



# A Beginner's Guide to Business Percentages

*In accounting, looking at raw numbers alone can be misleading. A company with \$10 million in sales might seem more successful than a company with \$1 million. But if the first company only kept \$10,000 in profit (a 0.1% profit margin) and the second kept \$300,000 (a 30% profit margin), which business would you rather own?*

*This chapter will teach you how to read these "gauges" so you can make smarter business decisions.*

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# 1. Why Percentages are a Business Superpower

*Welcome to your guide on business percentages! It's one thing to track money coming in and going out, but to really understand a business, you need to unlock a much deeper understanding of what those numbers actually **mean**.*

*Imagine your business is a car. The total sales number is like knowing how far the car has driven. It's a useful fact, but it doesn't tell you anything about the car's health. Are the tires flat? Is it burning too much fuel?*

***That's where percentages come in.***

*Percentages and ratios are like the gauges on your car's dashboard. They tell you about your business's **performance and health**. They help you answer critical questions like:*

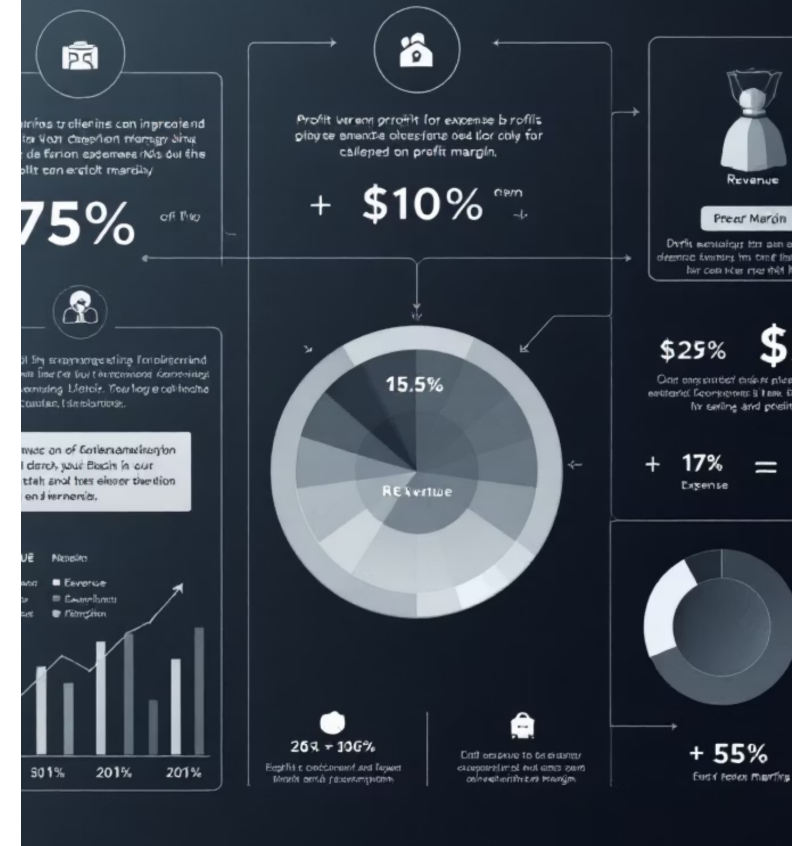
- *"For every dollar in sales, how much did we actually keep as profit?"*
- *"Are our expenses getting too high compared to our revenue?"*
- *"How much faster are we growing this year compared to last year?"*

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# PROFIT MARGIN

COLLECTED MANY CREATING IN REVENUE PROGRAMS INFORMY MARGIN



## 2. The Profitability Gauge: Unpacking Profit Margin

**What it tells you:** How much profit you make for every dollar of sales. A higher profit margin is better.

The Formula Explained:

$$\text{Profit Margin (\%)} = (\text{Profit} / \text{Revenue}) \times 100$$

Let's break that down:

- **Revenue (or Sales):** This is the total amount of money you brought in from selling your products or services.
- **Profit:** This is the money left over *after* you've paid all your expenses. You find it by subtracting your expenses from your revenue.
- **The Math:** We divide the profit by the revenue to see what fraction of our sales is actual profit. Then, we multiply by 100 to turn that fraction into a nice, clean percentage.

