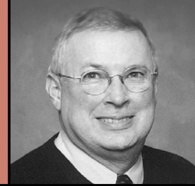

**By Daniel E. Beardslee, LS**

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# The Power of Income

Over the course of the many years that I have been trying to help surveyors understand the impact of business decisions, a continuing theme has been the resistance to the idea of reasonable pricing strategies. I have given up trying to understand why that is, but I have not given up trying to help with the understanding. Those who do grasp the concepts and are willing to implement them become very successful financially, while the rest (the vast majority) are relegated to mediocrity.

Space is limited here, so let's take a look at a greatly simplified income statement of a small surveying company. Let's assume a gross revenue of $1,000,000, and that the cost of producing that revenue is $850,000. The annual income statement would then look like this:

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $1,000,000 |
| Costs of Goods Sold | $850,000 |
| Profit before taxes | $150,000 |

The profit is $150,000, or 15% of revenue. Not bad, but can we do better? More important, can we do better *easily*? What if we were to raise our rates by 10%? Would it cost a lot of work? Would we be better off or worse, and by how much? I would be willing to guess that unless you want to price compete, given the nature of the surveying market these days, a 10% increase in fees would have no measurable impact on the amount of work you're able to acquire. If you want to price compete, that's a whole 'nother matter.

So, if we increase fees by 10% and do the same amount of work, what is the effect on the bottom line? Our new income statement would look like this, assuming costs haven't increased.

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $1,100,000 |
| Costs of Goods Sold | $850,000 |
| Profit before taxes | $250,000 |

All of a sudden, by increasing our revenue by 10%, we have increased our profit margin by 67%. That's a jaw dropper, is it not?

Well, let's say we're not that bold and we think we can only raise our rates by 5%. Our income statement would then look like this:

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $1,050,000 |
| Costs of Goods Sold | $850,000 |
| Profit before taxes | $200,000 |

By raising our rates a measly 5% we have increased our profit margin by 33%. Who thinks they cannot raise their rates 5% successfully? The answer of course, is only those who choose to price compete.

Let's take a look at that business model then. Let's say we reduce our rates 10%. Our income statement looks like this:

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $900,000 |
| Costs of Goods Sold | $850,000 |
| Profit before taxes | $50,000 |

By reducing our rates, our profit margin goes from 15% to 5%–YIKES! That's pretty skinny. "But . . ." you say, "our workload will increase when we reduce our rates." Maybe, and if that's the case, so will your costs. So let's say by reducing our rates 10%, we increase our workload by a similar amount, and our costs increase accordingly (because you have to do more work to support the income, your costs are likely to increase proportionally.) That seems like a reasonable proposition, so now our income statement looks like this:

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $990,000 |
| Costs of Goods Sold | $935,000 |
| Profit before taxes | $55,000 |

Was that a good business decision? Apparently not!

Let's look at it from one more angle. Let's say we increase our price 10% and do 10% less work and reduce our cost by 5%. What's the result? Our income statement looks like this:

| SURVEYOR DAN'S INCOME STATEMENT | |
|---|---|
| Annual Revenue | $990,000 |
| Costs of Goods Sold | $807,500 |
| Profit before taxes | $182,500 |

We would *still* make more money!

So what can we divine from this little exercise? Take a look at your own income statement and see what makes sense for you. Apply this exercise and see how it affects your business–it may help you make better business decisions. For sure you should be able to see the folly of price competition. Whether you are willing to do anything about or not is the question. As Joseph Heller opined in *Catch-22*, "Some men are born mediocre, some men achieve mediocrity, and some men have mediocrity thrust upon them." I would just as soon avoid it altogether.