THE PRINCIPLES OF A PROFITABLE BUSINESS

Highwoods & Associates Growth Strategies

Mo Barrie

HIGHWOODS & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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Read this first

Relax… this book is unique, coming with access to help from a professional accountant who specialises in helping make businesses like yours more successful, more profitable and more enjoyable to run.

So, if at any point you feel you could do with this help, please turn to the Appendix to find out how to get it.

How to use the book

You might want to read it all the way through, but when it comes to the exercises, we strongly encourage you to focus on one chapter at a time, taking days or even weeks to go through all the steps – and involve your team as much as possible too.

ALSO – when working through the list of questions at the end of each chapter, don't get stuck! If you can't find the answer to a question, move on and come back to it later.

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Preface

The Principles of a Profitable Business - Highwoods & Associates Growth Strategies

Over the years and in my dealings with clients, I have found it common for entrepreneurs to work a lot of hours to grow their businesses. If this sounds familiar, I'd like you to know that there is a better way to grow your business that will enable you to earn more money, have more family time and prepare for a prosperous future.

This book will introduce you to the fundamental principles of Simple Stuff That Works (SSTW) which includes the following:

- Growing your business
- Improving your profits
- Making your business more successful

By following these principles, along with our help, we can begin to lay the foundation for your business to realise its full potential. These strategies have been tried and tested; hence I encourage you to read the entire book with an open mind and make the necessary notes.

I hope you enjoy reading this book and I wish you every success.

Mo Barrie
Business Growth Strategist

About Mo Barrie

Mo Barrie is an accountant and a renowned business growth strategist at Highwoods & Associates who is passionate about helping entrepreneurs and their teams grow their businesses.

Mo specialises in helping business owners become more successful by strategically analysing their business and implementing fresh and innovative ideas to ensure their continued growth.

A few words from Mo Barrie

I am a strong believer that one should find fulfilment and meaning in their work by fully developing their capability to produce results that create the greater value to the customer. I wake up every day with this philosophy and try to find ways how I can serve my clients and add value to their businesses.

By writing this book, I am by no means declaring that my journey is complete. You see success in business is a continuous strive to anticipate and embrace change. One should also be willing to create long-term value through economic means for the customer and to achieve superior results by making better decisions, pursuing excellence, eliminating waste, optimising and innovating.

If you feel I can help you to grow your business in any way, you are welcome to get in contact with me. I'll gladly spend some time with you exploring ideas at no obligation.

The critical numbers every business owner must know

Business is made up of numbers.

Just about everything in business that matters is a number – your sales, your margins, your customer base, your costs, your profit, your cash flow. They're ALL driven by numbers.

Now, when business owners want their businesses to grow significantly, what do they usually focus on? A sophisticated new website? Advertising campaigns? Attending more exhibitions? Direct mail campaigns? Market research?

These are all perfectly valid ways to grow a business, but if you don't understand the numbers *behind* these activities and the impact they have on your business model, the results can be catastrophic.

You see, there's a mathematical model which sits behind every business. And when you understand this model, you start to truly understand what drives your sales – and what drives your profit.

Here's the big secret… You can make a massive difference to your profit line just by understanding and deploying seven simple but powerful growth drivers. And this understanding is essential to building and growing a successful small business.

To illustrate, let me explain this with a really simple version of the mathematical model using some simple numbers.

Imagine a business which has 10 customers. Each of those customers spends £10 each time they buy, and each of those customers buys from the business ten times each year.

So, we have 3 growth drivers here:

1. The *number* of customers
2. How *much* they spend on average each time, and
3. How *often* they spend.

When you multiply these 3 elements together you get total sales.

So, total sales for this business would be 10 x 10 x 10 = £1,000.

In other words, each customer spends £10 ten times a year, so they each spend £100 in a year. And if the business has 10 of those customers all spending £100 each year, total sales for the year become £1,000.

If this was your business, you could undertake some sales and marketing activities to improve any of those numbers. Let's imagine you are able to increase the number of customers by 10%. This means you will have 11 customers rather than 10, and total sales now become…

11 x 10 x 10 = £1,100.

In other words, increasing the number of customers by 10% increases sales by 10%.

Maybe you decide to focus instead on increasing how much they *spend* by 10%. If you do this, your customers will spend £11 each time they buy rather than £10. Total sales now become…

10 x 11 x 10 = £1,100.

In other words, increasing how much your customers spend by 10% increases sales by 10%.

No big surprise there.

And if instead you focus your efforts on getting your customers to increase how *often* they buy from you by 10% – so they buy 11 times a year rather than 10 – then again, your sales increase by 10%. So, here's the rule:

If you increase any single *key growth driver* by 10% your total sales will increase by 10%.

Let's take it up a level

So what happens if you increase all 3 of the sales drivers by 10% *at the same time*?

In other words, customer numbers go up from 10 to 11, each spending £11, and now buying 11 times a year.

What would total sales become? Put your answer in the box here:

And in percentage terms, what is that increase? Put your answer in the box here:

The answers are that sales will grow from £1,000 to £1,331, which is a 33.1% improvement. Confused? You expected it be 30%? Most people do, but they are not factoring in the power of *synergy*, something we will come back to much later on in the book.

For now, let's just accept that we've been looking at a *simple mathematical model* which describes how changing the main sales drivers affect total sales. This simple model is one often used by marketing consultants – and it's a great starting point.

However, it's only a small part of the story. You see, there are other drivers (e.g. getting customers to remain customers for longer) that affect your sales which you must be aware of. And for this…

…you need a more useful mathematical model… but one that is still simple.

Let me put your mind at rest… This book is not going to delve into complex mathematical models. We're going to keep things simple by giving you a really simple mathematical model that will help you to generate extraordinary results.

But for now, the point we want to make is simply this…

> NUMBERS MATTER! And unless you consider the impact of the drivers of growth on your *bottom line profit*, the mathematical model is not going to give you accurate or helpful information.

For example, you may have heard the expression, "*Turnover is vanity, profit is sanity.*" This explains how it's much more important to focus on improving profits than it is to improve turnover (or sales). Some customers and some products or services are simply not profitable – so getting more of them is detrimental to profit.

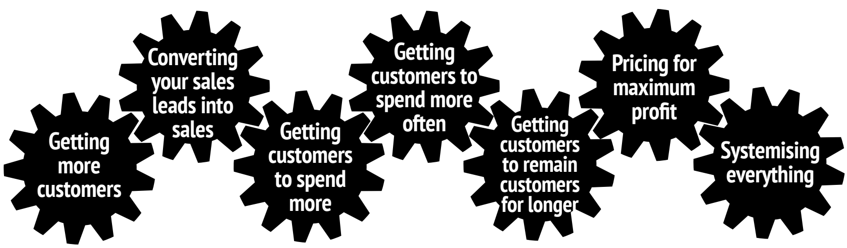
You need to understand the impact *everything* has on your business profit, not just sales. And whilst the simple mathematical model above considers 3 of the sales drivers, there are not just 3 drivers affecting your sales – there are 7. And because each one of these 7 has a profoundly different impact on your bottom-line profit, it's this impact you need to focus on, not just top-line sales.

So what are these 7 drivers?

The 7 key growth drivers that will grow your business… FAST!

1. Getting more customers
2. Converting your sales leads into sales
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. Systemising everything

The diagram below summarises how these 7 key growth drivers are interlinked. As you work through this book, we'll explore each of them in turn.



And as we explore each growth driver, we're going to use simple examples to help you understand how to apply them to your business. We'll also share with you:

- The KEY that unlocks even greater returns from your growth drivers, and
- The SINGLE MOST IMPORTANT THING you can do to unleash the growth potential of your business.

A case study:
A business going nowhere

To illustrate the ideas in this book – and to help you understand the importance and the impact of the *7 key growth drivers* on your business – we'll be using a case study business throughout.

So – welcome to Mooredge Decorators, a business owned and run by John Mooredge.

In many ways it's a typical and very "average UK business". John has been running his decorating business as a sole trader for many years. And although he's proud of having built up this £750,000-turnover business all by himself, he simply isn't making enough money from it.

In fact, sometimes he wonders if he'd be better off having a job instead!

You see, he works incredibly hard. He works incredibly long hours. At times it is incredibly stressful. And yet the amount of profit he makes is not that different to what he could earn as an employee.

And sometimes – when customers don't pay their bills and unexpected problems arise – the cash simply dries up.

And yet, with some *small changes in key areas* of his business, John could add over £100,000 a year in extra profit. This means that if he keeps doing those things for the 25 years between now and when he retires, in total he will earn an *extra £2.5 million in profits*.

So, that's what he's going to do – and you'll see exactly how he does it, and exactly how you can do the same, over the next few chapters.

Of course, your business is different from John's, so your exact numbers will be different too. For you they might be less – e.g. perhaps an extra £25,000 or £50,000 profit a year. Or they might be more – maybe an extra £150,000 or £250,000 a year.

Either way, no matter how successful your business is *right now*, we know that the ideas in this book will help to add a very substantial amount of extra cash into your bank account between now and when you come to retire or sell up.

> And if you want proof of that, please accept the offer of help in the Appendix at the back of this book. When you do, we will use the Simple Stuff That Works software (specially designed to accompany this book) to calculate exactly what is possible in your case, and help you to create an Action Plan for achieving it.

The case study numbers

Here's some more information about our case study business:

John's accounts show that he makes sales of £750,000. His direct costs (i.e. those costs that vary depending on sales) are £533,000, giving him a gross profit of £217,000, which equals a gross profit percentage of 28.93%. His accounts show fixed costs of £189,500, delivering a profit of £27,500.

However, like most UK businesses, the profit shown in Mooredge Decorators' accounts is a *notional* profit – it contains two elements, only one of which is the true profit. And to arrive at the *true* profit we need to remove the other element. Let me explain…

Economists tell us that the notional profit in any business is made up of two elements:

1. The reward the business owner should get for the hours of work they put into the business – which is calculated as the full market salary they would have to pay someone as good as them to work as many hours as they do doing their job.
2. The true profit – which is the pure entrepreneurial reward the business owner gets for taking the risks involved investing in owning the business, over and above the full market salary they would earn.

In many cases, the full market salary of the owners has not been fully reflected in the profits shown in the account. In fact, for sole traders and partnerships (remember, John Mooredge is a sole trader) the profit and loss account does not show a salary or wage for the business owner. Instead, they take drawings which are only shown on the balance sheet.

So, to arrive at the true profit in any business, you start with the notional profit in the accounts and then deduct an "owner's salary adjustment" (which is the difference between the owner's full market salary and the owner's salary that has already been deducted in the accounts).

Now, it is the second item – the true profit – that we suggest you focus on. This is the true measure of the reward you should get for being an entrepreneur (whereas the owner's salary is merely the reward you get for being an employee).

In Mooredge Decorators' case, although the accounts show a notional profit of £27,500, John Mooredge reckons he would have to pay £25,000 to employ someone as good as him to do the work he does.

So his true profit is only £2,500 – i.e. the £27,500 notional profit *minus* the £25,000 owner's salary adjustment. Putting it another way, of the £27,500 notional profit shown in his accounts, £25,000 is what John believes is a fair market salary for the work he does, which leaves £2,500 as the true profit – the purely entrepreneurial reward the business owner gets for taking the risks involved in owning the business, over and above the full market salary they would earn.

So, while his salary may be OK, he certainly doesn't think his profits are!

Note: For clarification, there is a fundamental difference between unincorporated businesses (i.e. sole traders and partnerships) and limited companies. With a limited company, the profit and loss account shows profit after deducting "directors' salaries".

> As we saw, the true profit rarely appears in a set of accounts – yet it is hugely important to understanding properly how well any business is doing.

Two other key numbers

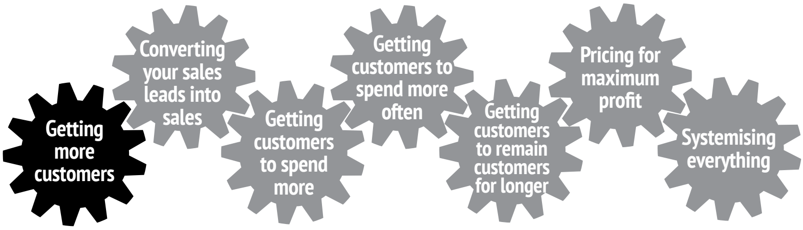
There are two other key numbers which do not appear in a set of accounts, and yet they are really important numbers to understand and measure. One of these is the sales lead conversion rate; the other is the customer defection rate. We will come onto a full analysis of these later. For now though, look at the table below which summarises the key numbers in John's business at the start of the story:

Mooredge Decorators – The starting numbers	
Business status	Sole trader
Annual sales (Turnover)	£750,000
Gross profit percentage	28.93%
Gross profit	£217,000
‘Notional’ profit in accounts	£27,500
‘True’ profit	£2,500
Market salary	£25,000
Sales lead conversion rate	35%
Customer defection rate	20%

As you read through this book, we’re going to show you how this very *average* business can transform its results using *simple stuff that works* and the *7 key growth drivers*.

