

9 DRIVERS OF PROFIT

***Grow Your Business with
Better Financial Management***

WRITTEN BY
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How to grow your business fast *without* complicated marketing

Hi! My name is Scott Gregory and I help small businesses that don't have the time or expertise to keep tabs on their finances and accounting. I help them better understand profits, products, and pricing so that they can make more and work less without worrying about all the details.

This eBook will help you build a strategy for growing your business faster than ever, without having to do any expensive and complicated marketing. And without running out of cash.

The end result:

You'll make more money. And work less.

Scott Gregory

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About the author

Scott Gregory, Part-Time CFO and QuickBooks Expert

Scott has been helping small businesses improve their profitability, cash flow, inventory management and optimize their use of QuickBooks accounting software for over 35 years.

Scott's role as the CFO for a \$15 million firm for over ten years allows him to provide insights not normally offered to small businesses. Far beyond "what button to push" in their accounting platform, Scott helps these businesses gain a deeper understanding of the drivers of their financial success, provided in an easy-to-understand manner. As he has often said – "no accounting-speak here".

His reference guides and tutorial videos have been downloaded and viewed by over 60,000 small businesses.

Can profit be managed?

Profit is simply an end result.

It's why so many businesses find profits and sales eventually stagnate. And this can be so frustrating. Perhaps you've been there. You're trying everything you can to improve your sales, improve your profits and generate more cash.

The problem is... you can't manage profit.

Behind every business is a business model. Numbers drive that business model. When you fully understand your business model and how the numbers work, you will be able to manage and improve the drivers of profit.

Every business is different and will have its own unique business model and profit drivers. And when you understand this model behind your business you can build a strategy for achieving the profitable growth you want.

I call it, "***The 9 Drivers of Profit.***"

Let's explore that model now.

The simple profit model

Profit is the end result of deducting costs from sales.

It looks like this:

The diagram illustrates the simple profit model using two equations. The first equation is $\text{Sales} - \text{Costs} = \text{Profit}$, and the second equation is $\text{Profit} = \text{Sales} - \text{Costs}$. Each term in the equations is contained within a dark blue rounded rectangular box, and the mathematical symbols are in a light blue color.

But that's very simplistic. We must understand both sales and costs in more detail. We need to break those two simple Profit Drivers down into something more manageable.

Let's look at costs next.

What drives your costs?

Costs are made up of **FIXED COSTS** and **VARIABLE COSTS**. It's important to differentiate between the two because they have a very different impact on your business model.

Fixed costs, as the name suggests, don't change (at least, not in the short term). For example, your rent or insurance costs.

Variable costs – sometimes referred to as direct costs – change in proportion to changes in sales. For example, material costs and direct labor.

Our formula now becomes:



Have you noticed something?

This is what your annual financial statements show. In fact, you probably see it set out like this:

Sales	\$100,000
<u>Less: Direct costs</u>	<u>\$40,000</u>
<i>Gross profit</i>	\$60,000
<u>Less: Fixed costs</u>	<u>\$35,000</u>
<u>Net profit</u>	<u>\$25,000</u>

The trouble is, annual financial statements are not very useful for making critical business decisions. They help with managing costs, but not growing a business and making big changes to profit.

A word of warning about costs

When considering variable and fixed costs we have to be careful. Fixed costs are usually fixed in the short term, but over the longer term can vary. Sometimes it is useful to consider a type of fixed cost sometimes referred to as stepped costs. Think of it like this:

If you manufacture widgets and you increase your sales by 10% your direct costs (perhaps the cost of raw materials and direct labor) also increase by 10%. Your fixed costs probably won't change with a small change in sales. Your fixed costs might include your rent and the cost of your sales force.

