The Profit EquationSM Factors

**A. Existing # Customers – Lost + New = Total # Customers**

**B. Total # Customers X Frequency X Avg. $ = Gross Revenues**

**C. Gross Revenues – Cost of Goods – Overhead = Net Profit**

**A. Existing # Customers – Lost + New = Total # Customers**

|  |  |  |
| --- | --- | --- |
| **Critical Success Factors** | ***Key Performance Indicators Outcome Measures*** | *Impacting Factors &****Activity Measures*** |
| Base # of Existing Customers | Lifetime Value $Penetration:  # of services used | Data Capture SystemsContact Management SoftwareAccuracy / AccountabilityBuying Patterns80/20 rule - targetingCustomer Profile - ABCDCommunicationPreferential treatment |
| LESS # of Lost Customers | Attrition Rate %  | Customer ComplaintsCustomer Refunds/ReturnsProduct DefectsBilling ErrorsCustomer Service ResponsePerceived Indifference IssuesTeam Empowerment to solve issuesCommunication StyleFeedback SystemsGuaranteesExit Interviews with former team membersAccountability for lost customers |
| PLUS # of New Customers | Acquisition Rate %Conversion Rate %Mktg./Adv. ROIConversion Rates per/offer per/sales person per/period of timeCost of Acquisition $ Source/Avg. Sale Source/Frequency Source/Lifetime  value Source/Quantity Source/Referral rate | Testing/TrackingLead Generation SourcesInstitutional vs. Direct MarketingCall to Action - TrackingHost Beneficiary RelationshipsEndorsementsConversion Process Tracking Systems Telephone Manners & Scripting Telemarketing Brochures/Letters NurturingUSP - Unique Selling PropositionRisk ReversalPerceived Added ValueOfferSource/Quality of Customer Referrals Repeat Endorsements Host Beneficiary Relationships |
| **EQUALS** Total # Customers |

**B. Total # Customers X Frequency X Avg. $ = Gross Revenues**

|  |  |  |
| --- | --- | --- |
|  **Critical Success Factors** | ***Key Performance Indicators Outcome Measures*** | *Impacting Factors &**Activity Measures* |
| Total # of CustomersMultiplied by Frequency - the number of times they come back (or refer others) | Retention Rate %Frequency Rate #/timeReferral Rate | NurturingAncillary ProductsBack-end salesTill Further NoticeFrequent Buyer ProgramsDatabase Management – Targeted  marketingSpecial Offers/EventsProgrammed Referral ProcessesHost Beneficiary RelationshipsEndorsements |
| Multiplied byAverage Sale Value | Transaction Value $Marginal Net WorthSource/Avg. $ Value | Up-sellsBumpsBundlingPackagingPerceived Added ValuePrice - OfferPoint of Sale ImpressionIncentivesMerchandisingPayment OptionsTracking Systems - Database  management Host Beneficiary Relationship Endorsements Referrals RepeatWarm vs. Cold |
| **EQUALS** Gross Revenues |

**C. Gross Revenues – Cost of Goods – Overhead = Net Profit**

|  |  |  |
| --- | --- | --- |
| **Critical Success Factors** | ***Key Performance Indicators******Outcome Measures*** | *Impacting Factors &**Activity Measures* |
| Gross Revenues lessCost of Goods | COG %Cost of Sales %Direct Variable CostActivity Variable CostsManpower/ProductivityRealization RatesUtilization RatesGross Margin % | Buying Power - NegotiationsRelationship – Longevity – Credit termsInventory turns/control/storageShrinkage/DamageProduct/Sales MixCash Flow - financingAccounts Payable turnsJust in Time Inventory ControlsTracking/ReportingTrainingEquipmentTechnology – SystemsWork FlowTime/Motion EfficiencyDowntimeRe-WorkTeamwork – Innovation - KaizenEmpowermentProfit Center Approach - BudgetsPerformance Bonuses - Incentives |
| LESSOverhead - fixed expenses | OH $ | Salaries, Benefits, TaxesEfficiencyTechnologyWork FlowPurchasing ControlsBudgets/ActualTeamworkA/R – A/PInnovationInjuriesAbsenteeismTardinessPoor time usageEmployee TurnsEmpowerment - EducationProfit Center Approach Budgets Performance Bonuses or  Incentives |
| EQUALS Net Operating Profit |

**Existing # Customers – Lost + New = Total # Customers**

**Total # Customers X Frequency X Avg. $ = Gross Revenues**

####  Gross Revenues – Cost of Goods – Overhead = Net Profit

**The Profit EquationSM Questions**

**# Existing Customers, Acquisition, Attrition, and Closing Activities**

##### Do you have your customers in a database?

* Is it a contact management database?
* How do you utilize the database?
* How often and what do you send to your customers?
* What additional products or services have you offered your customers?
* Do you have any kind of ongoing customer feedback system in place?
* Have you ever hosted a Customer Advisory Board?
* How do you handle customer complaints?
* Are your employees empowered to handle complaints – to what $ limit?
* How do you generate new leads?
* Can you quantify the results you are getting from your advertising?
* Do you know what sources yield the highest quality customers?
* What is your Cost of Customer Acquisition?
* Have you done a customer segmentation analysis to define who your ABCD customers are?
* Have you applied the 80/20 rule to your customer base?
* Is your advertising Institutional or Direct?

**Frequency of Customer Contact**

* How many times per year do you have contact with your customers?
* What percentage of customers refer others?
* Are there some that are better at giving you referrals – have you tracked where they originally came from?
* Have you conducted a customer needs assessment survey recently?
* What kind of follow-up service do you offer?
* Have you ever offered another company’s product or service to your customers?
* Have you ever bundled your product or service with someone else’s?
* How do you handle customer complaints?
* Are your employees empowered to handle complaints – to what $ limit?

**Average Sale**

* Do you track your average sale? (daily, weekly, monthly?)
* Is the team aware of your average sale number?
* Are there incentives in place for improving the number?
* Have you tested different packaging options?
* What kind of Risk-Reversal strategy do you have?
* Have you ever considered an Extraordinary Guarantee?
* Have you ever tested a bump or an up-sell?
* Do you know what your marginal net worth is on each sale above break-even?

**Gross Revenues**

* How often is it measured?
* Do you share your financial numbers with the team? If so, how often and in what form?
* Are there incentives for the team to innovate and improve revenues?

**Cost of Goods**

* When was the last time you reviewed your purchasing policies?
* When was the last time you shopped your vendors?
* Have you held a Vendor Advisory Board?
* Do you measure your inventory turns?
* Do you track wasted and damaged goods?
* Do you return damaged goods to suppliers?
* Does your team understand the cost of each line item?
* Have you established an innovation incentive program to reduce the cost of goods?

**Overhead**

* Do you routinely review your fixed cost ratios?
* Are your policies and procedures documented?
* Have you considered outsourcing any administrative or other functions?
* How do you allocate administrative expenses to each department-by % of revenues or by actual activity cost?
* Do you cross-train your people?
* Have you measured your cost of hiring and training?
* What is your employee turnover rate?
* How many of your people have advanced within your company?
* How would you rate the effectiveness of your management team?
* Do you have incentives in place to reduce expenses?

###### Net Profit

* Is there a profit sharing program in your company?
* Are your people involved in making capital investment decisions?
* Does your team understand how their performance impacts the bottom line?
* Are bonuses paid on gross or net profit?
* Does each department have a budget?
* Do they have control over their own budgets?
* Is each division tracked as its own profit center?