

The 5 numbers your business needs YOU to know

Double profit in 5 steps

Why?

We're all in it for different reasons, but the chances are you need your business or idea to make a profit. That applies to charities and social enterprises as much as it applies to private for-profit businesses, it's just they choose to spend those profits differently. But in most cases when I ask people whether they'd like to be by this pool (or own it) they say... of course!



So in this paper we'll tell you how to transform your profitability and success. We'll give you a framework – a way to think about your business – and some specific strategies to double your profit. You'll be aware-of and familiar with many if not all of the numbers – but the key is the way they're arranged.

This framework will have a massive impact on your success whether your business is just an idea, on the verge of starting-up, or you've been up and running for ages. Now, the title does understate it a little. It's true there are just 5 numbers you need to focus on, but you could really do with knowing 2 versions of each:

- What you WANT it to be. What does it need to be to get you to that pool?
- and What is it now (if you're already in business that is)

The Secret

Before we get into it, we'll tell you the key to being an overwhelming success. This is the thing you don't get taught at school – or university or almost anywhere else:

Be clear what you want, and genuinely believe you can do it.

People often tell you that you should start by measuring your current performance, and then work up from there. That it's important to get a baseline and then start to make incremental change. Now that's true, but it's not the most important thing if you want to do something great. A book called "[Think and Grow Rich](#)" based on interviews from 500 of the most successful businessmen in the US revealed the real secret 80 years ago. People like Henry Ford, Thomas Edison and Andrew Carnegie changed the world because they knew that the secret to success is as simple (and as profound) as:

- **Decide** what are going to do. *YOU'RE GOING TO GET TO THAT POOL.* You personally are going to make £100k a year profit. Whatever it might be, decide it. Now.
- **Visualise** it. *SEE YOURSELF BY THE POOL.* What will you do differently when your business gets this profitable? What will you have, what will you do.
- **Believe** it. *KNOW YOU CAN DO IT.* We'll tell you how in a moment – and you'll see it's easy to get your head around. But you have to genuinely believe you *can and will* do what it takes to get to that pool.
- **Repeat it to yourself** – EVERY DAY. *REMIND YOURSELF, OUT LOUD,* what you're going to achieve, what it will be like and how you're going to do it.

“ The greatest threat to your success is ironically your greatest strength. The reason you got into business originally – and why you enjoy it... ”

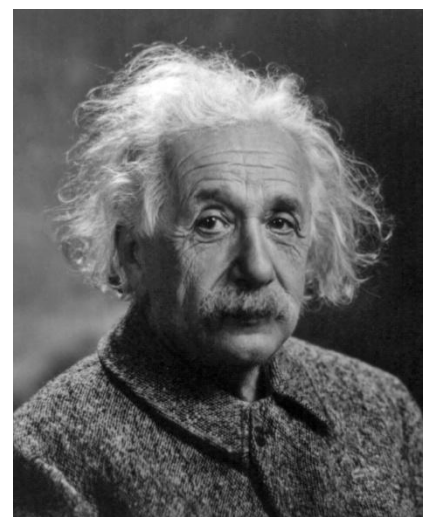
The Warning

There's something else really important you need to be aware-of too. A book called "[The E-Myth](#)" describes it perfectly. The greatest threat to your success is ironically your greatest strength. The reason you got into business originally – and why you enjoy it. You're a technician. Whether you're an artist, a programmer, a consultant, a salesman, a marketer – whatever it is, chances are you naturally spend most of your time driving just ONE of the 5 numbers we're going to show you.

But if you're going to make it a success you need to step up and work ON the business, not just in it. You need to put balanced focus on all 5 numbers if you're going to get to the pool.

The Unifying Equation

The Holy Grail in physics is the unifying equation that ties everything together. Scientists haven't found it yet, but Einstein came close with one of the most powerful equations in physics: the beautifully simple: $e=mc^2$. This simple sequence answered a



multitude of questions about the world we live in – some of which hadn't even been thought-of at the time. And it's made-up of just three things that you're already know about: energy, mass and the speed of light.

