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## Theory of Constraints - Ask Dr Lisa Newsletter

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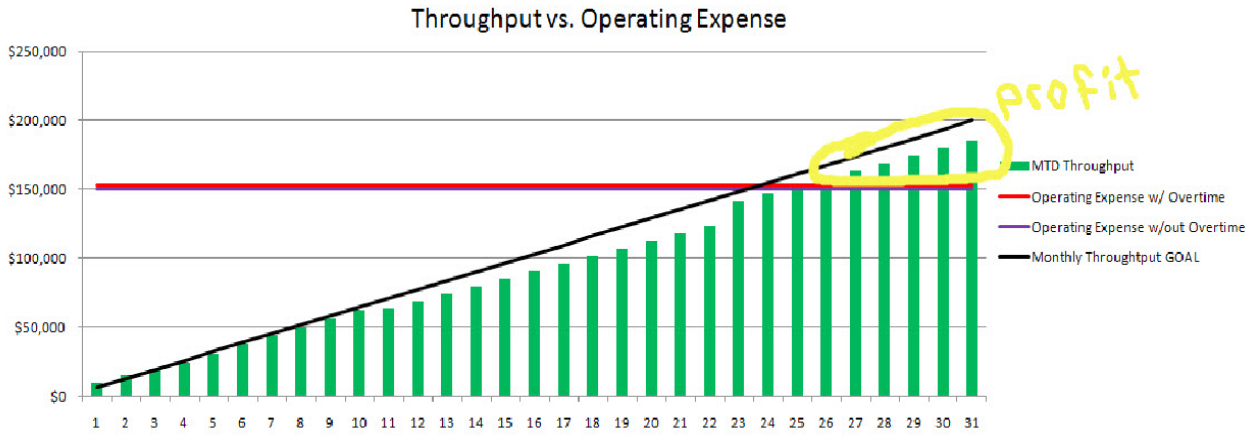
**[The Goal movie is on SALE until Dec 31, 2009.](#)**

**POOGI #57: We are continuing our series based on [The Goal](#) by Eliyahu M Goldratt and the [Theory of Constraints](#). {This series was co-written with [Brad Stillahn](#)}**

**Brad:** So, the problem is that by using more time than estimated, there is less time left in the month to produce and ship the margin on subsequent jobs. Sometimes, what margin is shipped in total is less than the fixed costs for the month, and then there is a loss for the month.

**Dr. Lisa:** Yes, and that is the problem that most owners are trying to avoid. And the way we were all taught to do that is -- cost allocation. However, you can make sure that you make enough margin in total without allocating any costs and it's actually simpler and more straight forward.

Just plot the Margin dollars you ship everyday (what we in Theory of Constraints Throughput Accounting call Throughput) and compare that to your Operating Expenses. And remember, if you work overtime, you've increased your Operating Expenses. Once you understand the relationship between Throughput and Operating Expenses, you have all the information you need to ensure you ship enough work in total to make money.



A company can lose money, but a job rarely does. Jobs aren't unprofitable, and for that matter, products are rarely unprofitable and customers are rarely unprofitable. Companies lose money because the margin in a month does not cover the fixed costs for a month. Otherwise, the margin on all jobs, products, and customers in excess of that month's fixed costs all collectively add to the overall profits for that month.

... to be continued.

Here's to maximizing YOUR profits!

Dr Lisa

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