2023

The times of concern did not end with the pandemic times and remain today, creating uncertainty in the future of companies.

This is the case of two young friends, Andreia and Filipa, who, after the end-of-year parties, decided to connect by video call to draw some lessons from the past year, as well as share some ideas for the future.

Both have created their own companies in the same business area, however, they operate in geographically distinct locations, and therefore do not suffer any direct competition.

In that conversation, both came to a rather curious conclusion:

"The gross margin of the business is not enough to know whether or not my company is healthy and more than that, whether it is economically viable."



	€	%
Sales	Sales	200 000,00 €
	Cost with sales	160 000,00 €
	Gross margin	40 000,00 € 20,00%
Fixed Expenses	Lease	20 000,00 €
	Employees	12 000,00 €
	Energy and fuels	1 400,00 €
	Communication and Advertising	2 350,00 €
	Insurance	770,00 €
	Levies	130,00 €
	Gross Profit Margin	3 350,00 € 1,68%

We collected the data from Andreia's company and are able to agree with their conclusion. The company has a gross margin of 20% on sales, which, at first sight, appears to be a good safety margin.

However, and looking at the other costs that the company incurs, we can see that making money from the sale of a product and/or service does not mean that the business is generating profit in the same proportion or even making a profit.

In summary:

Conjugating the case of Andreia's company and Joseph's words of concern:

The secret is sometimes not in increasing the margins of the business by increasing sales, because it is not always feasible, but by rethinking and optimising some production and/or structure costs in order to achieve it.

And you, have you ever wondered about your company? Were you surprised?

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