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## Let's See it in Action: Staff Scenarios

### Jenelie's Healthy Cafe (Philippines)



*Jenelie's passion is healthy food. She starts a small salad pop-up and her sales for the week are **P15,000**. To make those salads, she spent **P9,000** on fresh vegetables, fruits, and eco-friendly packaging.*

1. **First, find the profit:**  $P15,000 \text{ (Revenue)} - P9,000 \text{ (Expenses)} = P6,000 \text{ (Profit)}$
2. **Now, use the formula:**  $(P6,000 / P15,000) \times 100 = 40\% \text{ Profit Margin}$

**What this means:** For every 100 pesos Jenelie made in sales, she kept 40 pesos as pure profit. That's a very healthy margin!

### Pat's Custom Press-On Nails (U.S.)



*Pat turns her creative hobby into a business. Her monthly sales from her online store are **\$250**. Her supplies—gel polish, nails, and art tools—cost her **\$100**.*

1. **First, find the profit:**  $\$250 \text{ (Sales)} - \$100 \text{ (Expenses)} = \$150 \text{ (Profit)}$
2. **Now, use the formula:**  $(\$150 / \$250) \times 100 = 60\% \text{ Profit Margin}$

**What this means:** Pat's business is incredibly profitable. For every dollar she earns, 60 cents is profit.



### 3. The Efficiency Gauge: Keeping an Eye on the Expense Ratio

**What it tells you:** What percentage of your sales is being spent on expenses. A lower expense ratio is better.

The Formula Explained:

$$\text{Expense Ratio (\%)} = (\text{Total Expenses} / \text{Revenue}) \times 100$$

**The Math:** This is a very direct calculation. We take the total amount you spent to run the business and divide it by your total sales. This shows us how much you had to spend just to make that revenue. Multiplying by 100 gives us the percentage.

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## Let's See it in Action: Staff Scenarios



### Cris's Virtual Assistant Services (Japan)

Cris leverages her experience as a VA. Her monthly revenue is **¥80,000**. To do her job effectively, she pays for professional software and a high-speed fiber internet connection, which costs her **¥16,000**.

- **Use the formula:**  $(¥16,000 / ¥80,000) \times 100 = 20\% \text{ Expense Ratio}$
- **What this means:** It costs Cris 20 yen in expenses to earn every 100 yen in revenue. This is a great, efficient business model!



### Zyrine's Video Editing Gigs (Philippines)

Zyrine is a freelance video editor. She lands a project that pays her **P30,000**. Her expenses for her professional video editing software and subscriptions to stock footage sites were **P12,000**.

- **Use the formula:**  $(P12,000 / P30,000) \times 100 = 40\% \text{ Expense Ratio}$
- **What this means:** Zyrine's expenses are a bit higher relative to her income for this project. 40% of her revenue went straight to covering her costs. This is important information for her when pricing future projects.



10,000 ± 65,50%

## 4. The Momentum Gauge: Measuring Your Growth Rate

**What it tells you:** *How fast your business is growing over a period of time.*

The Formula Explained:

$$\text{Growth Rate (\%)} = ((\text{New Value} - \text{Old Value}) / \text{Old Value}) \times 100$$

- **Old Value:** *This is your starting point (e.g., last year's sales, last month's followers).*
- **New Value:** *This is your ending point (e.g., this year's sales, this month's followers).*
- **The Math:** *First, we find the **difference** between the new and old value to see how much it changed. Then, we divide that difference by the **original (old)** value to find out how significant that change was. Multiply by 100 to get the percentage.*

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## Let's See it in Action: Staff Scenarios

1



### Pat's Etsy Shop (U.S.)

Pat sold **\$200** worth of handmade bracelets last month (Old Value). After taking better product photos, her sales this month jumped to **\$350** (New Value).

1. **Find the change:**  $\$350 - \$200 = \$150$  Increase
2. **Now, use the formula:**  $(\$150 / \$200) \times 100 = 75\%$  Growth Rate

**What this means:** Pat's sales grew by an incredible 75% in just one month!

2



### Cris's Gaming Channel

Cris tracks her followers to see if her content is resonating. Last week, she had **800** followers (Old Value). After a very successful live stream, she now has **1,000** followers (New Value).

