

3 KEY FINANCIAL PILLARS OF BUSINESS

No matter how much we think we are unique, we are more alike than we realise. It goes without saying that Financial Success is the cornerstone of any business, no matter what size or industry.

Having said that concentrating on financial success is not sufficient to get you financial success, without understanding what factors go in to the financial equation of running a successful business.

Financial Success is but merely the outcome of building a business that has addressed the key components and put in place strategies to continually achieve good financial governance.

For those that are financial wizards or those that have a relatively good understanding of finance please bear with me for two more paragraphs, because the next two paragraphs need to be clearly understood.

I consistently have discussions with business people, who are so focussed on increasing their turnover without analysing why they are not making money on their current turnover. In most cases increasing turnover will have the adverse effect they require and drive their business further in to financial trouble.

Yes, turnover is extremely important to every business, but what is more important is a positive cash flow and profitability. Out of the 3 key financial drivers of any business these two combined are the keys to Financial Success.

In this article I am going to concentrate on the Key Financial Pillar of Profit and the 5 areas that any business can concentrate on to improve their profit.

Profit Improvement Area 1 – Lead Generation:

Lead generation is the lifeblood of achieving the turnover you want, but before you even start with lead generation you need to determine where your difference is in the market, who your target clients are and where you can find them in the most cost effective manner.

Without doing this simple analysis of your business you will waste a lot of time and money chasing opportunities that never were opportunities.

Once you have identified the above, it is crucial that you put a formalised marketing plan in place with key strategic actions that are accountable, date specific and achievable.

Once the plan is in place it is time to action the plan and ensure you have the resources to continually market your business, especially when it gets busy. Businesses have a tendency to stop or slow down their marketing when they start getting leads and converting those leads to clients.

The problem with this is that it takes time for marketing to take effect and if you slow down or cease your marketing when you are busy, when business slows down again, your lead time (both from the time of someone first seeing your businesses name to contacting you and also from contacting you to completing the sale) will result in future financial strains on the business.



Profit Improvement Area 2 – Conversion Rate:

Generating leads is the most common area that businesses concentrate on when they are looking to grow their turnover. This is understandable, but just as important is the area of Conversion.

Do you know what your conversion rate is (The number of sales divided by the number of leads multiplied by 100%)?

I have seen many businesses that want to look at growing their turnover, but the issue is that they have enough leads; they are just failing to convert enough of the leads they get in to sales.

You need to determine what is an acceptable conversion rate for your business, being busy with leads is not enough as it wastes time, if those leads were never going to become customers. Time is the only thing in life you can-not get any more of.

Some of the strategies to use to increase your conversion are

1. Training your team in modern sales techniques
2. Put in place written guarantees
3. Upselling/Cross selling your products/services
4. Determining what your customers actually want and building your business to deliver on that
5. Educating your customers on your benefits not your features
6. An awards program on converting the right customers

Profit Improvement Area 3 – Frequency of Transactions:

The third area in profit improvement is increasing the number of transactions that customers have with your business.

This area can be more difficult with some businesses over others, but it can be done. I have a legal associate in Sydney who was spending most of his marketing time out networking (which I believe in), then one day he advised me he was going to do something different. He decided to go back through non active client folders and start calling them to say hi. 75% of those calls resulted in additional work.

There are many ways in which any business can work on increasing the frequency of transactions (you just need to be creative), below are a few we know work

1. Build a database and work the database
2. Keep in contact with current clients on a quarterly basis at a minimum
3. Re-book customers in for their next appointment
4. Have a reward system for referrals, where the customer receives a voucher to use in your business
5. Inform your customers current and past of all the services/products you have
6. Provide an experience that will make them want to come back for more

Profit Improvement Area 4 – Average \$ Sale:

Increasing the average dollar sale, when you have a potential customer is one of the most underused strategies in improving your profit.

The classic that most people know about is the old McDonalds “Would you like fries with that”. Not everyone will say yes, but majority of people do. The amazing thing is that McDonalds were able to improve their profit without additional marketing, as they asked this simple question when they already had the customers buying.

What can you do in your business to ask customers “Would you like with that”

Some other strategies that can be used to improve profit by increasing the average sale are

1. Create a quality/exclusive image
2. Increase your prices (only when you are delivering something customers are willing to pay for)
3. Package your products/services
4. Promote various levels/packages of products/services
5. Incentives large purchases
6. Offer financing for larger purchases

Profit Improvement Area 5 – Margins:

The fifth area and an area as equally important to profit improvement as the other 4, is improving your margins.

This area can be split in to Gross Profit Improvement and Overhead Improvement. Businesses may be able to make improvements in both areas, whereas other businesses may only be able to make improvements in one of the areas.

Some of the strategies that can be used to improve margins are

1. Reduce duplication and errors
2. Obtain better terms with your suppliers
3. Automate and systemise your business
4. Reduce unnecessary management levels
5. Reduce money tied up in inventory
6. Outsource tasks to reduce costs
7. Incentivise team based on margins
8. Get rid of customers who are costing you money
9. Continually work on improvement in efficiency, productivity & Time Management

If a business worked on improving all of these by 10% the end result would be an improvement in Profit of 61%. I would be surprised if you would not be happy with such an increase in your profit.

Yes Turnover is important to every business, but more importantly is ensuring you have a positive cash flow on the back of a good profit margin.

If you find marketing difficult or do not have the time, then contact Darren Wedge from Wedge Consulting International on 1300 323 133 or darren@wedgecorp.com.au.

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