Each Journey Begins with a *Single* Step!

For assistance implementing the strategies and concepts detailed in this eBook, contact Shape Your Business on 1300 791 600.

We have access to specific advice and technology that is guaranteed to help you improve the profitability of your business.

What Is Profit?

Profit is what's left over after you've paid all your expenses. The important thing to note is that profit is "what's left over." In other words, profit is a residual. It is the consequence of what happens in and to your business.

Some of these things are within your control, and some are outside your control. If you're going to affect your profit, you have to focus on those things over which you have control…so, what are they?

To answer this question, it's helpful to understand that only 4 specific factors determine your profit:

1. The **price** you charge for the products and/or services you sell.

2. The **quantity** (or volume) of products and/or services you sell.

3. The costs you incur directly in producing or buying the products and services you sell. (We call these **variable costs** because they increase or decrease as your sales increase or decrease).

4. The costs you incur whether or not you make any sales. (These are best described as **fixed costs** because they do not change with changes in sales volume—at least not on a day-to-day basis).

Let's put these 4 things together. And for simplicity, we'll assume you have only a single product. (Our conclusions apply whether you have 1 or 1,000 products).

Suppose you sell a thing called a widget. It costs you $60, and you sell it for $100. What you sell the widget for is the price. What you pay for it is a variable cost.

If you sell 100 widgets, your total variable costs are $6,000. And if you sell 50 widgets, the total variable cost is only $3,000. (It varies directly with your sales volume).

Now, if you sell a widget for $100 and it costs you $60, you've made a profit of $40 on each sale. We call this the **gross profit** or **gross margin**. We use this term to remind us that we still have to meet our fixed costs before we end up with a net profit.

If you sell 100 widgets and make a gross margin on each one of $40, your total gross margin is $4,000. And if your fixed costs for such things as rent, leases, wages, and insurance amount to $3,000, you end up with a "net profit" of $1,000. On the other hand, if your fixed costs are more than $4,000, you incur a loss.

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How To Increase Profit?

If you're looking for ways to increase your profitability, you have to focus your attention on the 4 profit-determining factors: price, volume, variable costs, and fixed costs.

Let's look at each of these 4 factors under 3 headings—the factor, the possible action you could take to enact change, and the required conditions that would have to occur to increase profits.

It's important to note that profitability can be increased by taking action to increase or decrease any of the 4 factors, as long as some conditions are met.

Factor	Action	Required Conditions
Price	Increase	Sales volume could either remain unchanged or decline. If sales volume declines, the decline would have to be less than the offset created by the price and resulting profit increases.
	Decrease	The sales volume would have to increase sufficiently to compensate for the decline in price. If sales volume increases as a result of the decreased price, there is a possibility of a decrease in the per-unit fixed and variable costs because of increased economies of scale.
Variable Costs	Increase	The increased variable costs should lead to or be a result of improved product or service quality. The market would have to accept a higher price, or the heightened quality would have to attract enough new buyers to offset the increased variable costs.
	Decrease	The sales volume would have to remain unchanged. The decrease in variable costs could not be allowed to affect product or service quality, which would have a consequential effect on sales. If they did decline, the fall in gross profit would have to be less than the decreased variable costs.
Sales Volume	Increase	The price could either remain unchanged or decline. If the price were reduced, the reduction would have to be less than the offset created by the volume and resulting profit increases. Another possibility is to achieve a reduction in per-unit fixed and variable costs due to increased economies of scale.
	Decrease	A savings in fixed costs would have to be achieved by reducing the size of the business, or production levels would have to be evaluated to find variable cost economies of scale. This savings would have to be greater than the reduction in gross profit due to the decreased sales volume.
Fixed Costs	Increase	The increase in fixed costs should lead to or be a result of improved product or service quality. The market would have to accept a higher price, or the heightened quality would have to attract enough new buyers to offset the increased fixed costs.
	Decrease	Sales volume would have to remain unchanged. The decreased fixed costs could not be allowed to affect product or service quality, which would have a consequential effect on sales. If they decline, the fall in gross profit would have to be less than the decreased fixed costs.

The interesting thing to notice about the previous summary is that no single factor can be considered without considering its impact on, or the impact from, each of the other factors.

The second thing to notice is that a profit improvement strategy may involve either an increase or a decrease in each of the 4 factors. There is no standard formula for improving profitability; it depends entirely on specific circumstances and the relative strengths and weaknesses of your business.