And we’ll start with the most obvious key growth driver…

Growth Driver 1
How to get more customers



£271,875 in extra profit

The "typical average small UK business" in our case study, Mooredge Decorators, used the ideas *in this chapter* to make tiny changes that earned £10,875 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they alone have added an extra £271,875 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

Many business owners wanting to grow their business start with, "I need more customers." After all, getting more customers is the most obvious way of growing a business, yes? Well, as you'll discover, it's not always the most *effective* way; but as it is what many businesses concentrate on, we'll start here.

Now, what are *you* currently doing to get more customers? How many different strategies or methods are you using? Here are some of the most common options:

Social media (e.g. Facebook, LinkedIn, Twitter, YouTube, Google+), opt-in (or lead) pages for collecting email addresses, Search Engine Optimisation (SEO), pay-per-click (PPC), advertising, direct mail, telesales, salespeople, trade shows, recommendations and word-of-mouth.

But despite their potential, many businesses only use a tiny fraction of these possible strategies to get more customers. And with the strategies they do use, there is always room for improvement.

So, the two keys to getting more customers are:

1. Making your *existing* strategies more efficient and effective
2. Testing *new* strategies

So, let's look at an example that illustrates both of these points.

Would you say that referrals (which can include recommendations and word-of-mouth advertising) are a good way of growing your business?

Or, even if not at the moment, they certainly *could* be, couldn't they?

You see, referrals and word-of-mouth recommendation are *one of the very best ways to get new customers*. There are two main reasons why:

1. When someone's friend, family member or another contact they know, like and trust tells them that you are the person they should buy from, that's a far warmer introduction than a mere advert, brochure or cold call. It means they're much more likely to actually buy. Referrals convert into sales far more effectively than cold leads.
2. Here's a killer reason… *Referrals are free!* Millions of pounds are spent every day in the UK on advertising and marketing campaigns, yet the single most effective way to win new customers doesn't need to cost you any money at all.

No surprise then that most business owners agree – in principle – that referrals or word-of-mouth advertising are the cheapest and best ways to get more customers. And yet we rarely come across a business that actually has any systems in place to generate those all-important referrals systematically.

And we certainly don't come across businesses that are constantly inventing and testing new referral systems.

Think about your own business: what do *you* have in place to give you a constant stream of recommendations in a systematic way? And how often do you test *new* versions of those systems to see whether they give you even better results?

NB! I'm not asking about recommendations that just fall into your lap – I'm asking about recommendations that you get because you have referral systems.

Every business should use at least 5 different referral systems. And every businesses should constantly be searching for new ways to get even more referrals.

You absolutely must have systems.

So, here are just six possible referral systems you could introduce:

1. Customer questionnaires that include a "Who else do you know who could benefit in the same way that you have?" type of question.
2. Your team asking that same question every time they talk to customers.
3. Joining a referrals club like BNI or BRX.
4. Giving your customers multiple sets of your card, brochure and special offer literature to pass on to their friends and contacts – and perhaps even rewarding them in some way when they do.
5. Systematically asking for recommendations on LinkedIn.
6. And in some businesses, you could even make it one of your terms of business that if a customers is happy they WILL automatically recommend you to other people.

These are just a few of the possibilities. And the great thing about referral systems is that, unlike advertising, they won't cost you anything.

So, thinking about your systems… How many do you have? How many more do you think you should have? How many new referrals systems are you going to test? And how many extra customers do you think they will help you to win?

And referral systems are just one strategy for getting more customers…

There are dozens of other strategies that you could develop. For example, you could look at:

1. Differentiating your business from your competitors in ways that your customers value – so that more of them choose you than ever before.
2. Testing different scripts to find out which words give you the best results when customers say, "Why should we buy from you?"
3. Giving customers something extra, something that is worth a lot to them (but costs you little), since this will help you stand apart from your competitors.
4. Using publicity to advertise your business for free.
5. Getting others to help you grow your customer base for free by creating strategic marketing alliances – for example a plumber and an electrician could double their respective customer bases by simply introducing their customers to each other.
6. Writing better headlines for all your marketing literature – including adverts, mailshots and flyers – so that you catch and hold your prospects' attention better than ever before.
7. Increasing the response rates to all your marketing initiatives by re-writing all of your marketing literature – including adverts, mailshots and flyers – to make them much, much more compelling and effective.

8. Using the latest research findings to make your marketing literature even more compelling still.
9. Educating your customers about the benefits to them of dealing with you – since the more they understand about what they will get out of dealing with you, the more likely they are to buy from you.
10. Using video to demonstrate your expertise and promoting your videos through YouTube and other social media channels.
11. Using pay-per-click advertising on sites like Google, Facebook and LinkedIn.
12. Using social media channels such as Facebook, Twitter and LinkedIn to share valuable content and build relationships with people who you would like as customers.

But let's go back to the very first strategy we looked at – creating referral systems that *automatically generate* word-of-mouth advertising and recommendations for your business.

Just focussing on a referral strategy can have a big impact.

Let's look at the maths.

If you could capture two referrals from each of your customers every year and if you could convert half of those referrals into new customers – that's one new customer for every existing customer – then you would double your business every year, wouldn't you? That would be a 100% increase in sales!

Let's imagine you're just starting in business and you only have two customers now. If you repeat that process every year, asking every customer for two referrals and converting half of those referrals into new customers, you'll have grown from two to a staggering 8,192 customers by the end of year 12!

The power of referrals is clear. By planning and using an effective referral generating system, you can double (that's a 100% increase), treble (a 200% increase), even quadruple (a massive 300% increase) your customer base in just a few years.

Now, we are not saying that this kind of doubling *will* happen, but certainly when you put some great systems in place, referrals could have a very dramatic effect on your business!

What does it mean for a typical UK business?

Let's look at the potential impact on our case study business, Mooredge Decorators. And let's forget that you could *massively* increase the number of leads through referrals, and imagine that you're just getting a modest and very achievable 5% increase in the customer base. What difference would that make to Mooredge Decorators?

A modest 5% increase adds £37,500 to the top line sales and £10,850 in bottom line profit[1]. Not bad at all – particularly considering John's original true profit was just £2,500.

Here's a summary of the impact on Mooredge Decorators:

Impact of a 5% increase in customers		
	Before	**After**
Total sales	£750,000	£787,500
Notional profit	£27,500	£38,350
True profit	**£2,500**	**£13,350**

1 *If you're interested in the maths and where the numbers come from, here's a quick explanation. If current sales are £750,000 and we increase them by 5%, that's an extra £37,500. However, when sales rise by 5%, then we expect the direct costs to rise by 5% as well. You will recall from Chapter 2 that direct costs for Mooredge Decorators were £533,000, so a 5% increase in these costs is £26,650. If sales increase by £37,500 and costs increase by £26,650 – by subtracting one from the other – the impact on profit is £10,850.*

Now, of course your own numbers will vary, but this gives you an idea of what a typical UK business can achieve simply by implementing a basic referral system and getting a mere 5% improvement.

And we've only looked at referrals. This might be the most productive and most cost-effective means of generating new business, but don't forget that you can work your referral strategy alongside *other* lead generation methods such as direct mail, telemarketing, writing articles and so on. Establish three or four new methods and you'll open up a wealth of opportunities!

If Mooredge Decorators could achieve a 50% increase in the number of customers – which is still a lot less than the doubling that could come from referral systems alone – that would add a thumping £108,500 to their profits. What could it do for *you?*

Your next steps

STEP 1 – Re-read this chapter, and then use the questions in the next section to help you generate ideas.

STEP 2 – Record your ideas in the "Your ideas and potential actions" section at the end of this chapter.

STEP 3 – Then talk to us. We will be able to use powerful multimedia software easily and quickly to:

1. Calculate the extra profit your ideas will generate – factoring in the exact numbers and mathematical model for your business – so you can see what is possible and what is at stake.
2. Help you identify additional profit improvement ideas in this area – so no stone is left unturned.
3. Review the ideas other businesses have tried – so you can see what has already been proven to work.

4. Help you create a prioritised action plan – so your good ideas get turned into action and results.
5. And create a plain English report summarising it all – so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

Key questions to ask yourself

- How many different "getting more customers" systems do you currently have?
- How many more do you think you should have?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren't working well? How can you improve them? And, if you can't, what should you replace them with?
- Looking specifically at referral systems, how many do you have and what other referral systems could you put in place so that your existing customers systematically recommend you?
- In how many ways could you differentiate your business from your competitors in ways that your customers value, so that more people choose you than ever before?
- Have you encountered other businesses' "getting more customers" systems? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?
- If money were no object, what other "getting more customers" ideas could you test?
- How can you take those "money no object" ideas and turn them into something that is cost effective?

Your ideas and potential actions

Growth Driver 2

How to sell more by converting more leads into sales

£108,500 in extra profit

Mooredge Decorators, our typical average small UK business, used the ideas you'll meet in this chapter to make tiny changes that earned £4,340 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they added an extra £108,500 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

In the previous chapter we looked at how to get more customers by getting more sales leads. Now we will learn how to get more customers *without* having to get any *more* sales leads.

And of course, you can do that by converting more of your *existing* leads into sales – our next key growth driver. Let's look at an example.

Last year a small engineering company's advertising generated 100 enquiries – i.e. 100 sales leads. The business owner (who is also the salesman) visited each of the 100 once only, and managed to turn 33 of them into sales. So, his sales lead conversion rate was 33%.

This year he got another 100 sales leads – but managed to convert 50 of them into sales.

How?

Well, the first 33 he won in exactly the same way as the year before – after just one visit.

But he used a different system with the remaining 67 who didn't say "yes" at his first visit.

In fact he introduced…

- Systems for following all 67 of them up
- Systems for visiting all 67 of them again
- Systems for diarising when he was going to telephone them (and sticking to it)
- Systems for sending them a newsletter
- Systems for sending them postcards when he went on holiday
- Systems for inviting them to open days at his factory
- Systems for sending them press cuttings that he thought they would find useful
- Systems for sending them copies of letters he received from other delighted customers, and
- Systems for telling them about the other contracts he was winning with prestigious customers.

In other words, he became *systematically persistent* – but without ever becoming a pest. He kept his name on the tip of their tongue and he kept asking them for the business.

As a result, 17 of the 67 remaining enquirers eventually chose to buy from him. So, his conversion rate went up by 17 from the original 33 to an eventual 50.

By introducing some systems, his sales lead conversion rate increased from 33% to 50%.

What does this mean for a typical small UK business?

You may recall from earlier that Mooredge Decorators has a sales lead conversion rate of 35%. Let's say that John Mooredge uses some of these systems and achieves a very modest 10% improvement, raising the conversion rate to just 38½%.

Even that tiny increase translates into an increase in sales of £15,000 and a bottom line profit improvement of £4,340.

Here's a summary of the impact on our case study business:

Impact of a 10% improvement in the sales lead conversion rate		
	Before	**After**
Total sales	£750,000	£765,000
Notional profit	£27,500	£31,840
True profit	£2,500	£6,840

Just a few carefully chosen words can earn you thousands of pounds!

Applying this to any business

Of course, the nature of your sales process will vary widely depending on what you sell and how you choose to operate. But you know what? *It doesn't really matter what business you're in*. Everything in this book can apply to any business at all. Grab the ideas, think them through, and work out how to apply each one to your business.

To show you, here's another example: a retail shop.

Retailers often say to us, "We don't have a sales process. People come in and just choose whether to buy or not." But in fact, every customer who enters a shop is a prospect – a sales lead. Just entering the shop does not automatically mean that they will buy something… and it's only when they buy something that they go from being a sales lead to being a customer. It's the retailer's job to convert them from a sales lead into a paying customer.

Many retailers, whether they know it or not, have a standard sales script. This is how it goes: "Can I help you?"

This is a dreadful sales script. You couldn't do much worse.

Ask yourself how often you've replied positively to that question. More often than not, the customer's natural response is, "No thanks, I'm just looking." Immediately, there's a barrier between customer and retailer. Both parties now feel uncomfortable and the customer feels compelled to move away or even leave the shop.