1. **Find the change:**  $1,000 - 800 = 200$  new followers
2. **Now, use the formula:**  $(200 / 800) \times 100 = 25\%$  Growth Rate

**What this means:** Cris grew her follower base by a quarter in a single week.





## 5. The Tax Man's Cut: Understanding Tax Rates

**What it tells you:** How much of your money goes to the government.

The Formula Explained:

$$\text{Tax Amount} = \text{Taxable Amount} \times \text{Tax Rate (\%)}$$

- **Taxable Amount:** The amount of money that will be taxed (e.g., the price of an item before tax, your income).
- **Tax Rate:** The percentage the government charges.
- **The Math:** This is a straightforward multiplication. Just remember to convert the percentage to a decimal first! (e.g., 10% becomes 0.10, 8% becomes 0.08, 12% becomes 0.12).



## Let's See it in Action: Staff Scenarios (Updated for 2025)



### Jenelie's Guitar Purchase (Japan)

Jenelie buys a new guitar for **¥30,000**. The Japanese Consumption Tax is **10%**.

- **Calculate the tax:**  $¥30,000 \times 0.10 = \text{¥3,000 in tax}$ .
- The total price she pays is **¥33,000**.



### Zyrine's Sisig Stand (Philippines)

Zyrine sells **P5,000** worth of her famous Sisig. As of 2025, the Value Added Tax (VAT) in the Philippines remains **12%**.

- **Calculate the tax:**  $P5,000 \times 0.12 = \text{P600 in VAT}$ .
- This P600 is included in her sales price and must be set aside to be paid to the government.





## 6. A 2025 Global Snapshot

<i>Metric</i>	<i>Japan</i>	<i>United States</i>	<i>Philippines</i>
<i>Profit Margin</i>	<i>Highly detailed. Companies often track Operating Profit vs. Ordinary Profit separately, which gives a nuanced view of performance.</i>	<i>Investor-focused. Gross Profit and Net Profit are king. The goal is to show a clear, simple bottom line.</i>	<i>Cash is king. The focus is often on Net Profit After Tax, which shows the actual cash the owner can take home or reinvest.</i>
<i>Expense Ratio</i>	<i>Can be higher due to robust social insurance and employee benefits, which are significant mandatory costs for businesses.</i>	<i>Wildly variable. State-to-state differences in taxes, rent, and labor costs mean there is no "typical" U.S. expense ratio.</i>	<i>Often lower labor costs are offset by higher costs for imported goods and fluctuating utility prices.</i>
<i>Growth Rate</i>	<i>Traditionally focused on stable, steady year-over-year growth.</i>	<i>Quarterly obsession. Driven by Wall Street, the focus is on short-term, quarter-over-quarter growth to satisfy investors.</i>	<i>Emphasis on real (inflation-adjusted) growth. With a dynamic economy, it's key to know if you're truly growing or just keeping up with price increases.</i>
<i>Tax Rate</i>	<i>A stable 10% consumption tax is the main rate businesses handle daily. Withholding tax is also a major, and complex, factor.</i>	<i>A complex patchwork. Businesses deal with Federal income tax PLUS a different State (and sometimes city) sales tax everywhere they operate.</i>	<i>The 12% VAT is a core part of business life. An extensive system of withholding taxes also requires careful management.</i>