The third thing to notice is that a favourable change in price and/or your variable costs improves your gross margin per dollar of sales. On the other hand, a favourable change in your sales volume and/or your fixed costs indicates greater productivity. Therefore, the overhead you incur in running your business involves lower costs per dollar of sales.

In other words, any profit improvement strategy must focus on either or both of 2 things:

1. Achieving a higher gross margin per dollar of sales by increasing price and/or reducing variable costs.

2. Achieving greater sales per dollar of fixed costs by increasing the productivity of those things that have a fixed cost.

So that we can put everything into perspective, let's consider the profit improvement potential that would arise from a modest improvement in each of the 4 factors.

We'll use the figures previously given as a base. To demonstrate the powerful effect of small changes, we'll make a 5% improvement in each of the 4 factors.

	Base	%Change	Result
Price	100	5% increase	105
Sales Volume	100	5% increase	105
Total Revenue	10,000		11,025
Variable Costs	($60) 6,000	5% decrease ($57)	5,985
Gross Margin	4,000		5,040
Fixed Costs	3,000	5% decrease	2,850
Net Profit	$1,000		$2,190

It can be seen that a 5% favourable change in each of the 4 factors, without a consequential unfavourable impact on the other 3, would more than double your profit (from $1,000 to $2,190)—a 119% improvement.

You may take issue with the assumption that there are no consequential impacts. However, it's a fact that small improvements made to each of the 4 factors that determine your profit combine to give a staggering overall impact.

And, of course, the reverse is also true. If you discount your price, allow your sales volume to fall, fail to control your overhead costs, or let your variable costs get away from you, you can destroy a potentially profitable business. This can happen very quickly.

You see, it's all about what we call **leverage**—a concept that can make or break a business. If you get all the little things right, the big picture looks after itself. But if you get all the little things wrong, you're going to be in real trouble (and it's likely, you'll never know why).

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Developing A Profit Improvement Strategy

You'll recall that to improve your profitability, you must either make a larger gross margin on each dollar of sales or sell more without increasing your fixed costs. It goes without saying that you'll have the biggest improvement if you can achieve both simultaneously.

Improving your gross margin

Remember that your gross margin is the difference between the price of your product and what it costs you to buy or make it. Therefore, the only way to increase your gross margin is to sell at a higher price or buy/make at a lower price.

In most instances (but not all!), you have limited scope to buy at a lower price. For this reason, your selling price is the critical variable.

Without doubt, the biggest single barrier preventing small business managers from making an acceptable profit is their refusal to charge a price that enables them to achieve it. You are not in business to match the price your competitors set; you are there to service your customers.

In fact, studies of the factors that influence people to deal with a particular business indicate that product and price are relevant only in 15% of cases—we'll say more about that in the discussion on sales productivity.

Trying to hold or win market share on the basis of price discounting is the lazy manager's competitive strategy. It is applicable in only one situation—where you have a definite cost advantage (either variable or fixed) over your competitors. and your product or service is one where customers are very price-sensitive.

The following table indicates the increased sales required to compensate for a price discounting policy. If your gross margin is 30% and you reduce price by 10%, you need sales volume to increase by 50% to maintain your initial profit. Rarely has such a strategy worked in the past, and it's unlikely that it will work in the future.

If your present margin is

	20%	25%	30%	35%	40%	45%	50%	55%	60%
And you reduce price by	**To produce the same exact profit, your sales volume must increase by**								
2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
30%	-	-	-	600%	300%	200%	150%	120%	100%

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On the other hand, the next table shows the amount by which your sales would have to decline following a price increase before your gross profit is reduced below its previous level.

At a 30% margin and a 10% increase in price, you could sustain a 25% reduction in sales volume before your profit is reduced to the previous level…you would have to lose 1 out of every 4 customers!

If your present margin is

And you reduce price by	20%	25%	30%	35%	40%	45%	50%	55%	60%
	To produce the same exact profit, your sales volume must reduced by								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

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If you're like many small businesspeople who regard price as the only factor influencing the buying decision of their customers, you will undoubtedly reject the proposition that a high price strategy (and by implication, high value) will work.

You may accept that it's right for some businesses, but it sure doesn't apply to your business.

There's no business that doesn't have the potential to command a premium price for its products or services if—and this is the crunch—it is able to market those products or services in such a way that **the customer perceives added value**.

If all of your marketing effort, all of your advertising, and all of your sales dialogues focus on price, then you will be beaten on price every time a competitor comes along with a lower one. In other words, if you focus your customers on price as a critical factor, it will be one.