A much better process

The switched-on retail business has a very different sales script. It's one that generates results! Here's how it goes…

When somebody enters the shop and starts browsing, the retailer approaches the customer and says, in a friendly tone, "Hi there, my name's John. If there's anything I can do to help you, I'm just over there, please come and talk to me."

There are no closed questions (because you don't want a "No" response). Instead, the customer thinks, "Wow! That shop assistant cares about me. He's introduced himself, and now I know that if I need any help, I just go to John over there and ask my question."

This script is hugely better than the first one. With those few small changes, the sales conversion rate rises significantly. So here's my question for you: what small and simple changes can you make to your sales script that will make a huge difference to your business?

And remember too that the retailer's increase has happened without spending a single penny more on advertising and without creating a single additional sales lead.

What we can learn from the research

In fact, both our retailer and our case study, John Mooredge, have simply tapped into the power of a crucial piece of research. Research that shows…

1. 73% of customers say "No" at least *five times* before actually buying, and
2. 92% of salespeople give up before that all-important fifth "No".

Now, let's think about what these two bits of research mean.

If 73% of customers take at least five "Nos" before they say "Yes", and if 92% of sales people have given up before that fifth "No", then the only people in the running for the 73% of sales where the decision maker takes a long time are the 8% of salespeople who hang on until the fifth "No" and beyond.

In other words – and this is remarkable – while the 92% of impatient salespeople are fighting each other for the 27% of sales where decisions are made quickly, *the patient 8% of salespeople can have their pick of the 73% of sales where the decisions take longer.*

In fact, if you do the maths you'll see that – according to the research – for every one sale that an impatient salesman makes, the patient and persistent salesman who keeps trying until well past the fifth "No" will get 31.

And yes, you did read that correctly – 31!

We saw this happening with John. Last year he was impatient and gave up after the first "No". But this year, he introduced systems to make him much, much more persistent – and as a result, he has increased his sales and profits.

And of course, persistence is only one of the many possible "converting more sales leads into sales" systems that you could use.

Don't leave it to chance

> You can't help but notice how often we use the word "system" – and it's for a very good reason. It is not at all good leaving things to chance.

If you want to get the best possible results, you must have a plan. You've got to create systems so that you do the right things every single time, and you've got to keep testing different systems to see which work best. You've got to train your team so that they can use those systems, and you've got to measure the results.

And as we just saw with our example of the engineering company, persistence systems alone can increase the number of sales leads converted into sales from 33% to 50%.

What impact would that kind of increase have on *your* business?

More strategies for converting leads

Of course, this is only one of dozens of strategies that you can use to convert more of your sales leads into sales. For example, there are strategies for:

1. Planning your sales approach in meticulous detail – because it is too important to be left to chance or made up as you go along.
2. Practising your sales approach until you can do it perfectly in your sleep – and then practising it again!

3. Creating a sales process that removes all the issues that cause customers to say “No” – so that many more of your customers end up saying “Yes”.
4. Using automated email systems which generate “autoresponders” to automatically keep in touch with your prospects and continually send them valuable information as you build a trusted relationship with them.
5. Stressing the real benefits to the prospect of what you, rather than merely the features, provide – and in a clear and concise way.
6. Making buying less risky for customers. You see, many customers don’t buy because they feel they bear all the risk – losing their money or wasting their time on the wrong choice. By making doing business with you less risky, or even removing the risk entirely, your customers are more likely to buy from you.
7. Using video on your online sales pages for getting more visitors to click on your “Buy Now” button.

And there are also strategies for:

1. Proving that your products and services are as good as you say – which makes more people likely to buy from you (whereas asking them to ‘take your word for it’ just encourages them to be sceptical).
2. Testing different scripts to find out which words give you the best results when replying to each and every objection raised by your customers.
3. Producing standard documents that your team can give to customers before, during and after the sales process – including price lists, FAQ sheets, proposal letters, guarantees and anything else your customers need to understand why you really are their best option.

4. Becoming better and more persistent at following up in various creative ways so that your prospects eventually say "Yes".
5. Using great questions that show your customers that you are interested in them, and which unlock the information to enable you to focus on matching their real needs.

And of course, these are only a few of the many possibilities you could explore.

Your next steps

STEP 1 – Re-read this chapter, and then use the questions in the next section to help you generate ideas.

STEP 2 – Record your ideas in the "Your ideas and potential actions" section at the end of this chapter.

STEP 3 – Talk to us. We will be able to use powerful multi-media software easily and quickly to:

1. Calculate the extra profit your ideas will generate – factoring in the exact numbers and mathematical model for your business – so you can see what is possible and what is at stake.
2. Help you identify additional profit improvement ideas in the area of lead conversion – so no stone is left unturned.
3. Review the ideas other businesses have tried – so you can see what has already been proven to work.
4. Help you create a prioritised action plan – so your good ideas get turned into action and results.
5. And create a plain English report summarising it all – so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

Key questions to ask yourself

- Have you mapped out your entire sales process in detail so you can identify each of the key steps?
- What are all the reasons customers say “No”, and what can you do differently so they end up saying “Yes”?
- How many “converting sales leads into sales” systems do you currently have?
- How many more do you think you should have?
- How many new systems are you going to test?
- And what impact do you think that this could have on your sales lead conversion rate?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren’t working well? How can you improve them? And, if you can’t, what should you replace them with?
- Which successful “converting sales leads into sales” systems have you observed in other businesses? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?
- If money were no object, what other “converting sales leads into sales” ideas could you test?
- How can you take those “money no object” ideas and turn them into something that is cost effective?

Your ideas and potential actions

More on Growth Driver 2
How do you convince people to buy from you?

The *converting leads into customers* driver is incredibly powerful. And rather than spending lots of money on marketing to get more leads, you can focus on improving your "sales conversion rate". So, before we move onto the third driver, it's really worth exploring a little further how to get more of your leads to buy from you.

To prise customers away from their existing suppliers, you have to offer differences that deliver benefits they really value – and better still, *dramatic* differences that deliver benefits they really value.

And we can learn this from eggs...

Imagine yourself going into a supermarket to buy a dozen eggs.

Eggs, of course, are widely seen as a commodity – a staple food that is often bought on price. So, picture this scene. On one shelf there are two boxes of a dozen eggs, side by side. Both look identical, with no obvious differences between them. But one of the boxes is £2.00 – and the other is £2.20.

Which would you buy?

Well, most people would think to themselves, "I'd be mad to pay £2.20 when I can pay £2.00 for the same eggs" – and would choose the cheaper eggs.

But what if the £2.20 box was a little bit different? What if it said "Free range eggs – from prize-winning chickens fed on GM free feed and hand reared by national champion poultry farmers – from farm to supermarket in 24 hours to guarantee freshness – every egg quality inspected in-store to guarantee that none of them are cracked or damaged in any way – money back if these aren't the best eggs you've ever tasted"?

OK – I know I've laid it on thick, but I'm sure you get the point. The £2.20 box of eggs is now very different from the £2.00 one, isn't it?

So now which one would you buy?

Well, some people will still buy the £2.00 box because they don't think the extra benefits that the £2.20 eggs offer are worth the extra 20p they cost. But some people will choose the £2.20 box because they believe that the extra benefits are worth an extra 20p.

And this is what we all do all the time when deciding what to buy. We compare the benefits we get with what we have to pay to get them.

In fact we do a simple equation…

…the value equation.

And that simple equation is this…

Benefits to customer – Price = Value to customer

The value to the customer is equal to the benefits to the customer minus the cost to the customer.

In other words, when we're deciding whether to buy anything we look at *the size of the gap between the benefits we'll get and* *what they'll cost us*. The gap is, in a sense, our profit on the deal. The bigger the gap, the more value there is to us.

And if we have a number of choices, we'll choose the option that offers us the most value – in other words, the option where the VALUE is greatest.

That's exactly what happened with the eggs – and it's exactly what happens with everything people buy.

The Eggs Illustration

↑ Benefits to customer – ↑ Price = ↑ Value to customer

Up by more than 20p   Up by 20p

For the people who now buy the more expensive eggs, it's because the *added value* to them exceeds the extra 20p they have to pay for it. And that's what always happens when we buy anything, because…

…We never buy on price alone

And if you don't believe me, look around you now… Are the clothes you're wearing the cheapest you could find in a charity shop? Is the chair you are sitting on the cheapest you could find in a second hand furniture shop? And is the house you live in the cheapest house you could find in the cheapest part of town? I suspect that just like everybody else, you didn't choose the cheapest of any of those things – like them, you chose the option that *gives you the most value*.

In other words, you and I, and everybody else, use the value equation – Benefits-less-Costs. And we choose the option that gives us the greatest profit on the deal – the option that gives us the most value.

So, what's going on when we *do* go for the cheapest option? Even when we do buy the cheapest, it not *because* it's the cheapest. We buy it because it gives us the most *value*. And while price affects that value, it's not the only value factor.

The reason I've described this in great detail is that it has a profound implication for your business. You see, the value equation tells us that to get people to buy from us, we have to give them more value than they can get from their existing suppliers. Even more importantly, it tells us that there are really only two ways of giving more value so that we attract more customers – **we either *become* better value, or we *add* value.**

Becoming better value

The simplest way to become better value is of course to cut prices.

Value increases when benefits remain the same
but cost goes down

Benefits to customer – ↓ Price = ↑ Value to customer

In an attempt to make a profit at these lower prices, some businesses try to cut their costs too by stripping some of the bells and whistles out of their products. But these new "lite", "economy" or "basic" versions will often offer the customer fewer benefits too.

And if the "Benefits to customer" part of the equation is reduced by more than the price is reduced, then it is a recipe for disaster – since instead of becoming better value, the value equation shows that they actually become worse value:

When the cut in benefits is *more* than the cut in cost,
the actual value goes down

↓ Value to customer = ↓ Benefits to customer – ↓ Price

So, to become better value they must reduce their prices by more than they reduce the benefits:

Ensuring that cost reduction is always more than
benefit reduction keeps value up

↑ Value to customer = ↓ Benefits to customer – ↓ Price

The tragedy is that in trying to follow this equation, many businesses seem to believe that cutting prices to become better value is the *only* strategy open to them. It can, of course, be a valid strategy; but it can also be a very risky one. Its three main attractions are usually that:

1. Businesses believe it is what their customers want;
2. It is very easy to implement; and
3. It offers the business scope for cost-cutting – since, as we said, customers will sometimes accept inferior “lite”, “economy” or “basic” versions that are cheaper to make and sell.

Unfortunately this “cutting prices to become better value” strategy also has two very serious risks:

1. Firstly, low prices are very easy for other businesses to copy. So low prices are unlikely to provide a competitive advantage that is sustainable in the long term. Sooner or later someone will come in with a cheaper price.

2. And secondly, even if your competitors don't respond by cutting their prices, you may still suffer from a strange quirk of human nature. You see, when we can't fully understand something we tend to assume that its price is a good indication of its quality. If the price is low we often assume that the quality must also be low. And if we think the quality is low, we also think the benefits must be low.

So the two elements in the value equation – Benefits and Price – are not completely independent. When prices fall, the customer's perception of the benefits can also fall – and so too may their perception of the value. This can lead to a vicious circle of falling prices, falling value, falling loyalty, falling demand and falling profit.

In his book *The Golden Rules of Customer Care*[2], Carl Sewell said it perfectly when he said this…

> "At first I thought I would be cheaper than everybody else, but that's not really what most people want. Yes, everybody wants a good deal, but price is rarely the sole reason they decide to buy. After you've been to a restaurant, you don't remember exactly what the hamburger cost, you only remember whether you liked it or not."
>
> "Besides… no matter what we charge, somebody because they are smarter (i.e. they've figured out a way to be more efficient) or dumber (i.e. they don't really know what their costs are), can always charge a dollar less. So price isn't the answer."

[2] The Golden Rules of Customer Care by Paul Brown and Carl Sewell, Random House, 1991

In that quote, Carl Sewell reminds us that there are two types of businesses that win when you compete on price.

The **first type** is the business that is so smart it will always have lower costs than everybody else. But of course, by definition, only one business in any market can have the lowest cost base – and that one business has what's known as "Genuine low cost leadership".

The **second type** is the business that is so dumb that it keeps on cutting prices and doesn't care or doesn't realise the way that it decimates their profits – and that's known as "Stupidity".