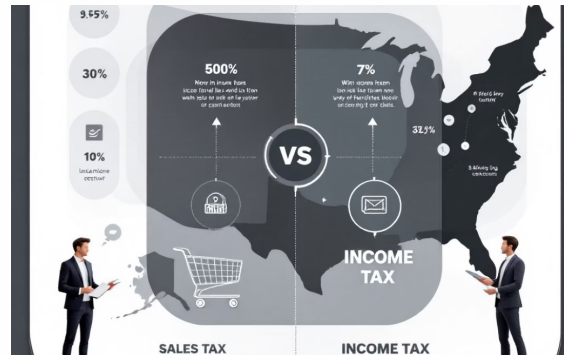
## 7. Avoiding Common Pitfalls

### In Japan



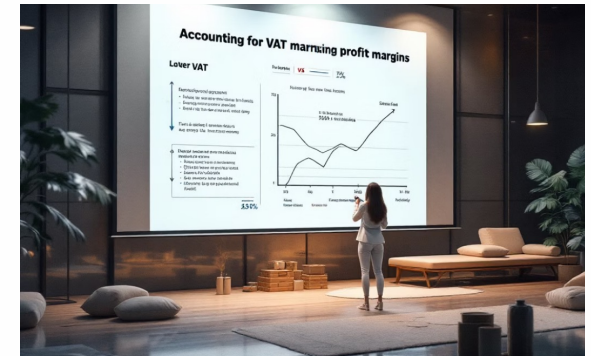
Don't mix up **Operating Profit** (利益) with **Net Profit** (当期純利益). Operating profit shows the health of your core business, while net profit is the final number after all taxes and other income/expenses. They tell different stories.

### In the U.S.



Never forget the difference between **Sales Tax** and **Income Tax**. Sales tax is collected from customers and paid to the state. Income tax is paid to the federal (and sometimes state) government based on your profits. They are completely separate.

### In the Philippines



Always calculate your profit margin **after** accounting for the **12% VAT**. Many new entrepreneurs make the mistake of seeing all the money in the cash register as their revenue, forgetting that 12% of it belongs to the government.

❏ **The Golden Rule:** The math is simple, but the most common and costly mistake is using the wrong **base number**. Always double-check: are you calculating based on total revenue, gross profit, or something else?





## 8. Pop Quiz: Test Your Knowledge!

- **Q1 (Profit Margin):** Jenelie's Healthy Cafe has a great month with P100,000 in sales. Her total expenses were P70,000. What is her profit margin?
- **Q2 (Expense Ratio):** Pat's Press-On Nails business brings in \$1,000 in sales. Her total expenses are \$350. What is her expense ratio?
- **Q3 (Growth Rate):** Last year, Zyrine's video editing business earned P500,000. This year, she earned P600,000. What was her annual growth rate?
- **Q4 (Tax):** Cris buys a new laptop in Japan for her VA business. The price before tax is ¥150,000. How much consumption tax (10%) will she pay?
- **Q5 (Critical Thinking):** A potential investor is looking at Pat's business. Which of the three "gauges"—Profit Margin, Expense Ratio, or Growth Rate—do you think they would be most excited about, and why?

## 9. Answer Key & Explanations

01

A1

*Profit = P30,000 (P100k - P70k). Profit Margin =  $(30,000 / 100,000) \times 100 = 30\%$ .*

02

A2

*Expense Ratio =  $(350 / 1,000) \times 100 = 35\%$ .*

03

A3

*Growth =  $((600,000 - 500,000) / 500,000) \times 100 = 20\%$ .*

04

A4

*Tax Amount =  $150,000 \times 0.10 = \text{¥}15,000$ .*

05

A5

*While all are important, an investor would likely be most excited by her **Growth Rate**. A high growth rate (like the 75% in our earlier example) shows that the business is expanding rapidly and has strong future potential. High profit margins are fantastic, but strong growth often indicates a larger future opportunity for the investor's money.*



## 10. Key Takeaways for Your Business Dashboard



### Business Vital Signs

*Percentages are the vital signs of your business. They tell you the story behind the raw numbers.*



### Profit Margin

*A high **Profit Margin** means your business is healthy and keeps a good chunk of what it earns.*



### Expense Ratio

*A low **Expense Ratio** means your business is lean and efficient.*



### Growth Rate

*A high **Growth Rate** means your business is gaining momentum and has a bright future.*



### Tax Understanding

*Understanding the specific tax rules in your country (**Japan, U.S., or Philippines**) is non-negotiable and crucial for accurate financial planning.*

*In this chapter, we've turned simple numbers into powerful insights. You now know how to measure profitability, efficiency, and growth. Mastering these concepts is a fundamental step toward making smarter, data-driven business decisions.*