The only way to get out of the price trap is to promote other features and benefits that you can offer your customers (for example, better quality, longer warranty, satisfaction guarantees, 24-hour accessibility, more convenient location, greater resale value).

It may be that your competitors already offer all of these things…but unless they also emphasize this in their marketing, how will the customer ever know?

Think about it for a moment.

Your job as a marketer is to create the perception of value and then to back up what you sell with superb service. Remember, price is only important when all other things are equal.

Some customers think only in terms of price. They are better left to your competitors.

What you should be doing is working with those people who are happy to pay for value.

This means 2 things.

First, you have to deliver value (embody service).

And second, you have to educate your customers to be aware that they're receiving value.

One without the other leaves you exposed.

A man named John Buskin once said,

"It's unwise to pay too much, but it's worse to pay too little.

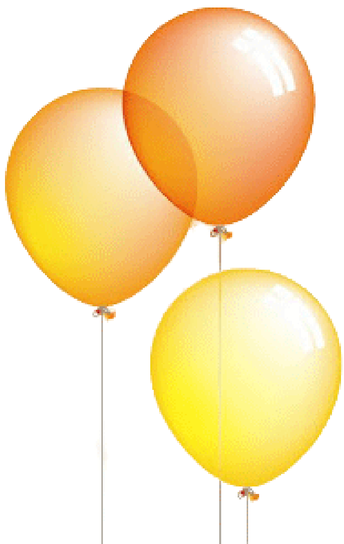
When you pay too much, you lose a little money, that's all.

When you pay too little, you sometimes lose everything because the thing you bought was incapable of doing the thing it was bought to do.

The common law of business balance prohibits paying a little and getting a lot—it can't be done.

If you deal with the lowest bidder, it is well to add something for the risk you run.

And if you do that, you will have enough to pay for something better."



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Improving Productivity

This is all about getting more sales per dollar of fixed costs. It can be achieved by increasing your sales at a faster rate than your fixed costs increase and/or reducing your fixed costs without affecting your sales.

Let's start by looking at your fixed costs.

You must incur these costs to remain in business. In the short run, they do not change as your volume of sales changes. Examples include rent, wages, advertising (to a large extent), interest, and lease costs.

Some of these costs are discretionary in the sense that you can decide to reduce them simply by cutting back. Others, however, are committed, and you can't avoid them.

To determine the critical things about each fixed cost, ask yourself a few questions:

- What service does this cost provide to my business? Can I obtain the same service from another source at a lower cost?
- If so, is it feasible to switch to another supplier of that service? If I did switch to another supplier, would I get equivalent quality and would this affect the quality of my product or service?
- If I were to spend more on this service, would it generate additional gross profit that exceeds the additional cost?

You'll notice that all of these questions are directed toward what you're getting for what you're spending. They aren't simply concerned about whether you can eliminate or reduce the cost.

Take wages for example. In difficult times, people often think of dismissing team members. This may be an appropriate course of action, but it should be considered carefully.

More often than not, the appropriate strategy is to invest more in team training to show them how to improve customer service and how to sell more to your customers.

What about advertising? There's a standing joke in the industry that 50% of your advertising is wasted.

The problem is identifying which 50% it is!

In fact, the 50% estimate is being generous. It's probably closer to 100% that's wasted—and at least you know which 100% it is…yours!

In a *Business Review Weekly* article, a manager of a major supermarket chain said, *"91% of readers took very little notice of price and item ads, and only 9% looked at them for shopping purposes."*

If that's a fact, why do the major supermarkets still persist with this type of advertising?

The reason is that product suppliers pay for the ads and the supermarket gets to (1) promote its name and (2) create consumer perception that it's a price-competitive retailer.

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The only organisation that benefits—whether your advertising works or not—is the media company you use. They're always ready to invite you to participate in special deals and supplements. And they're pleased to give advice on how to structure your ads "to get results."

But ask them to do a deal where you pay an amount per enquiry, and you'll be met with stony silence. How many times have you been contacted by a newspaper or radio representative and asked how your advertisement worked?

This does not deny the value of advertising.

On the contrary, advertising is one of the best ways to increase your sales. The folly is spending on advertising that doesn't work. You can learn how to create advertising that does work, and you can test the results.

When we talk about productivity, we're talking about how to get the most out of your advertising dollar. This is unquestionably one of the major untapped areas of your potential profit growth.

Effective advertising is clearly one way to create new customers. This is a specialized area in itself, but there are 4 absolutely critical things to get right:

1. **Target** your customers—never try to appeal to everyone. Focus specifically on those people you know will benefit from your product/service. How you word your headline will be the primary factor in accurately targeting your offer.