So, unless you really are so much smarter than everybody else that you have worked out how to always be the cheapest, or unless you really are so "dumb" that you don't care about your profits, the strategy of cutting your prices to become better value is *not* normally one we would recommend.

You see, even if you *were* that "smart", you would still need to explore how to add more *value* before cutting your prices any further – the *added value strategy.*

Adding value

The strategy of *adding* value is about adding benefits that the customer values – because when you do that, the value equation shows that value goes up.

The higher the benefits before deducting price,
the higher the value to the customer

↑ Benefits to customer – Price = ↑Value

And the great news is that often when you increase the benefits, you'll also be able to put the price up – since as long as the benefits go up by more than the price does, the customer will still get more value from you.

Even if you increase price, if benefits continue to rise *more*, the value also rises

↑ Value to customer = ↑ Benefits to customer – ↑ Price

And because you give them more value, the customer will still prefer you to the cheaper but not so valuable alternative – just as we saw earlier when customers chose the £2.20 special eggs over the £2.00 standard eggs.

And that's why an *added value strategy* is so powerful – because it not only helps you to win more customers (and keep them for longer) by giving them more value, but it also allow you to increase your prices… and more customers paying higher prices adds up to a brilliant double whammy for your profits.

The three value levers

So, we've seen that the value equation holds the key to why people buy. And we've seen that the value to a customer is equal to the benefits to that customer less the cost to that customer.

Benefits to customer – Price = Value to customer

So, the two areas that you can work on to give your customers more value are obviously benefits to the customer and cost to the customer (e.g. price). And there are three methods – which we call the *value levers* – for maximising the value for your customers.

1. **Solutions** – The first lever is to increase the customers' benefits by improving how well you solve their needs, wants and problems. And usually this will be by improving your product or service in a technical or practical way – for example, by adding new features and functions, making it more portable, durable or reliable, making it last longer, or even improving its versatility and energy efficiency. In a restaurant, for example, you might do all of this by using better recipes, fresher ingredients and bigger portion sizes.

2. **Service** – Staying with our restaurant example, I'm sure you can remember an occasion when the food in a restaurant was good – but you didn't have a good time because the service was rude, sloppy or slow. I bet you didn't rush back there again, did you?

   And that proves that it's not just the technical quality of what you do – your equivalent of the meal in that restaurant – but it's also the quality of how you do it – the service experience – that adds value (or in the case of bad service, takes value away!).

   So, the second value lever increases the customer's benefits by improving the customer's *service* experience.

3. **Cost** – And the third value lever is, of course, the cost to the customer. In other words, what the customer has to pay, give up or suffer in order to get the benefits. The most obvious element of this is the price, but there may be other costs too. For example, there may be other cash costs such as installation and delivery. There may be emotional costs such as upheaval, inconvenience and uncertainty. And there may even be what economists call "opportunity costs" – in other words, if buying from you means that they can't take advantage of another opportunity, then what they lose by not being able to take that other opportunity is, in a sense, one of the costs they suffer when buying from you.

Each of the three levers is important, but perhaps the most important is "Service". Why? Because it's often the one where you yourself can make the most dramatic difference. In a technical sense, your products or services are probably quite similar to your competitors – and making them dramatically different might be either impossible, or very hard, slow or expensive. Whereas making the service experience dramatically different is usually much easier, much quicker and much cheaper, and often your fastest way to more customers and more profits.

Summary

So let's summarise. We've seen that:

1. Customers use the value equation to compare the benefits they'll get from buying from you with what it costs them.
2. Customers choose the option that offers them the most value – in other words, the option that gives them the biggest gap between benefits and costs.
3. And there are two ways to increase the value of what you do for customers – you can either *become* better value or you can *add* value.
4. However, becoming better value involves cutting prices – and that is usually only a sensible strategy for the really "smart" or the really "dumb" business.

So, the obvious solution is to focus on *adding* value, which leads us to the two really important conclusions:

1. For many businesses, the key to winning more customers, keeping them for longer and having them willingly and gladly paying you higher prices is to *add value*.

2. And the *two key ways* to add value are to improve what you do and improve how you do it – in other words, to provide better solutions to your customers' needs, wants and problems, and to wrap them up in a better service experience.

In the next chapter we'll build on this concept of the value equation and explore how to become better at explaining to people why they should buy from you.

Key questions to ask yourself

Here are some important questions to consider. We recommend that you spend the next hour thinking about these questions very carefully. Your answers could transform your business.

- Which of the two ways to give your customers more value have you used in the past – *becoming* better value or *adding* value?
- How confident are you that you will always have the lowest costs of everyone in your market?
- How attractive is the "cutting prices to become better value – but risk losing profits" strategy for your business?
- How attractive is the "add value to win and keep more customers at the same time as charging higher prices" strategy for your business?
- What do you currently do to add value?
- What do your competitors do to add value?
- In what extra ways could you improve your products or services so that they are better at meeting and solving your ideal customers' wants, needs and problems?
- In what extra ways could you improve the service experience for your customers?
- What other "little things" could you do to improve the experience of buying from you and using your products?
- How have you seen other businesses add value? And how can you adapt what they do so that it works for your business too?

- Thinking even bigger, what else could you do that no one else dares to?
- What systems do you need in order to add value in these new ways – and to do so cost-effectively?
- How can you test your ideas to make sure that they really do add value for your customers?

Your ideas and potential actions

Even more on Growth Driver 2

How to become better at explaining why people should buy from you

In the last chapter we looked at the value equation.

We saw that value to the customer is equal to the benefits to the customer minus the cost to the customer.

Benefits to customer – Cost to customer = Value to customer

We discovered that customers always choose the option that gives them the most value.

And we identified three value levers that you can play with to influence the value you give to your customers. Those three levers are:

1. **Cost** and the two types of benefits…
2. **Solutions** – in other words, what our product does for them, the needs it meets, the problems it solves, and the pain it takes away – and
3. **Service** – the experience they get when dealing with us – which can often make or break the deal.

There is, though, a fourth value lever that is often the most important and powerful of all.

When an ordinary business uses this fourth value lever brilliantly well, it will get brilliant results. On the other hand, if a brilliant business doesn't use this lever well, it will get very ordinary results indeed.

And since we want you to get brilliant results, it's important we take a long hard look at this fourth value lever, isn't it?

The fourth value lever - *PERCEPTION*

Imagine a small business called Acme Electronics. Imagine that they've just invented a brilliant new type of mobile phone. The Acme phone is light years ahead of anything else on the market. Because its technology is new, all the unfamiliar buttons and functions take a bit of getting used to. But used properly, the sound quality is better and calls are 50% cheaper than other networks. At £20, the handsets are also cheaper to buy. And the service Acme gives before, during and after the sale is world class.

So, by giving better solutions (i.e. better sound), better service and a better price than every other phone, the value equation shows that the Acme phone gives more value than any other phone in the entire market – so everybody should be buying an Acme. Shouldn't they?

↑ Benefits to customer – ↓ Cost to customer
= ↑ Value to customer

The trouble is, the value equation is a subjective equation.

As a result, the problem is that hardly anybody is buying Acme's fantastic phones!

How can that be?

The fact is that whilst the Acme phone *does* give more value than any other phone, customers don't realise it.

Some customers have never heard of Acme. Some don't understand that the Acme is different. Some can't get their heads around the benefits of having an Acme. Some believe it sounds too good to be true. And others aren't willing to gamble on new technology that might not work, especially when it comes from a new company they have never heard of.

In other words, because the value equation is a subjective equation, it's not the actual value that wins the day but *the customer's perception of the value*.

So, while viewed objectively, the Acme phone offers the most value, the value equation is *not* an objective yardstick – it is actually a highly subjective one. And if a customer doesn't see, can't understand or won't accept that there is value, then regardless of the facts, to that customer *there is no value*.

The actual value of the Acme may be higher than any other phone – but unless customers perceive it in that way, they won't buy it.

So now we need to adapt the value equation from:

Benefits to customer – Cost to customer = Value to customer

To:

***Perceived* benefits to customer – *Perceived* cost to customer = *Perceived* value to customer**

And that means that the fourth and most important lever in the value equation is *the customer's perception – their understanding – of the gap between benefits and costs.*

Don't let your customers assume you are ordinary!

The customer's perception of value, based on their perception of benefits vs. cost, is influenced by factors such as:

1. How we package, position and explain what we do
2. The track record of our brand
3. The compellingness of our marketing message
4. The effectiveness of our marketing material
5. The persuasiveness of our sales pitch, and
6. How believable and easy to understand all these things are.

In other words, it's all about how well we *communicate* the value of what we do.

And if you are going to dramatically increase your sales, you need to become much, much better at managing customers' perceptions by communicating this value.

Customers will only buy from us if they understand that our value is higher than the other guys. It's not enough to provide more benefits by having better products and/or giving better service. You've got to communicate the value too – the *perceived* superior benefits. If the customer doesn't understand why you are special, they will assume you are ordinary – and that way you'll only get ordinary rather than extraordinary results.

Now, this is really good news for three reasons:

1. Firstly, no matter where you start from, as you get better at managing customer perceptions by communicating the value, you will increase your sales (and prices if you choose) by increasing *perceived benefits* without changing any of the other levers in the value equation – so you can score some quick wins even without changing your product or service. In other words, you will be able to breathe new life into your sales – no matter how ordinary or tired your products and services are.

2. Secondly, if you are already very good at what you do, but haven't got all the customers you deserve, then your business will take off even more dramatically once you become better at communicating the value.
3. And thirdly, becoming better at communicating the value is almost always *far quicker and far cheaper* than improving your product and/or the service experience for your customers – so the "bang per buck" rate is by far the highest of all the options open to you.

The other good thing about managing perceptions by becoming better at communicating the value is that the same skills and techniques work for every kind of business.

How you manage customers' perceptions

Some of the ways you can improve the way you communicate the value are by developing and using better:

1. Adverts
2. Direct mail letters
3. Headlines in your adverts, in your mail and email, and on your website
4. Scripts (i.e. the words you say when you talk with customers)
5. Brochures
6. Press releases
7. Sales pitches
8. Estimates, quotations and proposal letters
9. Brand names
10. Videos and webinars
11. And using better words every other time you talk to customers

In the rest of this chapter we're going to focus on three key ways to become better at communicating your value:

1. Distilling your value into a succinct USP statement that you use everywhere
2. Distilling your value even more succinctly into brand names that make you instantly recognisable
3. And then adding layer upon layer of detail to flesh out your brand names and USP statements into entire customer education campaigns that build on the interest captured and generated by those brand names and USPs.

So, let's look at the first of those three… distilling your value into a succinct USP statement that you use everywhere.

Your USP statement

Your USPs – or Unique Selling Propositions to give them their full name – are the things that cause customers to buy from you instead of your competitors. And your USP statement takes those USPs and turns them into a sentence or two of crystal-clear explanation that customers can understand quickly and easily.

Why do you need that kind of short, crystal-clear explanation?

You need it because customers only have so much time to make decisions. So, the *easier* and *quicker* it is for them to understand the value of what you do – and how you differ from everyone else – the more likely they are to choose you. Here are some examples:

Federal Express's "When it absolutely, positively has to be there overnight" USP statement makes it easy and quick for everyone to know what is special about their delivery service – guaranteed speed.

Lawnmower manufacturer Qualcast's "A lot less bovver than a hover" makes it quick and easy for people to understand that Qualcast's conventional mowers are safer and create less mess than a hover mower that sprays grass all over the garden.

Greetings card manufacturer Hallmark's "When you care enough to send the very best" makes it quick and easy for people to understand that Hallmark cards are the best way to show you care.

Dyson's "The only vacuum cleaner in the world to maintain 100% suction, 100% of the time" makes it quick and easy for people to understand how a Dyson will keep your floors cleaner than any other vacuum cleaner.

While The New York Times' "All the news that's fit to print" makes it quick and easy for people to understand that it gives the most comprehensive and accurate news service possible with none of the excesses and sensationalism of the gutter press.

And of course, Federal Express, Qualcast, Hallmark, Dyson and the New York Times are all phenomenally successful brands!

And it's the same with all phenomenally successful businesses – they all give their target customers (i.e. the sort of customers they really want) a short and crystal-clear explanation of why they should buy from them, what makes them special and what makes them different – so that their customers can understand the value of what they do, quickly and easily.

And if you want your business to be phenomenally successful too, then you also need a USP statement. You need to find the right words to create your USP statement.

A simple process for creating your USP statement

There are lots of possible ways of doing this, but here's one that we've seen work really well many times. It's an eight step process:

Step 1 – List out what you believe are your USPs – the things that make customers buy from you instead of from the other person.