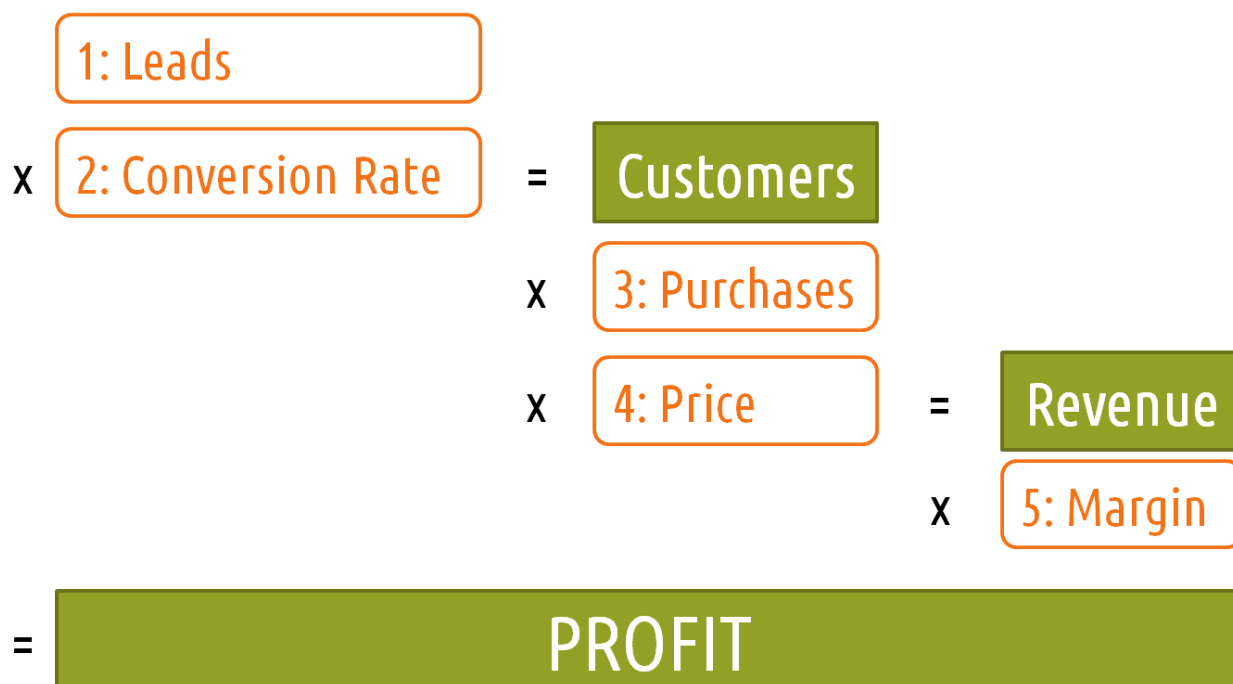
You'll already have heard-of the numbers we're going to show you, and you might think there's nothing new here. But until you organise them using this framework you're only seeing part of the picture, and you're missing the point: That these 5 numbers tell you everything you need to do to double your profit.

“ Knowledge isn't power, it's potential. It's what you do with the knowledge that counts... ”

Don't forget why you're reading this: To get to that pool.

The Big 5

This is it. This one equation describes the profitability of your whole business. Drive these 5 numbers and you'll get to the pool.



But there are a few things you need to know before we dig-in:

1. **You can't change any of the green numbers**, you can only change the orange ones – and that includes PROFIT. But – drive the orange ones and the green boxes take care of themselves.
2. **If you change more than one of the numbers they have a compound effect, boosting each other.** The effect multiplies-up. We'll show you what we mean in a moment.