2. Make your **offer** compelling and relevant to the market you target. Don't be cute or clever. Say it exactly as it is.

3. **Graphics** and layout will make your ad readable and noticeable. Don't try to make your ad look like an ad. Make it look like something worth reading.

4. Write your **copy** in terms that your readers can clearly understand. It must be specific and believable. If you have a clearly defined target market, and your offer is compelling and well stated, your copy can be poor, and you'll still get a good response. But good copy writing won't sell a poor concept/offer.

One of the world's leading small business advertising specialists has used "split-run" tests (where one ad is run in half of a publication and a slight variation is run in the other half) to evaluate the relative performance of the 4 variables. From the response, he concluded a number of things:

great copy	**will give**	**50% response increase**
great graphics	**will give**	**150% response increase**
great offer	**will give**	**300% response increase**
accurate target	**will give**	**1,000% response increase**

A specifically focused target (i.e., people in the market who are predisposed to buy) is 20 times more powerful than how you express your message. If you know exactly who is interested in what you have to offer, and you make an offer that's compelling, you don't have to be a brilliant copywriter to get a cost-effective response from your ads.

The only sure way to get customers to come back and act as advocates for your business is to give them absolutely superb service. They need to feel that you really care about them and that your goal in business is to delight them with the way you look after them. Most businesses fall short of this ideal, but it is an objective well worth striving to deliver.

Almost 70%, or 7 out of 10 customers, cease to patronise a business because of **perceived indifference**. When you (personally) interact with various businesses, aren't you inclined to deal with those who take the trouble to show they care about you? Do you "shop around" when you're already delighted with the service you get?

It's sobering to note that most businesses spend 6 times more trying to attract new customers than they do looking after the ones they already have. They believe they have to do this because their existing customers keep leaving, and new customers are needed to replace the old ones.

A leading sharebroker and financial planning company recently undertook a study on client satisfaction. They reported that just a 5% increase in customer retention would produce a 25% to 100% improvement in profit. To put it another way, it pays to look after your customers.

Let's put some numbers on this.

Suppose you have **1,000 customers** who spend an average of **$250 per year** with you.

Suppose that you have a **customer loss rate** of just **10% each year**
and a **customer who stays** with you deals with you for an **average of 10 years**.

Forgetting about inflation, each customer has a **lifetime value to you of $2,500.**

Therefore, a 10% attrition rate is costing you $250,000 in potential future revenue each year.

Another thing that most businesses overlook is the simple act of asking the customer to buy.

It's no accident that McDonald's is one of the largest and most profitable businesses in the world.

The reason for this certainly isn't the uniqueness of their product.

The fact is, nothing is left to chance at McDonald's. Everything is done according to a plan.

Even the question, **"... and will you be having fries and a drink with your meal today?"** is part of a well-designed system.

About 30% of the time, people say yes, even though they may not have originally intended to do so.

The effect is a 30% increase in sales of fries or drinks and over 100% increase in profit contribution from those lines.

A restaurant owner used to ask guests at the end of the main course (without really thinking), **"Would you like anything else?"** The answer usually was, **"No, just some coffee, thanks."**

He changed this to, **"Now, can I offer you a beautiful platter of Australian and New Zealand cheeses, or would you prefer to make a selection from our new dessert menu? The pies are absolutely delightful today!"**

The result was that he instantly tripled dessert and cheese platter sales and still got to make the coffee sale. It's all in what you say and how you say it.

Word-of-mouth referral is the best means of creating new customers. But satisfied customers do not become advocates for your business—**delighted** customers do!

Most people don't fully appreciate the powerful dynamics of customer retention and frequency of contact. This is reflected in the next table.

This table demonstrates the powerful effect of a relatively small improvement in the critical variables—customer attrition rate, new customer attraction rate, frequency of customer purchasing, and the average value of each sale—on total sales revenue.

The Components of Sales	Present Rate	Present Position	Possible Rate	Possible Position
Number of Customers		1,000		1,000
Less Customers Lost	10%	100	5%	50
		900		950
Add New Customers	10%	100	12%	120
Total Customers		1,000		1,070
Sales Frequency	10	10	11	11
Number of Transactions		10,000		11,770
Average Sale ($)	$25	$25	$27.50	$27.50
Total Revenue		$250,000		$323,675

Perhaps the best-kept secret in the business world is that it is very simple to improve the profitability of a business, but there's a catch. What to do is the easy part. Being willing to do it is the stumbling block.