Step 2 – Take your list of USPs, and for every item on it ask the question, "Could, or do, more than a quarter of our competitors say this too?" If the answer is "yes", then it cannot be a UNIQUE Selling Proposition, can it? So write "not really unique" next to it.

Step 3 – List exactly how, where and when you convey your USPs to your customers. Be brutally honest, and don't kid yourself. Customers aren't mind readers. So if you can't point to the exact words how, where and when for each USP, then your customers probably have no idea what that USPs is – so write "not really effective" next to it.

Step 4 – Get your team together to help you complete the following four sentences:

You know how most people have a problem with… *which you complete by explaining the problems, frustrations and fears IDEAL customers have when buying your sorts of products/services.*

Which means that… *which you complete by explaining the pain these problems cause for ideal customers.*

Well, what we do is…. *which you complete by explaining what you do to remove that pain.*

Which means that… *which you complete by explaining the benefits to the customer.*

And to show how this works, let's look at the example of a roofing repair company.

You know how most people have a problem with… r*oofing contractors because they never know whether their roof really does need repairing – especially if they are frightened of going up ladders and have to take it on trust that the damage really is as bad as the bitumen-stained roofer says ?*

Which means that… *they worry about getting ripped off.*

Well, what we do is…. *take a video camera up on the roof at the start so that you can see where the repairs are needed without having to climb a pair of ladders – and take it up again at the end of the job to show you exactly what we've done.*

Which means that… y*ou can be certain that you are never paying for work that doesn't need doing or wasn't actually done.*

You can see how powerful that is going to be, can't you?

So that's step 4 – and you use those four sentences over and over again to come up with as many ideas as possible.

Step 5 – Here you look back at your original USPs, and all the new possibilities you have identified, and decide on the ones that you think will be most effective in increasing sales to your ideal customers. Remember, while it is usually best to have one main USP, it is perfectly OK to have several supporting USPs.

Step 6 – In step 6 you need to distill your best ideas down into a shorter and more "catchy" USP statement. For example, in the roofing contractor example it could be "The only firm to video your roof so that you are 100% certain that you only pay for work you really need" – or "The first roofers to video their work to give you complete peace of mind" – or even "All work videoed for your 100% peace of mind".

These examples illustrate two of the best pairs of words to start a USP with… "The first" and "The only". After all, any USP that can truthfully start with those words will automatically be unique, won't it?

Step 7 – Step 7 is where you test your new USP statements to make sure that they do indeed get more people to buy from you. And you can do that crudely by simply asking customers. You can do that either one-to–one, or via some form of focus group, or using online tools like Survey Monkey. However, you need to recognise that this approach is fairly inaccurate, since people sometimes say one thing but act differently when they actually need to put their money down. So, a more accurate test is one where real customers are asked to part with real money. In other words, where you present the USP statement on real products and see whether it causes more customers to buy.

Step 8 – And finally, in step 8 you need to make sure that your USP statements are put in front of customers at every possible opportunity. For example, they can (and usually should) be included in brochures, adverts, press releases, direct mail letters, letterheads, corporate Christmas cards, invoices, fax header sheets, catalogues, on the walls in customer areas, and in as many other places as possible. After all, the more times the customer is exposed to a USP, the more it is likely to be seen, understood and acted upon.

Key questions to ask yourself

Here are some important questions to consider. We recommend that you spend the next hour thinking about these questions very carefully. Your answers could transform your business.

- Why have your ideal customers traditionally chosen you instead of your competitors?
- What other reasons for choosing you will you or could you be giving them in the future?

- How have you communicated your USPs in the past so that customers know easily and quickly why to buy from you?
- How can you improve the words you use in your USP statements to make them shorter, snappier and more compelling?
- In how many different ways can you get your USP statements in front of your customers?
- How have you seen other businesses communicate their USPs? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else dares to?
- What systems do you need to be able to make sure that you deliver the promises in your USPs every single time?
- How can you test your USP statements to make sure that they increase your sales more than any of the other possible USP statements you could have tried?

Your ideas and potential actions

Growth Driver 3

How to get your customers to buy more from you

£542,500 in extra profit

Our typical average small UK business, Mooredge Decorators, used the ideas in this chapter to make tiny changes that earned them £21,700 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they added an extra £542,500 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

Most businesses spend most of their time working out how to find new customers. But the real power behind business growth lies in the customers you already have.

Therefore the third key growth driver is getting your customers to buy *more* every time they do business with you. The easiest way to increase your sales is to sell more to your existing customers, and there are two big reasons why:

1. It's free. No ads, no mailshots, no costly databases… You already know who they are, where they live, and what they already buy from you.

2. They are already in a buying relationship with you. They know, like and trust you, so they're much more likely than new faces to say "Yes" when you offer them something extra.

So, how can you do that?

The most simple systems can be the most effective.

Let's look at an example that you've probably seen and experienced at first hand.

In fact, it's one of the many incredibly powerful "getting customers to buy more" systems – the one they use at McDonald's.

And like many of the best systems, it is a simple script – one that anyone can use in their business.

Imagine that you are feeling hungry. You see a McDonald's and you say to yourself, "I'm hungry, I fancy a hamburger." When you arrive at the counter and ask for a hamburger, how do they reply?

"Would you like fries with that?"

Now, it doesn't matter which McDonald's you go to anywhere in the world – they will always ask that question.

Why? Because through testing, they discovered that it's the best way – the best system – to get customers to spend more money. And if you start to do the maths, you will see why that simple system – that simple script – has helped make McDonald's literally millions of pounds in additional profits:

If a hamburger is £1.50, and fries are 75p, then rather than spending just £1.50 on the burger, when a customer says "Yes" to the question, they end up paying £2.25 for burger and fries. And that's a 50% increase in the amount of money that the customer takes out of their pocket and puts into the till.

Now, not every customer will say "Yes" to the question. But what McDonald's found by testing is that a significant proportion of customers *will* say "Yes" – even though many of them came in with the intention of ONLY buying a hamburger. So, let's say half of their customers say "Yes" to the offer of fries. That will still add 37 pence – or 25% - to half of the hamburger-based transactions.

And across the thousands of millions of hamburgers that McDonald's sells, those extra 25%s add up to more than the Gross National Product of some small countries!

That's how powerful "getting customers to spend more" systems can be.

Of course, McDonald's continually tests its systems. The "Would you like fries with that?" script is now "Would you like to make that a meal deal?" They then add, "Would you like to go large?" It's all the same concept.

And it's not just McDonalds – other big brands do something similar. Recently I went to Cineworld and queued to buy some popcorn and a drink. There was a great big sign saying "You can go large for just 75p!" Like many others, I fall for it every time, because for just a small amount more money I feel I'm getting much better value. Put yourself in the vendor's shoes: an extra squirt of Coke and a bit more popcorn has very little cost, yet they've upsold me to the tune of 10%. That's a 10% increase in their sales. Can you *imagine* the increase in profits this yields? And because I feel I've been clever going for the better deal, they've made me a happy customer into the bargain!

Many more possibilities

Of course, asking the "*do you want to go large*" type of question (often referred to as "upselling") is just one possible strategy. There are dozens of other strategies for getting your customers to buy more every time they do business with you. For example, you could test:

1. Increasing your prices by 1%. In every business we have ever seen, this has had absolutely no effect on the volume of sales, and is therefore the simplest way of getting your customers to spend more. We'll come onto pricing in more detail in a later chapter.
2. Showing customers your most expensive items first. This will usually result in them choosing a more expensive option than if you showed them your cheaper items first.
3. Bundling two or more items together and offering them at an advantageous price – for example, "Buy this toothbrush and get this tube of toothpaste at half price."
4. Offering larger quantities or sizes at advantageous prices.
5. Offering ranges and collections that encourage your customers to want the complete set.

And you could also experiment with:

1. Offering tempting special upgrades, offers, promotions and bonuses *at the point of sale* – since once they have decided to buy, many people are willing to pay a little bit more for an even better deal.
2. Offering customers all the extra items – like batteries – that they need to enjoy the full benefit of their main purchase.
3. Offering other low price, unrelated items at the point of sale, such as the sweets and magazines that most supermarkets display near the checkout – many customers will buy them on impulse.
4. Testing different scripts to find out which words give you the best results when inviting customers to "trade-up" and spend more money in all these sorts of ways.
5. Producing standard documents, such as flyers and special offer forms, which your team can also give to customers to invite them to trade-up.

And of course, these are only a few of the possibilities you could explore.

So, how many "getting customers to spend more" systems do you currently have? How many more do you think you should have? How many new systems are you going to test? And what impact do you think that this could have on how much your customers spend?

And what it means for our typical UK business...

For our case study company, a 10% increase in how much customers spend – which is less than half what we estimated McDonald's were getting by using a great script – would add £75,000 to their sales and a massive £21,700 to their profits.

Remember, Mooredge Decorators' true profit started out at only £2,500. This is a huge improvement.

Here's a summary of the impact on our case study business:

Impact of a 10% increase in how much customers spend with you		
	Before	**After**
Total sales	£750,000	£825,000
Notional profit	£27,500	£49,200
True profit	£2,500	£24,200

Your next steps

STEP 1 – Re-read this chapter, and then use the questions in the next section to help you generate ideas.

STEP 2 – Record your ideas in the "Your ideas and potential actions" section at the end of this chapter.

STEP 3 – Talk to us, we will be able to use powerful multimedia software easily and quickly to:

1. Calculate the extra profit your ideas will generate – factoring in the exact numbers and mathematical model for your business, so you can see what is possible and what is at stake.
2. Help you identify additional profit improvement ideas in this area so no stone is left unturned.
3. Review the ideas other businesses have tried so you can see what has already been proven to work.
4. Help you create a prioritised action plan so your good ideas get turned into action and results.
5. And create a plain English report summarising it all so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

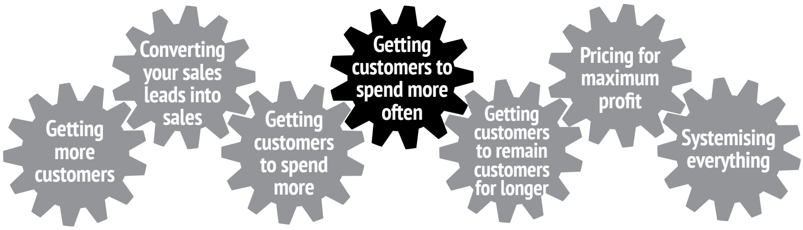
Key questions to ask yourself

- How many "getting customers to buy more" systems do you currently have?
- How many more do you think you should have?
- How many new systems are you going to test?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren't working well? How can you improve them? And, if you can't, what should you replace them with?
- How can you create bundles of your products or services which encourage customers to spend more?
- In how many ways can you create incentives for customers to order larger quantities or sizes?
- How can you make it incredibly easy for customers to try other products or services which you offer?

- Have you seen other businesses' "getting customers to buy more" systems? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?
- If money were no object, what other "getting customers to buy more" ideas could you test?
- How can you take those "money no object" ideas and turn them into something that is cost effective?

Your ideas and potential actions

Growth Driver 4
How to get your customers to buy more often



£542,500 in extra profit

Our case study business, Mooredge Decorators, used the ideas in this chapter to make tiny changes that earned £21,700 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they added an extra £542,500 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

A great way of growing your business is not only to get customers to buy more, but to have them buying more, *more frequently*! This is the fourth key growth driver – getting customers to buy from you more often – which, as we will discover, can be very, very cost-effective, very, very powerful and very, very profitable for you.

And to prove those claims, let's look at an example of a very simple but powerful "getting customers to buy more often" system that a hairdresser could implement.

The power of the "next sale script"

I'm one of those people who gets so busy that I forget to book my next hair cut or keep putting it off. So, although I should go every 6 weeks to keep my hair looking at its best, I probably go only once every 8 weeks.

What the hairdresser should have is a simple "getting me to buy more often" script that goes something like this…

"Are you happy with your haircut? You are. That's great. Well, to keep it looking at its best, if I were you, I would get it cut again in 6 weeks' time. Would you like me to book you an appointment now?" And they might even add, "I know you prefer lunch times – so we can fit you in at 1 o'clock on Tuesday 17th, or half past 12 on Wednesday 18th. Which would you prefer?"

Now, if they did that, I would fix an appointment there and then – because they've explained the benefits to me of coming back, they've given me one less thing to have to organise later, and they've made it easy for me to say "Yes" by offering me a choice of lunchtime dates.