Let's quickly run through the numbers – there's science behind each one:

1. **Leads.** This is the number of people that are *AWARE* of your product or service, and *INTERESTED* in it. These are marketing terms – and for your business they might mean people visiting the website, phoning you, picking up your card or visiting your shop.
2. **Conversion Rate.** How many of your leads go on to *WANT OR DESIRE* what you're selling, and take *ACTION* and buy it. This is the other half of the AIDA marketing acronym – but this really fits firmly into the discipline of Sales.
3. **Purchases.** This is important: It's the number of purchases a customer makes *OVER THEIR LIFETIME AS A CUSTOMER*. The quality of your product and the service you provide has a big impact here.
4. **Price.** You need to think of price as an almost *ABSTRACT CONCEPT*. It's really not grounded in the amount of product you deliver – or even necessarily the quality of the product. It's much more ethereal and guided far more by *PSYCHOLOGY* than you'd think.
5. **Margin.** What proportion of the money you charge your customers do you have to spend on costs? Obvious things like raw materials, premises, advertising but also less obvious things like the interest on loans, and a slice of the cost of equipment. This is where the *TOUGH CALCULATIONS* need to be done – rolling all of your costs together and allocating them to the sales is complex (or you could spend less than the price of a cup of coffee a month and use finanscapes.com...).

An Example

It's really easy to put the numbers in – let's use this example below:

$$\begin{array}{rcl} & \boxed{300 \text{ leads}} & \\ \times & \boxed{25\% \text{ conv}} & = \boxed{75 \text{ custs}} \\ & \times \boxed{3 \text{ purchases}} & \\ & \times \boxed{\pounds 20 \text{ each}} & = \boxed{\pounds 4.5\text{k rev}} \\ & & \times \boxed{40\% \text{ marg}} \\ = & & \boxed{\pounds 1,800 \text{ PROFIT}} \end{array}$$

It's as simple as that. Those 300 leads will generate £1,800 profit (over time – don't forget there's a lag between some steps, and sadly you'll normally have to pay out on costs *before* money comes in. That's cash flow – again, finanscapes.com models all that stuff for you but for now let's stick with PROFIT). £1,800 profit is good. But it's probably not enough to get you to that pool. So let's see where the Big 5 really shines...

The Exponential Power of Multipliers



There's a story "[out there](#)" about the man who invented chess. When he presented the game to the Indian King he was so pleased with the game that he asked the inventor to name his prize for creating it. The man was a mathematician and asked "simply for this": That on the first day he receive a grain of rice on the first square of the board. On the second day, two grains on the second square then four on the next then eight and so on – doubling the number of grains of rice on each square. The king quickly agreed and told his treasurer to count and hand-over the rice.

After a week, the treasurer was called-back to ask why the rice hadn't been supplied yet, and he told the King that the he had calculated the amount of rice to cost more than all of the assets in his entire Kingdom (a pile bigger than Mount Everest, *more than 1,000 times the earth's global output of rice in 2010*).

The story's ending varies – in some the inventor was beheaded so we'll not focus on those. The point is clear though – that when you repeatedly multiply a number the effect compounds and has a drastic impact. That effect is at your disposal using "the big 5" equation of profit.

How to Boost Each Number by 15% AND DOUBLE YOUR PROFIT

Now we don't have 64 numbers in the Big 5 equation – but then you'd have given-up by now if there were. We have 5 numbers – but if you can bump each of those numbers up by just 15% (that's about $1/7^{\text{th}}$) and you will **double your profit**.

Let's run through each of the numbers and look at some strategies you can use to boost each by just 15%:

1. **Leads (& Marketing)**. This is marketing strategy heartland, and there are lots of great resources out there to help you generate more leads. For example:
 - a. If you have a website (and you must), you should spend time on Search Engine Optimisation (SEO) – up front and then at least every 2 months once you're generating the number of leads you want (it needs to stay fresh to keep working).
 - b. You can also harness more traditional forms of marketing such as advertising, running competitions, sponsorship, events, publishing white papers etc.
 - c. **OUR KEY TIP FOR LEADS IS: Focus on Education-based Marketing.** Educate and inform your potential customers – not about your product, but about your market. Share your expertise. Online this boosts your SEO and web traffic and offline it builds your credibility and the likelihood people will find, listen to and buy from you.