In every case, business success stories are associated with people who had the courage to change their way of doing business. In the case of the failures, it's been their refusal to try something different. Have you ever said, **"That sounds okay in theory, but it won't work in my business"?**

There are no special tricks to make a business more profitable. The Shape Your Business coach who makes a living helping people in business can't pull rabbits out of a hat.

However, there is one overriding consideration that must be accepted:

"If what you're doing now isn't working, then you must do something different!"

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In every industry—and irrespective of the state of the economy—there are some businesses that consistently outperform others in their industry, not by small amounts but by staggering amounts. This is called the margin of excellence. They have it right, and the others have it wrong. It's as simple as that.

Close enough is **NEVER** good enough. Improved business performance comes from a willingness to do something different and then getting the details right. If you get all the little things right…the big picture looks after itself.

The following example is an actual case in point. The result in the first year was a satisfactory 58% increase in profitability. The business itself increased in value by more than $75,000.

Today, this business is generating well over $100,000 in net profit. It's a bigger business today than it was, but it is also much more profitable in terms of Return on Capital Employed and in absolute dollars earned for the owner.

A Profit Improvement Case Study

	Before	**After**	**Change**	**See Note #**
Sales	$242,750	$279,462	*15.1%*	1
Gross Profit Margin	36%	39%	8.3%	2
Fixed Overheads	$61,358	$67,886	10.6%	3
Capital Employed	$194,885	$201,179	3.2%	4
Net Profit	$26,032	$41,104	57.9%	5
Return on Capital Employed	13.4%	20.4%	52.2%	

Analysis of the Profit Improvement

Increased sales volume and prices	14,317
Improved gross profit margin	7,283
	21,600
Less Increased overheads	6,528
Increase in Profit	$15,072

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Analysis Notes:

1. Sales

Strategies:

More effective advertising: A budget was established, the market was segmented and targeted, an analysis of advertising effectiveness was undertaken, and ads that "pulled" more were developed.

Attention was devoted to team training (with respect to product knowledge, selling skills, and customer courtesy).

Performance standards and targets were established and closely monitored.

Result:

15.1% increase in dollar value of sales (some of which was due to selective price increases on key products).

2. Gross Profit Margin

Strategies:

A detailed analysis of the major profit contributors was undertaken (with regard to both the product lines and customer segments).

Products that weren't achieving required margins and/or which didn't fit the business were dropped.

Team members were acquainted with the major profit contributors.

More selective purchasing was established, and greater attention was given to quantity discounts.

Selective price increases improved margins and enabled better service to be delivered at the point of sale.

Advertising and selling was directed to higher profit lines and targeted to properly qualified customers.

Result:

An 8.3% improvement in gross margin.

3. Fixed Overheads

Strategies:

All costs were analysed as a percentage of sales over the last 3 years using available information—the major cost areas were identified.

Each cost area was examined on a cost/benefit basis to determine whether the same result could be achieved at a lower cost from an alternative source, or whether it was appropriate to increase costs to deliver more customer-oriented service value.

Detailed cost budgets were prepared on a cash flow basis.

Actual costs were monitored against monthly budgets, and detailed reviews were undertaken quarterly.

Result:

Fixed costs increased by 10.6%, which was in line with normal inflation at the time—in real terms, fixed costs remained constant (even though sales increased by about 5% in real terms and 15% in nominal terms).

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4. Capital Employed

Strategies:

A post-sale credit control was put in place. Customers who failed to pay within the prescribed term were politely brought into line. Some customers left, and that was an added bonus. (They were the ones that increased servicing costs).

As part of gross margin analysis (see #2, Gross Profit Margin), inventory lines that were not achieving turnover targets were evaluated, and some duplicate lines were dropped.

Tighter control was instituted for inventory and the lead time for inventory purchasing orders.

Old, slow-moving inventory was disposed of quickly. (This released valuable space and increased cash flow).

Result:

Inventory levels and receivables were reduced relative to the increase in sales. This released cash was then used to reduce bank loans and payables. Relationships with the bank and creditors improved significantly.

Although actual capital employed increased by 3%, the volume of sales it supported increased by 15%. In other words, a 3% increase in resources supported a 15% increase in sales volume.

5. Net Profit—The Final Result

The net profit improved by $15,072—a 58% increase over the previous year. This example illustrates how small marginal changes, though modest in and of themselves, can combine to result in a huge difference.

Profit turnarounds of this magnitude cannot be achieved year in and year out, but every business has room for improvement. The choice is up to the owner/manager.

