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HOW CAN I INCREASE MY PROFITS?

Every business needs to make a profit. A profit gives an income to the owner, which in turn enables them to pay the bills at home and fund their lifestyle. So all businesses must make a profit, eventually, just to survive and continue.

But the question is how can a business make more profit?

In this article we'll answer that question by outlining the 7 strategies that any business owner can consider deploying for their business to make more profit. Let's get started…

Strategy 1: REDUCE COSTS

This is typically the first thing most business owners do to increase profits. In many ways this is a very sensible starting point. As a business owner, you have a certain amount of control as to what the business spends money on. If you decide to stop spending money on, say an IT software subscription, then you can.

The ***3 BEST ways*** to reduce the costs in a business are: –

- ***CUT WASTE*** – stop using services that no one uses any more (e.g. IT software subscriptions)
- ***INCREASE EFFICIENCY*** – for instance by improving a manufacturing process means fewer raw materials are bought and/or less staff time (& cost) is needed.
- ***PAY LESS*** – find a cheaper price BUT ONLY if quality or service level is not being compromised

Strategy 2: INCREASE NUMBER OF SALES LEADS

For any business to grow it needs new customers and to do that more sales leads (sales enquiries) are needed.

To get more sales leads variably means increasing the amount of marketing activity and the amount of marketing spend. Therefore, a decision needs to be made as to whether to spend more on the marketing pillars currently being used AND/OR to start to spend on new ones.

Common marketing pillars businesses tend to use

- pay per click & Facebook ads
- direct mail & flyers
- networking
- exhibitions
- SEO

Business owners need to be aware that BIG increases in marketing spend need a LOT OF CASH. Here's why….

Mind the Gap

Cash will be spent on marketing and buying stock now.

BUT

It takes time to convert sales leads into new customers….and then to make sales….and then more time for those new customers to pay your sales invoice.

There's a time delay (or 'gap') which starts on the day the marketing starts (when cash is spent) and ends when the new customer pays your sales invoice (when cash is received).

A business needs enough cash to fund the 'gap'.

If it doesn't the business could easily fail simply because it runs out of cash.

Strategy 3: INCREASE SALES CONVERSION RATE

To get more new customers a business doesn't have to rely on getting more sales leads. It can also do this by *converting more* of the sales leads it already gets, into more new customers.

This is done by improving the **sales conversion rate (SCR).**

$$\text{SCR} = \frac{\text{Number of new customers}}{\text{Number of sales leads}}$$

The big benefit of a business improving the SCR is that for the same amount of marketing spend it will have more customers and see higher sales and profits.

Possible strategies to improve the SCR

- ***Offer*** – Create a more compelling offer
- ***Follow up*** – All sales leads very quickly – ideally within 10 minutes
- ***Follow-up campaign*** – To nurture sales leads who don't convert immediately
- ***Focus on your ideal customer*** – to improve the quality of the sales leads

For example

A business gets 10 sales leads a month and by converting 1 into a new customer means the SCR is 10%. By successfully implementing strategies to increase the SCR to 20% means that for the same 10 leads the customer now has 2 new customers.

Strategy 4: IMPROVE CUSTOMER RETENTION RATE

The fewer customers a business loses the fewer new customers it needs to find to just replace them ….. never mind grow. By improving the **Customer Retention Rate (CRR)** means that, on average, a customer will stay with the business for longer.

The longer a customer stays the more they will buy and the more profit the business will make.

CRR = <u>No of customers at start of month – No of new customers in month</u> * 100

No of customers at end of month

This calculation method can be amended for a different time period – replace 'month' by say 'year'.

For example

A business has 100 customers at the start of the month, it has 120 at the end of the month and gained 40 new customers in the month. The CCR is 50% (based on 100 – 40 / 120).

By reducing the number of customers 'leaving' then, over time, the CCR will rise – by comparing the CCR figures over time a business can see how successful it is at retaining its' customers.

Possible Strategies to improve Customer Retention Rates

Common strategies revolve around improving its' understanding of its' customers needs and wants…and then doing better at meeting them. For instance by:-

- ***Exit survey*** – ask customers who have left (or will be) why
- ***Customer survey*** – ask existing customers how happy they are & how you can do better.
- ***Loyalty Deals*** – special deals for loyal customers

Strategy 5: INCREASE FREQUENCY OF SPEND

Another strategy a business can use to increase sales and profits, that doesn't focus on new customers, is to get existing customers to buy more often.

Example

A hairdresser cuts, on average, the hair of each customer every 5 weeks. If the hairdresser can get each customer to come back every 4 weeks instead then sales will rise by 25%.

Possible Strategies to increase frequency of spend

Common strategies revolve around understanding the needs of its' customers…and then doing better at meeting them. For instance by :-

- ***Compelling offer*** – using offers with deadlines gives customers reasons to come back sooner
- ***Contacting customers*** – phone customers and book in earlier return appointments.

Strategy 6: INCREASE THE NUMBER OF GOODS/SERVICES SOLD

Another alternative strategy to increasing sales and profits, but which doesn't focus on new customers, is to sell more to an existing customer each time they buy.

Possible Strategies to increase frequency of spend

- ***Bundling*** – 'Buy product A and get product B half price' (often used to sell slow moving or excess stock).

- ***Offers*** – ‘Buy 3 for 2’ – instead of buying the 1 as planned the customer pays for 2.
- ***Trade ups*** – A strategy often used in coffee shops and looks to get you to upgrade your initial purchase. Eg staff will say ‘just 20p for a large coffee’.
- ***Impulse buys*** – Many retailers have impulse buy items (often confectionary) near the tills to tempt shoppers into adding an extra item into their basket at the last minute.
- ***Add on buys*** – Where you’re offered something which is complimentary to what you’ve decided to buy. Eg McDonalds staff ask ‘would you like fries with that?’.

Strategy 7: INCREASE PRICE

A third alternative strategy to increasing sales and profits, but which doesn’t focus on new customers, is to increase the prices of the goods and services.

Many business owners avoid putting their prices up because they’re worried about how many customers they’ll lose.

This is a mistake because the strategy of increasing prices typically has BIGGEST and QUICKEST impact when it comes to increasing profit and cash. That’s because there’s no cost attached to a price rise – a business simply makes more profit on each sale it makes.

For Example

A business with annual sales of £1,000,000 increases its prices by just 2% will see its’ profits increase by £20,000 without having to sell more or do anything differently.

Possible Strategies to increase prices

- ***Selective increases*** – Increase prices for certain customer groups (or certain products/services) to see the results before increasing prices elsewhere – eg start with prospective customer before existing ones.
- ***Communicate value*** – To customers so that they see and accept that the new price still means they’re getting good value for money – lots of value outweighs the higher price.
- ***Increase the value given*** – Improvements to the current service to benefit the customers – then this can be used to justify a price increase. As above, the new price represents a fair exchange of value – higher benefits in exchange for a higher price.

SUMMARY

When looking to increase profits most business owners only consider strategies 1 (cut cost) and 2 (get more leads). They rarely consider the other five.

Before taking any action it’s important that you consider <u>all</u> seven strategies first.

Just rule out the ones which simply don’t apply.

For those that are left look at each one in isolation. For that strategy consider what *could* you do and *estimate its likely impact in terms of extra profit and cash*.

By considering each strategy in isolation makes it so much easier to get clarity on what you *could* do and helps you decide what is the best way forward and what you're *actually* going to do.

If you'd like to discuss any of the above or would like a chat to see how we can help drop us an email to **info@dbeckman.com** or call one of the team on **01737 844 322.**