“ bump each of those numbers up by just 15% (that's about $1/7^{\text{th}}$) and you will double your profit ”

2. **Conversion (& Sales).**

- a. Your website must be designed to convert interested buyers into customers. Online conversion is a science – don't waste your money on a website until you know how it should be structured to convert visitors into customers.
- b. Offline you need to *believe* in your product or service. If it isn't genuinely the right thing for your target market, then you shouldn't be selling it. If it is, then come across with confidence, commitment and authority. Some people are naturally great at selling – but you can learn too. It's all about credibility and confidence.
- c. **OUR PRO-TIP FOR CONVERSION IS:** Your sales process is exactly that – a process. Take a half hour with a pen and a piece of paper and jot down the process. **At every step you should have an action objective.** What do you want the prospect to do next? Once you've got the process and the action objectives at each step, look at how you're doing it now. The two won't match. There will be some obvious ways to smooth this process. Once that's done, write down the SCRIPT (yes, the script) for each step. What does the customer need to know (benefits not just product features!) to ensure they take the next step.

3. **Number of purchases.** Loyalty and propensity to buy more. You've heard it said that it's much more expensive to get a new customer than retain an existing one? They're right. Several things come into play here, the most important of which are:

- a. The quality of your product or service
- b. The experience of buying from you – and the way you treat them afterwards (customer service and followup).
- c. **OUR PRO-TIP TO MAXIMISING THE LIFETIME VALUE OF A CUSTOMER IS:** **Put the same effort into speaking-to and following-up with your existing clients as you do when you're attracting new ones.** Not only will they be more likely to buy again, but they will refer you to their friends and become your extended sales force.

4. **Price.** You've got to love price. It's the one number here that you can change with the least effort. In fact, not only is it the easiest to change but it also tweaks-up your margin too, *so it affects two numbers in one go!*

- a. Price is not about money and it's barely connected to value. It's about perception and psychology. Think of an iPhone vs. a Samsung Galaxy. People don't pay 5-times more for an iPhone than a Galaxy because the product costs ~5x more to make. And let's be honest it's not 5x better at making phone calls, sending texts or browsing the web. People pay more because the product is marketed very effectively so people no longer make the comparison on price.
- b. If you're starting-up and thinking of setting your price lower than the market average to "gain a foothold" or attract more customers, don't. What you'll actually be doing is telling customers you're not as good as your competitors.
- c. **OUR PRO-TIP ON PRICING IS:** Customers will "anchor" the price for your product with higher and lower cost items, and decide whether the value they get from yours is in-between. You don't have to let the market do that for you though. **Offer customers several options – a more expensive option, a cheaper option and the "most popular" option.** People don't often go for the most expensive option – but it does set their frame of reference. They also don't normally like going for the cheapest – "cheap" tends to mean not very good. So they'll go for the option in between – happy that they're getting a good product (better than the cheap one) and it's a good price (less than the expensive one). Look around when you're next in the shops or online – people have been "price anchoring" you all along...

5. Margin. As we said earlier, a lot goes into calculating your margin. There are in fact two “margins”, and there’s quite a lot that goes into calculating them – here we’re interested in the Net Margin.
 - a. Net Margin: the total amount of each sale take away all of your costs including unit costs, overheads, loan interest, an allocation of the cost of equipment etc.
 - b. OUR PRO-TIP ON MARGINS (ASIDE FROM USING FINANSCAPES.COM SO YOU GET THE CORRECT ANSWER): YOU’LL OFTEN HAVE A CHOICE between:
 - i. Variable costs that flex up and down with the number of products that you sell – such as renting a car for days when you need to go onsite with clients, or outsourcing some tasks to a designer or marketing freelancer.
 - ii. Vs fixed costs such as buying the car, taking on an employee etc.
 - c. Obviously try to minimise your costs. Don’t spend unless you know it’s going to pay-back for the business. But where you do spend, **wherever you can, go for the variable cost option until your business is well established.** One thing is certain when you’ve got a young business: your sales forecast will be wrong. If you keep your costs flexible you can respond better to unexpected peaks, and cope more easily with troughs.