It is worthy to note that on the basis of a capitalisation rate of 20%, the business's improved profit increased the value of its goodwill as a going concern by $75,360. (Not bad for a year's work and certainly worth the management consulting fees that were charged).

But there's something important to remember: The advice and assistance that was given would have been absolutely useless unless the client had been prepared to make a total commitment to the task.

In the final analysis, it's up to you!

Estimate Your Profit Improvement Potential

It’s quite amazing what effect relatively small changes can have on your bottom line.

The following example shows how you can quantify the profit improvement potential of your business—given modest changes in the key variables that make up sales, fixed costs, and margins.

Components of Profit	Present Position		Change Factor		Possible Position
Number of Customers	1,000	X	1.05^1	=	1,050
	X				X
*multiply this by the average purchase frequency	10	X	1.05^2	=	10.5
	=				=
Number of Sales Transactions	10,000				11,025
	X				X
*multiply this by the average value of a sale	$62.50	X	1.05^3	=	$65.63
	=				=
Total Sales Revenue	$625,000				$723,570
	X				X
*multiply this by the gross margin	40%	X	1.05^4	=	42%
	=				=
Total Gross Margin	$250,000				$303,899.70
	–				–
*subtract the fixed overhead from this	$220,000	X	1.10^5	=	$242,000.00
	=				=
Net Profit	$30,000				$61,899.72
					–
Take the Net Profit in the "Present Position" and subtract it from the Net Profit in the "Possible Position."					$30,000.00
					=
Profit Improvement Potential					$31,899.72

The result is a Net Profit increase to $61,889—
more than double the present profit!

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Change Factor Notes:

1. To determine a 5% increase, the change factor is 1.05. To increase the number of customers, you can cultivate referral sources, create host-beneficiary relationships, use mailing lists, and improve inbound conversion rates. To decrease the number of lost customers, you can provide awesome service, create extraordinary guarantees, and collect customer surveys or feedback forms.

2. To determine a 5% increase, the change factor is 1.05. To increase the frequency of purchases, you can use direct mailers to existing clients, create buyer or user clubs, improve customer relationships, and systematise post-purchase interaction.

3. To determine a 5% increase, the change factor is 1.05. To increase the average value of each sale, you can institute product recommendations through cross-selling and upselling, reorganise product/service displays and menus, and systematise service delivery.

4. To determine a 5% increase, the change factor is 1.05. To increase the gross margin, you can raise prices and lower variable costs. You can lower variable costs by improving production, supply, or distribution schedules; renegotiating supplier contracts; and evaluating material usage.

5. To determine a 10% increase, the change factor is 1.10. The increased fixed costs allows for the increased level of team training and systems that may be necessary to produce the other noted changes.

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Your Profit Improvement Potential

Components of Profit	Present Position	Change Factor	Possible Position
Number of Customers			
*multiply this by the average purchase frequency			
Number of Sales Transactions			
*multiply this by the average value of a sale			
Total Sales Revenue			
*multiply this by the gross margin			
Total Gross Margin			
*subtract the fixed overhead from this			
Net Profit			
Take the Net Profit in the "Present Position" and subtract it from the Net Profit in the "Possible Position."			
Your Profit Improvement Potential			

Your Plan of Attack

Even if you're already the leader in your industry, you will have opportunities to improve the profitability of your business. It's not always easy to achieve, but it's certainly possible.

You need a plan of attack. Specifically, you need to find out exactly what your existing and potential customers want—it's not always the lowest price. (This will form the basis of your marketing plan).

You then need to organise your business so that you can delight your customers. (This forms the basis of your operations plan.) This requires giving attention to your team members and equipping them with the resources and skills they need to excel in what they do…you must systematise your business.

Finally, you need a management control plan in place to make sure everything is working the way you designed it to work. This will focus on the things you must get right to succeed. We call these things your **Critical Success Factors**. We measure how your business is performing in relation to them with the use of **Key Performance Indicators**.

As Michael Gerber, author of **The E-Myth Revisited** (HarperBusiness 1995), said, "The reason most businesses don't work is that the people who are supposed to be managing them are too busy working IN them rather than working ON them."

He means that they're doing the technical work. They're working with their hands rather than with their heads. There's a limit to what the hands can do, but no limit to what the head can do.

We believe that it is our job to help you reengineer your business so that it runs like a well-oiled machine. And once that's achieved, we want to help you keep it there!

Simply call us on 1300 791 600 and tell us about your main challenges.

We'll explain our process and if it makes sense to you, we'll discuss the way forward.