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 Systems  Contact Management Software  Accuracy / Accountability  Buying Patterns  80/20 rule - targeting  Customer Profile - ABCD  Communication  Preferential treatment |
| LESS # of Lost Customers | Attrition Rate % | Customer Complaints  Customer Refunds/Returns  Product Defects  Billing Errors  Customer Service Response  Perceived Indifference Issues  Team Empowerment to solve issues  Communication Style  Feedback Systems  Guarantees  Exit Interviews with former team  members  Accountability for lost customers |
| PLUS # of New Customers | Acquisition Rate %  Conversion Rate %  Mktg./Adv. ROI  Conversion Rates  per/offer  per/sales person  per/period of time  Cost of Acquisition $  Source/Avg. Sale  Source/Frequency  Source/Lifetime  value  Source/Quantity  Source/Referral rate | Testing/Tracking  Lead Generation Sources  Institutional vs. Direct Marketing  Call to Action - Tracking  Host Beneficiary Relationships  Endorsements  Conversion Process  Tracking Systems  Telephone Manners & Scripting  Telemarketing  Brochures/Letters  Nurturing  USP - Unique Selling Proposition  Risk Reversal  Perceived Added Value  Offer  Source/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 #/time  Referral Rate | Nurturing  Ancillary Products  Back-end sales  Till Further Notice  Frequent Buyer Programs  Database Management – Targeted  marketing  Special Offers/Events  Programmed Referral Processes  Host Beneficiary Relationships  Endorsements |
| Multiplied by  Average Sale Value | Transaction Value $  Marginal Net Worth  Source/Avg. $ Value | Up-sells  Bumps  Bundling  Packaging  Perceived Added Value  Price - Offer  Point of Sale Impression  Incentives  Merchandising  Payment Options  Tracking Systems - Database  management  Host Beneficiary Relationship  Endorsements  Referrals  Repeat  Warm 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  less  Cost of Goods | COG %  Cost of Sales %  Direct Variable Cost  Activity Variable Costs  Manpower/Productivity  Realization Rates  Utilization Rates  Gross Margin % | Buying Power - Negotiations  Relationship – Longevity – Credit terms  Inventory turns/control/storage  Shrinkage/Damage  Product/Sales Mix  Cash Flow - financing  Accounts Payable turns  Just in Time Inventory Controls  Tracking/Reporting  Training  Equipment  Technology – Systems  Work Flow  Time/Motion Efficiency  Downtime  Re-Work  Teamwork – Innovation - Kaizen  Empowerment  Profit Center Approach - Budgets  Performance Bonuses - Incentives |
| LESS  Overhead - fixed expenses | OH $ | Salaries, Benefits, Taxes  Efficiency  Technology  Work Flow  Purchasing Controls  Budgets/Actual  Teamwork  A/R – A/P  Innovation  Injuries  Absenteeism  Tardiness  Poor time usage  Employee Turns  Empowerment - Education  Profit 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?