Show Me The Money!

If you take just a day to focus on each of 5 numbers, starting with the strategies we’ve given you, you ought to be able to come up with a clear plan to achieve that 15%. The reality is most of us spend too little time working ON the business. Remember the warning from the E-Myth. So here’s the working-out, to show you what happens when you budge each number by just 15%:

$$\begin{array}{r}
 \boxed{300 \gg 345} \\
 \times \boxed{25\% \gg 29\%} = \boxed{75 \gg 100} \\
 \times \boxed{3 \gg 3.45} \\
 \times \boxed{\pounds 20 \gg \pounds 23} = \boxed{4.5\text{k} \gg \pounds 7.9\text{k}} \\
 \times \boxed{40\% \gg 46\%} \\
 \\
 = \boxed{\pounds 1.8\text{k} \gg \pounds 3,620}
 \end{array}$$

Now that’s more like it. If you’re generating £3,600 a month in profit you’re a lot closer to that pool! And with all the work you’ve done ON the business, chances are you’ve done more than 15% on some of those numbers – and got some ideas about how you can go a lot further on

others. Being in the mindset of a business owner rather than a technician makes all the difference – and that’s one of the biggest lessons for a small business owner to learn.

What Else?

Ok so the Big 5 tells you how to turbocharge your profit but there are other things you need to be aware of if your business is going to be a success. One of those is the time-value of money. Cash flow. We touched on it earlier, but we really should reinforce it here again: cash flow problems kill businesses. You often have to pay costs before your customers pay you – so it’s important you get a good handle on what the flow of money will look like in your business. This depends on your costs, your sales forecasts, your equipment purchases and a host of other bits and pieces.

There’s no 5-step formula we can give you to forecasting your cash flow – but you’re in luck: there’s finanscapes.com. For the equivalent cost of a coffee a month you can model as many different ideas, create as many different scenarios and forecast as many different products and services as you like. There are no calculations and you see simple, easy-to-understand graphs that show you what you need to know – about both your profit and your cash flow, all in one intuitive tool.

So what are you waiting for? Decide what you want your profit (and so the Big 5) to be then get on and make it happen. And don’t worry if you get stuck or need help – there’s a whole internet of resources out there, and a host of workshops and seminars you can attend at your local Enterprise Agency. If you’re struggling to find expertise email us at contact@finanscapes.com – we know lots of great Enterprise Support Advisers that will get you going in no time.



About Finanscapes

Designed specifically to meet the needs of startups, small businesses and the organisations that support them, Finanscapes is an intuitive and robust financial forecasting tool designed to break-through the “numbers barrier”.

Better-informed decision-making means stronger businesses, so you get:

- A powerful, intuitive and beautiful way to model and forecast your profit and operating cash flow - protected from formula errors and mistakes.
- Insightful graphs and performance indicators that show you the future and tell you how your business will shape-up.
- Unlimited plans and scenarios, letting you model different ideas and scenarios to help you decide what to do.
- Accurate, professional financial forecasts in a standard format for investor and lender review. Make their job easier and your raise your credibility.

Finanscapes is the simplest, easiest way to forecast your profitability and cash flow and is trusted by Universities, Enterprise Agencies and Accountants to boost business success and growth rates.

Try it for free at www.finanscapes.com.

If you're a mentor or Enterprise Centre Manager, [get in touch](#). Using Finanscapes with your clients will not only boost their growth and success rates but also reduce your costs. And removing the numbers barrier will differentiate you from the crowded support market.