How to Use Profit Margin in your Farrier Business (profit Margin is not all that scary)
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Profit Margin is an excellent way to track how much your farrier business is making, for making internal price comparisons, for determining your charge, and for helping make customer determinations.

Profit Margin is simply a measure of profitability and can be expressed as Net Profit Margin or Gross Profit Margin. Gross Profit Margin is before taxes and Net Profit Margin is after taxes. It is a ratio of profitability calculated as profits divided by revenues or total income less expenses divided by total income. Profit Margin is displayed as a percentage ranging from 0% to 100%. For example, a 20% profit margin means the company has an income of $0.20 for each dollar of sales.

To figure out the Profit Margin you must first calculate your total income generated minus your total expenses. This is your profit. Divide this figure by the total income generated. This is your revenue.

$$\text{Profit Margin} = \frac{\text{Profit (total income minus expenses)}}{\text{Revenue (total income)}} \times 100\%$$

You can determine your Profit Margin by your annual IRS, Schedule C. Line 1 is you gross receipts or sales. Line 28 is your total expenses. If you use part of your home as a business write off, then that will be deducted also and you will use line 31 as your net profit or loss. For example: if your total sales (Line 1) is $80,425, your total expenses (Line 28) is $45,125; your Profit Margin is:

$$\text{Profit Margin} = \frac{\$80{,}425 - \$45{,}125}{\$80{,}425} \times 100\% = \frac{\$35{,}300}{\$80{,}425} \times 100\% = 43.9\%$$

Profit Margin is an indicator of a company's pricing strategies and how well it controls its costs. A low Profit Margin indicates a low margin of safety which would mean a higher risk that a decline in farrier business will erase any profits and result in losses. Looking at the earnings of any business often doesn’t tell the entire story. Increased earnings are good, but an increase does not mean that the Profit Margin of a business is improving. For instance, if a farrier has costs that have increased at a greater rate than sales, it leads to a lower profit margin. This is an indication that costs need to be under better control.

Profit Margin is very useful when comparing companies in a similar industry. A higher Profit Margin indicates a more profitable farrier business that has better control over its costs compared to its competitors. Profit Margin can also be used to determine if a move to a certain area will be less or more profitable.

Imagine a farrier business that has a profit of $35,000 (total income less expenses) and a total income of $80,000, giving it a Profit Margin of 43.8% ($35,000/$80,000). If in the next year the profit rises to $50,000 (total income less expenses) on a total income of $150,000, the farrier business's Profit Margin would fall to 33.3%. So while the farrier business increased its income, it has done so with a diminishing Profit Margin. Therefore, the farrier is working harder to make more income but in the end is doing so by keeping less of it.

**Using Profit Margin for determining your fee or charges**.

Profit Margin can also be used for internal comparison and determining your service charge or price. Some farrier software programs, like Forge Ahead™ by Backroads Data, does this automatically, thus making it very easy to look at how much money you are making for every dollar you are charging. By inputting data into the software program, not only can I tell you how much profit I'm making off each customer, I can also look at each service or product to determine the Profit Margin. When the Profit Margin drops on a product or service, I know it is time to raise my price on that item. Although harder, you can calculate the selling price or fee required to achieve a specific Profit Margin.

For example:

- You determine the total cost to trim a horse is $15.00 (which includes tool percentage for rasp, nipper, hoof stand; travel percentage for gasoline, vehicle, insurance, etc).
- You desire to make $20.00 an hour, and it takes you one hour from arrival to departure.
- You would like to make a 40% profit.

Then the charge should be:

Selling Price = $\frac{\$15.00+\$20.00}{1-40\%} = \frac{\$35.00}{0.60}$ = $58.30

Therefore, you need to charge $58.30 to make the desired Profit Margin. In this example, if you are charging only $40.00, then your Profit Margin is not 40%, rather 13%. That means you have an income of $0.13 on each dollar of sales.

If you would like to only make minimum wage ($10.00 an hour) in the example above, then the charge would be:

Selling Price = $\frac{\$15.00+\$10.00}{1-40\%} = \frac{\$25.00}{0.60}$ = $41.67

General Profit Margin can give you a rough idea of how much money you are making off each service or product you provide.  For example, you charge $40.00 to trim a horse and your annual Profit Margin from your IRS forms is 40%. Your actual profit or what you kept or made is $16.00.

Profit from a $40.00 trim = $40.00 x 40% (0.40) = $16.00
Profit from a $80.00 trim and two new shoes = $80.00 x 40% (0.40) = $32.00

Now you know have a better idea of how much you made on every trim ($16.00) and on every trim plus two new shoe ($32.00).  If you decide to discount your work or throw in some adhesive repair for free, you will now know how much less money you will be making.

**Using Profit Margin to determine customer decisions.**

Profit Margin can be used to help make customer retention decisions.  Many farriers have rated customers by an A,B,C method based on their own protocols, without also looking at the Profit Margin for each customer.  After determining the Profit Margin, if a customer does not want to change a certain protocol, then the farrier will have a better idea of the economic impact of letting that customer go.