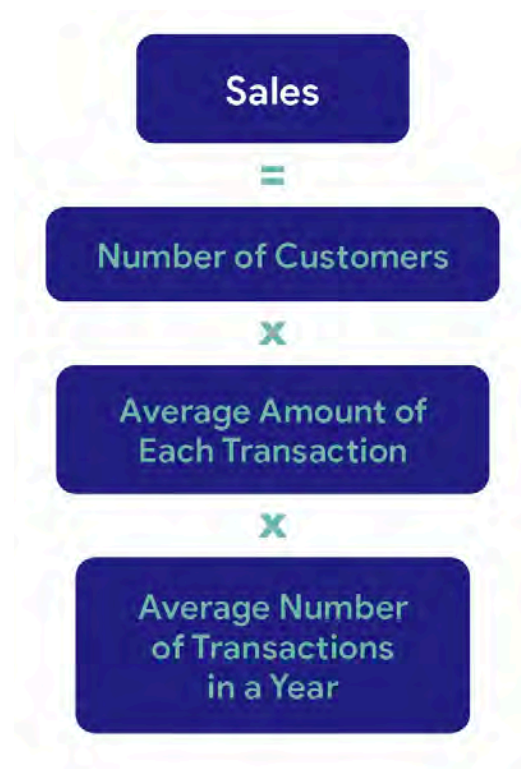
If your sales of widgets increase by a larger amount, say 50%, your direct costs would increase by 50%. Some of your fixed costs such as rent may continue to be unchanged. But to generate that increase in sales of 50% the cost of your sales force is likely to rise (possibly by as much as 50%, or even more). That costs will not vary *directly* with sales, but it will increase in steps.

A full analysis of costs and how they behave relative to sales is crucial to understanding your business and improving profit.

What drives your sales?

The famous marketer, Jay Abraham, championed the idea of “*Three ways to grow a business*”, which describes a powerful way of looking at how sales are made up.

He describes it like this:

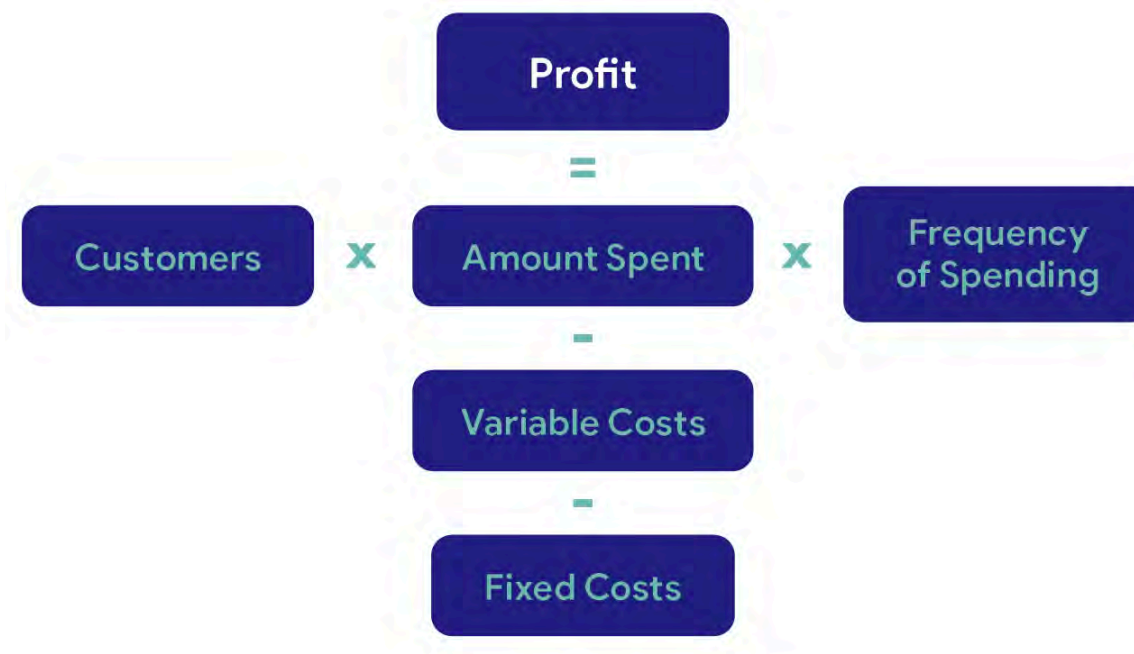


From a marketing perspective this is very powerful. Most businesses focus on the first component (number of customers) when looking to grow, when in reality the second and third are often much more powerful.