It sounds incredibly simple. But that system – in this case, a script – would ensure that I get my haircut every 6 weeks rather than every 8. Marketers often refer to this as *the next sale script*.

And if you do the maths, that would result in me increasing my haircuts from 6½ to almost 9 a year. In other words, that simple but powerful system would increase the number of times I buy from that hairdresser by 33%.

And for the hairdresser, that 33% increase in sales to me comes without having to spend a single penny on any kind of marketing, and without adding a single extra customer.

That's the power of having great "getting customers to buy from you more often" systems.

And notice that word yet again – *system…*

…As I've said many times, it's no good leaving things to chance. It's no good hoping your customers or colleagues will do it spontaneously. And it's no good hoping that your team will be able to make up the right words on the spot.

If you want to get the best possible results, you've got to have a plan.

You've got to create a system – in this case a script. And you've got to keep testing different scripts to see which work best. And you've got to train your team so that they can use those scripts. And you've got to measure the results.

If our hairdresser can do this and increase sales from one customer by 33%, what impact would this kind of increase have on *your* business?

More strategies you can use

Once again, this is just one possible strategy. There are dozens of other strategies that we can use to help you get your customers to buy *more often* from you. For example:

1. Increasing the *number of times* you ask your customers to buy something from you – since it's the simplest way of getting customers to buy from you more often.
2. Launching a loyalty scheme that encourages your customers to buy from you more often.
3. Setting up long-term systematic buying agreements – such as selling your products under licence, charging ongoing royalties, or a subscription service for annual upgrades.
4. Developing a regular customer contact programme – since the more systematic you are about keeping in touch with customers in a way that they value, the more often they will buy from you.

5. Making it so easy for customers to buy from you again that they don't even consider going anywhere else.

And there are strategies for:

1. Developing new products or services that make it easier and more practical for your customers to buy from you more often.
2. Making it more attractive or convenient for customers to buy from you at times when they wouldn't normally be "in the market".
3. Making it easier – perhaps even free – for your customers to try some of your other products and services so that they end up buying more often from you.
4. Telling your customers about other people's products – since if your customers trust you, they will probably buy what you recommend. So, why not strike a series of deals to systematically tell your customers about other people's products that you think are good? You should be able to earn a substantial commission for every sale made.

And of course, these are only a few of the possibilities you could explore.

So, how many "getting customers to buy more often" systems do you currently have? How many more do you think you should have? How many new systems are you going to test? And what impact do you think that this could have on how many times your customers buy from you?

How does this improve things for our typical UK business?

For Mooredge Decorators, a 10% increase in how often customers buy (which is less than a *third* of what our hairdresser could achieve simply by using a better script) would add £75,000 to their sales and £21,700 to their profits – which, remember, started at only £2,500.

Here's a summary of that impact on Mooredge:

Impact of a 10% increase in how often customers buy		
	Before	**After**
Total sales	£750,000	£825,000
Notional profit	£27,500	£49,200
True profit	**£2,500**	**£24,200**

Your next steps

STEP 1 – Re-read this chapter, and then use the questions in the next section to help you generate ideas.

STEP 2 – Record your ideas in the "Your ideas and potential actions" section at the end of this chapter.

STEP 3 – Talk to us, we will be able to use powerful multimedia software easily and quickly to:

1. Calculate the extra profit your ideas will generate, factoring in the exact numbers and mathematical model for your business so you can see what is possible and what is at stake.
2. Help you identify additional profit improvement ideas in this area – so no stone is left unturned.
3. Review the ideas other businesses have tried – so you can see what has already been proved to work.
4. Help you create a prioritised action plan – so your good ideas get turned into action and results.
5. And create a plain English report summarising it all – so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

Key questions to ask yourself

- How can you adapt the "next sale script" idea and use it in your business?
- In how many different ways can you ask your customers to buy something from you (since increasing the number of times you ask the same basic question is the simplest way of getting customers to buy from you more often)?
- If you don't already have one, how could you launch a loyalty scheme that encourages your customers to buy more from you more often?
- Could you set up long-term systematic buying agreements – such as selling your products under licence, charging ongoing royalties, or a subscription service for annual upgrades?
- How can you develop a regular customer contact programme (since the more systematic you are about keeping in touch with customers – in a way that they value – the more often they will buy from you)?
- How many other "getting customers to buy more often" systems do you currently have?
- How many more do you think you should have?
- How many new systems are you going to test?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren't working well? How can you improve them? And, if you can't, what should you replace them with?
- Have you seen other businesses' "getting customers to buy more often" systems? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?

- If money were no object, what other “getting customers to buy more often” ideas could you test?
- How can you take those “money no object” ideas and turn them into something that is cost effective?

Your ideas and potential actions

Growth Driver 5

How to get your customers to remain customers for longer

£135,625 in extra profit

The ideas from *this* chapter helped Mooredge Decorators to make small changes that earned them £5,425 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they added an extra £135,625 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

The first two growth drivers we looked at – how to get more customers, and how to convert more of your sales leads into customers – are the two areas that most businesses concentrate on.

However, research shows that it costs a business typically 6 or 7 times more to get a new customer than it does to keep an existing customer. After all, advertising and direct mail are rarely free – and neither is employing a sales force. So those two growth drivers can also be expensive.

So… let's look at the fifth key growth driver – one that is frequently overlooked. And it's often overlooked because the financial implications are less obvious. We're talking about *keeping your customers as customers for longer* – in other words, increasing your customer loyalty – which, as we will discover, can be even more cost-effective, even more powerful and even more profitable for you.

Why customers don't come back

Research shows that for the average UK business, about 1 in 5 customers don't come back.

This average 20% customer defection rate may not be the norm in *your* business or your industry – but every business we've ever met has lost customers at some time. And yours is probably no different, is it?

Now, there's another major piece of research that I need to tell you about – one that looked at WHY those customers leave. And it found:

1. 4% die or move out of your geographical reach
2. 5% are referred to another supplier
3. 9% move to a cheaper supplier
4. 14% are unhappy with your product or service

None of these reasons are surprising. Or are they? Ask most businesses why they lose customers and they'll say "price". They think customers go to someone cheaper down the road. Not so. You can see that only 9% shift due to price. In fact, far more (14%) leave because your service or products aren't good enough, and that's something you can usually fix quite simply.

But the amazing thing is that all of those reasons combined – including cheaper prices – only account for one third of all the customers that leave.

It's not all about price

The other *two thirds* leave suppliers for one crucial reason.

And that crucial reason is "perceived indifference". And not their indifference – yours!

In other words, 7 out of every 10 customers who leave, leave because they feel you don't care about them, they feel that they are being taken for granted and they feel that they aren't important to you.

And if that surprises you, imagine this scene.

Imagine going out for an evening and having a drink at two pubs that are next door to each other. Both serve the same beer at the same prices, both are furnished to the same standard, and both have the same type of ambience and clientele.

In Pub A you are welcomed by the bar staff with a smile, eye contact, and fast and attentive service. In Pub B the bar-staff seem more interested in talking to each other than serving you. They avoid eye contact with you until they have finished telling each other a joke. And when they finally get round to sauntering over to you, they don't look at you, don't use the common courtesies, speak in gruff monosyllables, and make it obvious that they would rather be somewhere else.

Now, you've finished your one drink in each pub, you go for a meal. And after the meal you have time for one more drink in one of the two pubs.

Which one are you going to go back to? In other words, which pub are you going to be loyal to?

Most people prefer to feel wanted, valued and appreciated – and most people don't like to feel unimportant. So very few people will choose to go back to Pub B – the one where they are made to feel unwanted. However, because Pub A made them feel wanted, welcome and important, they get the loyalty – and that's where you return to buy your last drink.

So – your job is to show that you *care.*

I'm sure your business isn't rude to its customers in the way the second pub was. But it's not only rudeness that makes customers feel you don't care about them.

It might be, for example, that you haven't been in touch with them for a while. Or that there's no answer on your phone, or that their calls aren't returned quickly. It may be that you keep them waiting too long, or seem to be breaking your promises to them. It may be that they get the impression they are being fobbed off – or that they are being served by your most junior people because they aren't important enough to be looked after by anybody else. Or that you turn up late to meetings with them – and haven't prepared for the meeting in advance.

There are 101 ways that they could get the impression that you don't care.

> So, your job is to do everything possible to show that you do care; to do everything possible to give them sensational service; and to do everything possible to make the whole experience of dealing with you better than they can get anywhere else.

And to do that, you need great "keeping customers for longer" systems:

- Systems for showing that you care
- Systems for delivering sensational service
- And systems for transforming the experience of dealing with you.

Now – let's go back to the pub!

The pub that got it right doubled its drink sales to us on our night out; but the benefits last for much longer – we're far more likely to go back there in the future, so it makes more sales now and more sales in the future.

And as for the pub that got it wrong – well, I for one wouldn't go there again if I could possibly avoid it!

So, what kind of business model would work best for you? One where your customer defection rate is where it is now… or one where your customer defection rate is much, much lower because your customers are much, much more loyal to you?

OK, how many different "keeping customers for longer systems" can you introduce to reduce your customer defection rate and increase your customer loyalty?

You need simple strategies to show you care.

Once again, there are dozens of strategies you can use in this area. For example:

1. Identify the little things that annoy customers… and then *stop doing them*! If you don't, they may well stop being your customers before long.
2. Identify the little things that customers love… and start doing them systematically. It's the little things that can be the most powerful, so start giving sensational service by systematically delivering many, many little extra service touches.
3. Use customer surveys to find out what your customers like and don't like. Online survey tools such as Survey Monkey are a quick and easy way of doing this… and it demonstrates to your customers that you care.

4. Do *what* you said you were going to do, *when* you said you were going to do it, and at the *price* you said you would do it for.
5. Under-promise and over-deliver. Customers are always impressed if you give them more than they expected or deliver quicker than expected. Conversely, they are always bitterly disappointed if you break your promises.
6. Make sure that every member of your team has the right attitude when dealing with customers at every point of contact. It isn't just what you do, but also the way you do it.

And there are strategies for:

1. Making sure that every point of contact with your business is distinctive, memorable and valuable – with the aim of dazzling and delighting the customer.
2. Handling complaints brilliantly – when things go wrong, make sure your systems handle complaints brilliantly. Research shows that customers who have their complaints handled quickly, honestly and fully are *even more loyal* than customers who have nothing to complain about!
3. Adding the "personal touch" by making your key people more visible, approachable and accountable – especially to customers with complaints.
4. Continually educating your customers about the benefits to them of dealing with you – the more they learn this, the more likely they are to stay with you.
5. And reducing your "no-show" rate by creating systems and scripts for gently reminding customers about meetings and appointments.

And, of course, these are just a few of the possibilities you could explore, but let's now apply this to our case study business, Mooredge Decorators.

What happens when our typical UK business retains more customers?

You may recall that John's customer defection rate was 20%. This is average for a UK business.

Now, imagine that John implements some great customer service systems, and imagine that it improves his customer defection rate by just 10% (i.e. reducing it by 2 percentage points from 20% to 18%). This very small improvement will add a staggering £18,750 to sales and improve profits by £5,425! Working on just this one area could more than triple John's true profit, which started at £2,500.

Here's a summary of that improvement:

Impact of a 10% improvement in customer loyalty		
	Before	**After**
Total sales	£750,000	£768,750
Notional profit	£27,500	£32,925
True profit	**£2,500**	**£7,925**

Your next steps

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STEP 3 – Talk to us, we will be able to use powerful multimedia software easily and quickly to:

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2. Help you identify additional profit improvement ideas in this area – so no stone is left unturned.
3. Review the ideas other businesses have tried – so you can see what has already been proven to work.
4. Help you create a prioritised action plan – so your good ideas get turned into action and results.
5. And create a plain English report summarising it all – so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

Key questions to ask yourself

- What are the little things that annoy customers? These are the things you need to stop doing. If you don't, they may well stop being your customers before long.
- What are the little things that customers love? It's the little things that can be the most powerful, so start giving sensational service by systematically delivering many, many little extra service touches.
- How can you use customer surveys for finding out what your customers like and don't like?
- How can you make sure that every member of your team has the right attitude when dealing with customers at every point of contact? It isn't just what you do, but also the way you do it.
- How many other "keeping customers for longer" systems do you currently have?
- How many more do you think you should have?
- How many new systems are you going to test?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren't working well? How can you improve them? And, if you can't, what should you replace them with?