Let's simplify the terminology into this:



We now have 5 drivers of profit in our business model:



This is now much more useful in helping us to grow a profitable business. Particularly when we create a financial model so we can see the impact of any changes on both costs and profit.

Let's build on this.

What determines the number of customers you have?

If you want to increase the profits of your business you could focus your attention on the first driver, *number of customers*. But what determines the number of customers?

We can break this driver into 3 separate components:



In other words, there are **3** things that drive the change in the number of customers:

- 1** **Getting more sales leads**
(which is *MARKETING*)
- 2** **Converting more of those sales leads into customers**
(which is *SALES*)
- 3** **Reducing the number of customers that leave**
(which is *CUSTOMER SERVICE*)

Once again, we can model this and identify how changes in each of these drivers impact on profit.

The most important driver of profit: the price lever

The second of Jay Abraham's "*Three ways to grow a business*" is the average amount of each transaction.

In other words, what can you do to get customers to spend more money with you every time they do business with you?

This is very powerful.

But to build our mathematical business model we need to break this down into two separate components. Essentially there are two ways of getting customers to spend more:

- 1 Buy more from you each time (for example, by creating some up-selling systems), and
- 2 Changing the price.

It's important to consider these two separately because they each have a different impact on costs. Buying more means variable, or *direct*, costs also go up. Changing price has **no impact on costs**.

This is one of the reasons why, mathematically, price is the most powerful lever in the profit equation.

If you've been following carefully, you'll know we now have 8 drivers of profit. Don't worry if you've missed some, we'll summarise them soon.

That just leaves one final driver.

The 9th driver

The final driver is a little different, but no less important.

The first 8 drivers can be built into a complex mathematical model; a model that predicts what happens to profit when you manage and change any of the drivers.

The final driver is to systemize everything. To create systems for improving each of the drivers of profits, e.g. customer service systems, selling systems, referral systems, pricing systems.

When you systemize the critical business processes that drive growth and manage profits you start to build a 'money machine'. A well-oiled business that works.

So which one should you focus on?

You should work on all of them simultaneously. But if you were to pick one you should *always start with price*. First, it is the most powerful lever in the profit equation, i.e. it has the biggest mathematical impact on profit. Second, it can have an *immediate* impact on profit.

You must also understand how each of the drivers impacts on other elements of the profit equation. Most businesses focus on getting more sales leads and winning more customers. However, if the price is wrong (or by giving discounts to attract new customers) very often this can have a negative impact on profit.

This is why we specialize in pricing. Get your pricing right and you'll see your profits rising significantly. Get it wrong and it's a fast way to go out of business.

You must understand the numbers.

This is why we always start with the numbers before creating your pricing strategy.

Here are the 9 profit drivers:

- 1 Getting more sales leads
- 2 Converting sales leads into customers
- 3 Getting customers to spend more
- 4 Getting customers to spend more often
- 5 Getting customers to remain customers for longer
- 6 Pricing for maximum profit
- 7 Variable costs
- 8 Fixed costs
- 9 Systemize everything

Celebrate your best ever month in business

If you read this research report and then file it away, nothing will change. You'll get no benefit and you're just wasting your time.

If you want to get results, if you want to earn more money, you need to take some action!

If you're working too hard, and not making enough money I want you to make me a promise... I want you to PROMISE me you'll invest some attention to fix this problem.

This could easily be the thing you look back on in 6 months from now when you're celebrating your best ever month in business.

YOUR NEXT STEP

Book your "Better Bottom Line" Review package with us.

This is how we help you and it works like this...

We meet with you virtually to explore the profit potential in your business and agree an action plan. Some of the things we will cover in this “Better Bottom Line” Review package include:

- ✓ **We will talk about your business**, where you want to be in the future and your current challenges
- ✓ **Using a software approach**, we will look at your numbers and consider some different scenarios and the potential impact on your profits from some key strategies
- ✓ **Once we work through your situation** you will have some powerful actions for increasing your profit

However, we don't work with everyone. We work with ambitious business owners who are struggling to make the profit they want to grow their business and make more money.

[Click here for more details](#) about our services or feel free to e-mail Scott directly at: Scott@BetterBottomLine.com.



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