- Have you seen other businesses' "keeping customers for longer" systems? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?
- If money were no object, what other "keeping customers for longer" ideas could you test?
- How can you take those "money no object" ideas and turn them into something that is cost effective?

Your ideas and potential actions

Growth Driver 6

How to use price to transform your profits

£780,000 in extra profit

This time, our case study, Mooredge Decorators, used the ideas discussed here to make small changes that earned £31,200 a year in extra profits. So, over the 25 years before John Mooredge sold the business and retired, they added an extra £780,000 to his bank account.

For you, of course, the numbers will be different. But whether they are smaller or bigger, they will certainly be very worthwhile.

Price is unquestionably the most powerful growth driver. You absolutely must get this one right. The wrong price is the single biggest reason why UK businesses struggle or even fail. But when you get the price *right*, you'll transform your business overnight. It's instantaneous. However… you might be surprised at how and why this happens…

When you put aside some time to explore strategies and ideas for growing your own business, you should start here. Start with price. And when you work with us, it's the first place we will start.

So let's look at price…

Cutting prices can be disastrous

Most businesses are in competitive markets, so they will often say something like, "We need to reduce our prices to stay competitive and win more customers."

After all, that'll bring in more customers, won't it?

Well, yes it might well do that. But wait a moment: before you rush off to change your prices, you must first understand the numbers. It's absolutely vital.

You see, for many businesses cutting prices is disastrous, as we can see by using our case study business. Let's remind ourselves of the initial key numbers:

Mooredge Decorators	
Annual sales	£750,000
Gross profit percentage	28.93%
Gross profit	£217,000
Profit in accounts	£27,500
Market salary	£25,000
True profit	**£2,500**

If John reduces his prices by, say, 20% in the hope of getting more customers, and if he in fact gets 20% more customers (and thereby increases the amount he sells by 20%) then this will in fact…

… reduce his profit by £136,600.[3]

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3 *If you're interested in the maths, here is how we arrive at this number. Cutting prices by 20% reduces sales from £750,000 to £600,000. However, getting 20% more customers increases sales from £600,000 to £720,000, so sales fall by £30,000. Also, with 20% more customers, his direct costs will increase by 20% from £533,000 to £639,600. That's a staggering £106,600. Add to that the £30,000 fall in sales, and we get a reduction in profit of £136,600!*

Enough to kill his business overnight!

Even with 20% extra customers as a direct result of his price cut, it will be disastrous. So how many customers will John need to win just to make the same £2,500 of true profit as before the price cut?

30%? 50%? 100%?

If Mooredge Decorators' prices are cut by 20%, the company needs an extra 223.88%.

That's right… an extra 223.88%.

And even if John did achieve 223.88% more customers, even that will yield no extra profits, no growth at all. It's just to stand still. And he'd need all those new customers right away because once prices are cut, your shortfall is instant.

IMPORTANT NOTE: The exact percentages here vary according to the business cost structure. So for you, the equivalent figure will probably not be 223.88%. Of course, a good accountant can show you what your percentage is. And in our experience, for almost every business, it is a far bigger number than they thought. In order to make rational pricing decisions, it is therefore imperative that you work with the correct information.

So, ask yourself this…. Are you remotely likely to win that minimum number of extra customers? If the answer is "No" – or even "Probably not" – then cutting your prices is not a good idea.

Cutting price doesn't just affect your profit

Price-cutting is obviously not a good idea for your profitability. But it's not a good idea for your cash flow either. To make more profit at lower prices, your sales must be higher than they are now. And that means more money tied up in stock, work in progress and debtors – and more strain on your cash flow.

So, think very, very carefully before you cut your prices. Check the consequences, because they could be devastating. You must understand your numbers. And you must understand the maths behind it all.

And that's not the *only* other downside!

What sort of customers would you attract as a result of your cheaper prices? Many of them wouldn't be the sort of customers that want a really good quality supplier – they'd be customers looking for a cheap supplier, wouldn't they?

But are they the sort of customers that you really want? Are they the best customers? Or are they the ones that moan and whinge a lot? For most businesses, the answer is simple.

What it means for a typical UK business

So… let's now look at what happens if, instead of cutting prices, Mooredge Decorators' owner decides to *raise* them. And let's look at just a small 10% increase.

Even if that price increase loses the company 15% of its existing customers, with that smaller customer base, despite the higher prices, total sales drop by £48,750.

At first that might seem bad. But you may have heard the phrase "*turnover is vanity, profit is sanity*."

Look what happens to the bottom line profit… it rises by £31,200.

That's massive for a small business which was previously making just £2,500.

Here's a summary of the impact on our case study business:

Impact of increasing prices by 10% and losing 15% of existing customers		
	Before	**After**
Total sales	£750,000	£701,250
Notional profit	£27,500	£58,700
True profit	**£2,500**	**£33,700**

Total sales actually fall slightly because Mooredge Decorators has got fewer customers, despite prices going up. But because it's got fewer customers, its cost of sales – or direct costs – will fall by even more than its sales, so profits (the important thing) will actually be £31,200 higher.

Getting the price right can transform your business

Here's the important point…

…*raising* prices can have the single biggest impact of all of the growth drivers we've looked at so far. It's transformational.

What's more, there are extra benefits: with 15% fewer customers, you're less busy. You have more time to spend on the 85% of more profitable customers that have stayed with you, so you can do a better job all round for them so they buy more, more often, stay with you longer, refer you more frequently and so on. You also have less money tied up in debtors, stock and work in progress, so cash flow is better.

And, think about the type of customers that you will lose.

Are they going to be your best customers who value what you do? Or will they be your least favourite customers who always want a cheap price?

What difference would it make to your life and the amount of pleasure you get from your business if you didn't have to deal with some of those "least favourite" customers again?

So, there are also a lot of great side-effects from putting your prices up, aren't there? Price is the most powerful driver. Understand it well and it's your key to success.

How to put up your prices and not lose customers

We specialise in helping businesses like yours find ways of increasing their prices *without* losing customers. And we have a whole range of strategies, resources and tools available to you for doing this, such as:

1. Focusing on adding value rather than being better value – in other words, what extra value could you give to your customers so that they would be happy to pay more money?
2. Making the value of what you do much, much more obvious.
3. Creating brand names and unique selling propositions.
4. Translating the features of what you do into benefits – so that your customers really understand the benefits they will get from buying at a higher price from you rather than your cheaper competitors.
5. Removing the risk from your customers – so that they are happy to spend more money because it's safer to deal with you than your competitors.

And much, much more. So there are dozens of strategies, resources and tools that you can use to help you increase your prices without losing customers.

Notice I said "*without losing customers*".

In our case study, I shared with you the results John would achieve if he increased his prices by 10% and lost 15% of his customers. But when you do things the right way, it's possible to do even better by increasing prices *without losing customers*…

…The 1% effect

Let's explore this briefly. Here's a very simple – but very important – series of questions for you.

Just think for a minute about a hundred of the most useful or favourite things you buy on a regular basis. How many of them would you stop buying if the price went up by one percent?

For example, would you stop drinking your favourite pint of beer if the price went up by 2 pence from £1.80 to £1.82? Or your favourite bottle of wine if it went up from £5 to £5.05? Or would you stop reading your favourite Sunday paper if it went up from £1 to £1.01?

If your answer was "No", then what you're saying is that, as a customer, if the product is good, a really small price increase won't stop you buying it.

So tell me, are your products and services good?

If they are, then following your own logic means that you could increase your prices by an average of 1% without losing almost any customers, couldn't you?

Notice, I'm not asking whether you could increase every price by exactly 1% for every customer. I'm asking whether you could increase some prices for some customers by a little more than 1%, and some prices by a little less than 1%, without losing a significant number of customers.

You could do that, couldn't you?

So my final question is this… Why don't you do it… today?

For our case study business, every 1% we add in this way will add another £7,500 directly to John's bottom line. If that was your business, that's £7,500 more in your pocket – £7,500 more for you to spend.

Of course, that's just a very small 1% price rise. When you work with us, we will help you implement strategies and techniques for increasing your prices in a way that means your customers will happily pay you more money.

But a word of caution…

You could, of course, simply put your prices up straight away. And that may be a great thing to do. But it may also be a knee-jerk reaction. It could result in you losing many more customers than you expect and harm your business. So…

> …while it is likely that putting up your prices would be a great strategy, you need to think about it alongside some of those other strategies I mentioned earlier – increasing perceived value and benefits and reducing the consumer's sense of risk when buying from you. This will help make sure that your customers are *happy* to pay your higher prices.

Your next steps

STEP 1 – Re-read this chapter, and then use the questions in the next section to help you generate ideas.

STEP 2 – Record your ideas in the "Your ideas and potential actions" section at the end of this chapter.

STEP 3 – Talk to us, we will be able to use powerful multimedia software easily and quickly to:

1. Calculate the extra profit your ideas will generate – factoring in the exact numbers and mathematical model for your business – so you can see what is possible and what is at stake.
2. Help you identify additional profit improvement ideas in this area – so no stone is left unturned.
3. Review the ideas other businesses have tried – so you can see what has already been proven to work.
4. Help you create a prioritised action plan – so your good ideas get turned into action and results.
5. And create a plain English report summarising it all – so nothing gets forgotten or overlooked.

The Appendix contains details of the help we can provide.

Key questions to ask yourself

- Could you increase your prices by just 1% today (since in every business we have ever seen, this has had absolutely no effect on the volume of sales, and so the extra amount charged has all been pure profit)?
- What extra value could you give to your customers so that they would be happy to pay more money?
- How can you make the value of what you do much, much more obvious?
- How can you create brand names and unique selling propositions that highlight the big benefit of what you do, so that your price is less significant?

- How can you remove the risk from your customers so that they are happy to pay higher prices because it's safer to deal with you than your competitors?
- How can you test your prices to find out how much you can sell at each price – and then work out which price maximises your profit?
- How can you better educate your customers about the benefits to them of dealing with you (since the more you educate them, the more likely it is that they will be prepared to pay you a higher price)?
- How can you use creative price structures so that you can charge each customer what they are willing to pay?
- How can you differentiate your business from your competitors in ways that your customers value? You'll be able to justify charging higher prices, increase your profits and increase the value of your business.
- What *extra* could you give customers – something that is worth a lot to them, but costs you little (since this will not only make them happy to pay your current prices, but it will also make them happier to pay an even higher price)?
- How many other systems for getting the best price do you currently have?
- How many more do you think you should have?
- How many new systems are you going to test?
- Which systems currently work best? And how can you capitalise on this?
- Which systems aren't working well? How can you improve them? And, if you can't, what should you replace them with?
- How have you seen how other businesses price? And how can you adapt what they do so that it works for your business too? How can you do what they *daren't* do, and do it successfully?

Your ideas and potential actions

More on Growth Driver 6
The single most important element in your profit equation

In the last chapter we said that the price driver is arguably the most powerful driver in your profit equation. Get this right and you make a profit. Get this wrong and you make a loss. It's as simple as that. So the trick – of course – is to make sure you get it right rather than wrong. And because it's so powerful, we wanted to share some further thoughts with you on this powerful driver.

Customers care about price. But it is certainly not the only thing they care about – and your entire business and marketing strategy should reflect that fact. In other words, you should never compete on price alone.

Instead, you should start by making sure that what you are offering exactly meets the needs of your ideal customers. And then you should make sure that you compete on the basis of giving those customers "maximum value" rather than the "lowest price".

What is "maximum value"?

As we saw earlier, value is the gap between the benefits a customer *perceives* he is getting and the price he *perceives* he is paying. So, offering "maximum value" means offering a bigger gap than anyone else.

There are four keys to offering maximum value:

1. To make sure that your products and services are exactly what your customers, especially your ideal customers, need and want – i.e. they offer the best and most appropriate combination of benefits, and…
2. To make sure that your customers fully understand those benefits – because unless they understand that what you have to offer is special, they will assume it is average, and that means that you'll only be able to charge an average price. So, managing their perceptions is vital.
3. To make sure that your price structure is designed and calculated in the best possible way, and…
4. To make sure that your prices are presented, explained and defended in the best possible way.

And it's these last two points that we are going to focus on in this chapter: designing, calculating, presenting, explaining and defending your prices in the best possible way – in other words, in the most profitable way.

Your "magic price"

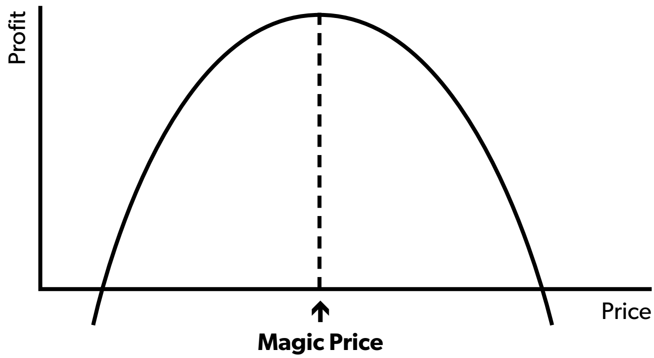
Let's start with a few questions.

How much profit would you make by giving your products or services away for free? Well, your sales would be zero – and you wouldn't make a profit, would you?

How much profit would you make if you sold your product or services at, say, 1,000 times their current price? Well, the chances are that nobody would buy them. So again, your sales would be zero – and again you wouldn't make a profit.

So, at those two extremes – a ridiculously low price and a ridiculously high price – you don't make profits. But at some of the prices in between those two extremes you will make a profit. And at ONE price somewhere on that spectrum – let's call it the magic price – you'll make the most profit.

The graph below illustrates this idea.



And it's that magic price that you are looking for – the magic price that will earn you the most profits.

Are you charging your "magic price"?

So, here's the really important question for you… Is the price you currently charge exactly that magic price?

And that's not a rhetorical question. I actually want you to say out loud one of two words: "Yes" or "No". Yes, the price we charge is exactly the magic price. Or no, the price we charge isn't exactly the magic price.

So what's it going to be, yes or no?

If your answer was "No", that's great – because it means that as you discover your magic price, you will definitely be able to improve your profits. And probably by a huge amount.

And if your answer was "Yes", how do you know that you are charging the magic price? How can you be sure, absolutely sure? What proof do you have? How strong and how up to date is your evidence? How many other prices have you tested? What is the precise impact on your short-term and long-term sales, and on your short-term and long-term profits, of your current price and all the other possible prices?

Even if your answer is still "Yes" (which, by the way, would make your business one in a million), the good news is that the ideas in this chapter will show you how to keep your prices at those magic levels, even when ever-changing technology, ever more demanding customers and ever more aggressive competitors do their very best to steal your profits away from you.

How to find your "magic price"

Ultimately, we need to look at how to increase the profits you make when you start using that magic price. So, we need to start with how to find your magic price.

In one sense it's really easy. For every possible price, work out four things:

1. The quantity you will sell at that price
2. The money value of those sales
3. Your costs
4. And, by deducting your costs from your sales, your profits

Then simply pick the price that gives you the highest profit. Simple? In theory, yes, but not in practice. Once you know how many units you are going to sell at each price, calculating your sales costs and profits should be fairly straightforward arithmetic.

But the big problem, of course, is in estimating how many units you can sell at each price.

There are four ways to come up with such an estimate. The first three are:

1. Expert judgement

2. Historical market data, and
3. Customer surveys.

But they all have major weaknesses.

There is probably nobody "expert" enough to give you reliable estimates – so usually it just ends up being guesswork. The historical market data you would need probably doesn't exist – and if it does, it is probably out of date or relates to the prices of other company's products and isn't absolutely accurate (or perhaps even indeed relevant) for your situation today. And customer surveys sound like a good idea – but all too often customers say one thing in surveys and do something entirely different when it comes to actually parting with their hard-earned cash.

So is there a better way?

There is: number 4 – "testing". You may have to rely on those three methods to some extent; but wherever possible you should try to include at least *some* testing in your estimation process. After all, the only thing that really counts is not what experts think, or what happened in the past, or even what your customers say they will do. The only thing that matters is what *actually* happens when customers are asked to part with money. The only thing that *actually* matters is how much they *actually* spend at different prices.

So you need to find ways of testing different prices.

But don't "gamble your business" by doing anything reckless or irreversible. Be creative. And find ways to test different prices safely.

For example, you could change the price for a small group of customers – perhaps only through one of your distribution channels or shops. Or you could use a variety of different value coupons or discount vouchers to see how much you sell at different net prices. Or even use daily special offers to charge different prices on different days. The list of possibilities is enormous.

But however you decide to test, always remember the two golden rules of testing:

1. Only change one thing at a time – since if you change more than one thing, for example the price and the packaging, you won't know whether it is the price change or the packaging change that causes customers to change how many they buy.
2. Always measure the results *before* and *after* the change very carefully indeed.

Observe both of these rules and you will discover what your magic price is. Or, at the very least, you'll get a much better idea of your magic price than you've ever had before.

But that's not the end of the story.

You see, your magic price isn't something handed down from on high – and neither are the profits you earn at that magic price. They are both something that you actually choose.

Pricing at your magic price is a great thing to do; it means you will earn the maximum you possibly can without changing anything else in your business. You get more profits without changing your product, service, marketing, packaging or overheads. Everything stays exactly the same… except your prices and profits.

But you can make even more profit if you go *one step further*. And that further step is to consciously choose your magic price and the profits you earn at that magic price.

And to see what I mean by that, I'd like to tell you a story about a bottle of wine…

Can you judge a wine by its price?

As I sit here writing this I'm holding a bottle of Chardonnay. It has an unremarkable label, 1999 – so not a great vintage – and it's imported by some folks in Luton – not a name you'd have heard of.

Now, what I'd like you to do is think about how much this bottle is going to sell for.

Imagine that it's standing on the shelf in Sainsbury's. How much do you expect that bottle to be?

Put your answer in the box here:

Imagine now it's in a corner store. You know the kind of place – run by a family who never seem to need any sleep; where there are garish posters in the window screaming "Cut price bread here" and "Stella Artois – was £3.99 now £1.99 for 27 cans"; where everything is crammed in and stacked haphazardly.

Now, imagine that you spot the same bottle of Chardonnay amidst all that chaos. It is standing on the floor and there are 6 or 7 bottles unattractively piled next to it. How much is that bottle of Chardonnay in that corner store?

Put your answer in the box here:

Now, imagine that you are in an independent wine merchant, and there on the shelf is this same bottle of Chardonnay. But this time it is beautifully presented, resting in a little wooden box with some tasting notes underneath. And there's a beautiful aroma of wine all around. The floor is oak panelling and the walls are lined with exquisitely presented, delicious wine. How much is that bottle of Chardonnay there?

And again, put your answer in the box here:

I've done this exercise with hundreds of people at seminars, and the average prices they come up with are about £4 in the corner shop, £6 in Sainsbury's and £8 in the wine merchant. How do your three prices compare to those?

How to go from £4 to £141

Now, let me tell you about the actual bottle of wine I have here in front of me – exactly the same bottle of wine you've just given three prices for, and which other people have priced at £4, £6 and £8. But this time the wine is £141. And you did hear me correctly, I did say £141. Because that's how much I paid for it. £141.

Maybe the people that sold it to me for £141 know something about pricing that we ought to know too! They certainly know something that the workaholic selling it for £4 in the corner shop ought to know, don't they? And something Sainsbury's selling it at £6 ought to know. And even something the wine merchant selling it at £8 should know. Because if those other people could sell it for £141 too, wouldn't their businesses be so much more successful?

So let me tell you about this £141 bottle. It wasn't sold in a shop. What happened was that one afternoon I was rung up by a friend and asked if I would like a free wine tasting at my house. The friend explained that she had just had a tasting, and that the wines were lovely. So I said yes. And within 20 minutes, a very elegant middle aged lady arrived at my house in a fantastic sports car, and very carefully lifted out of the boot of her car two enormous aluminium boxes, rather like the kind the photographers use to guard their equipment. One of the boxes was chilled and one of them wasn't. In the chilled box were 8 bottles of white wine, and in the other box were 8 bottles of red wine.

She sat my wife and I down at our dining table and let us taste every wine in the box. She showed us how to savour them. She told us about each grape variety in great detail. She told us what other people's favourites were. She got us to put our favourite bottles to one side, and then complimented us on our good taste. And she made us feel very special. But never once did she tell us the price – and we didn't ask.

Sixteen small glasses of wine later we agreed that we wanted one bottle of our favourite white and one bottle of our favourite red. But it turned out that they don't sell individual bottles. In fact, they don't even sell mixed cases. Very smart that!

So we ended up buying a whole case – that's 12 bottles – of this Chardonnay.

And although they were only £11.69 – let's call it £12, each – the case of twelve came to the £141.

But that's not all. You see, we also ended up buying a case of our favourite red. So the cheque we wrote there and then was for almost £300.

The power of context

Now you tell me, which business would you rather run? A business selling this same bottle of wine for £4-£8, or a business able to charge £12 – and at the same time turn a customer who thought he only wanted two bottles into a £300 sale?

What would you prefer each of your sales to be worth: £4, £6, £8, £12 or even £300? It's not a tough question – you decide.

> The power of context is at play here; the way that your product is presented and described, the setting within which it is sold, and the way it is sold can all have a profound difference in the perception and assessment of price.

So, what *was* the difference between the business selling the wine at £4 and the business selling the same bottle at £12? It certainly wasn't the wine itself – since that was exactly the same!

No – the company selling it at £12:

1. Identified its ideal customers (professional or middle classes)
2. Gave those ideal customers what they really wanted (good wine made easy)
3. Transformed the experience of buying into something much more enjoyable and memorable
4. Developed a brilliant referral marketing system – remember, it all started because they asked my friend to telephone me
5. Developed an equally brilliant sales system – including the script the elegant sales lady used and the things she did as we tasted
6. Trained their sales people brilliantly in how to use that system – and she *was* brilliant
7. Had no shame, nervousness or hesitation about charging a premium price – £12 a bottle instead of £4
8. And they didn't just settle for charging higher per unit prices – but also created a pricing structure (i.e. only selling full, unmixed cases) that resulted in me paying them even more still!

And they CHOSE to do all of these things. As a result of those choices, they were able to make a lot more money… as the £300 cheque I gave them and the fantastic sports car the sales lady drove proved.

In the wine industry, if you choose to pile it high on the floor in a grubby shop, don't be surprised if you get £4 a bottle. But if you choose to present it really professionally in somebody's home, don't be surprised if you get £12, or even £300.

That's the power of context.

Obviously the prices and the way things are done at the two ends of the spectrum will be different in your industry. But there will still be a spectrum. There will still be the equivalent of the £4 end of the market and the £12 end of the market.

And it's YOUR choice…

> Where you are on that spectrum is entirely up to you. It's your choice. If you're stuck with low prices and low profits, don't complain about it… do something about it.

You choose what kind of business you run. You choose the kind of service you give to customers. You choose the things you do to set yourself apart from your competitors. You choose whether to be your industry's equivalent of a low margin corner store, or a higher margin wine merchant specialist, or a really high margin innovator who re-writes the rules about how to do things. And you choose how you price. In other words, you choose where you are on that spectrum.

And the better the choices you make in those areas, the higher your profits will be at your magic price.

You make those choices. The choices you made in the past have determined the profits you are making today. And the choices you make today will determine the profits you make in the future.

Key questions

Here are some important questions to consider. We recommend that you spend the next hour thinking about these questions very carefully. Your answers could transform your business.

- Have you set the price of everything you sell at its "magic price"?
- If the answer is yes, how were you sure that they were the magic prices when you set them, and how can you be sure that they are still the magic prices today?
- When did you last test your prices? How did you test them? And what did you learn?
- How many different ways of testing your prices have you used in the past, and which have been the most useful?
- How else could you test your prices using special offers, promotions, sales, coupons, vouchers, discounts, auctions or any of the other methods discussed in SSTW?
- What proportion of your ideal customers complain that your prices are too high?
- What other methods could you use to estimate how much you will sell at each price?
- How many customers can you afford to lose when you increase your prices?
- What does the evidence suggest will actually happen to your sales when you increase your prices?
- How can you re-engineer your costs so that you earn even higher profits at your magic price?
- How can you make your business more compellingly attractive and dramatically different – like the home delivery wine supplier – so that you earn higher profits at your magic price?

- How can you use the fact that the more expensive some things are, the more some people want them?
- How have you seen other businesses tackle pricing? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else in your industry dares to?
- If money were no object, what other pricing ideas could you test?
- How can you take those “money no object” ideas and turn them into something that is cost effective?

Your ideas and potential actions

Even more on Growth Driver 6

How do you charge your customers the maximum price they are willing to pay?

I'm going to start by reminding you of one of the most profound principles in the field of pricing. And that principle is this…

… different customers value things differently.

We all value things differently. And we all have a different perception of the value of any product or service. So we all have a different maximum amount we are willing to pay for a particular product or service.

It's our personal judgement call – and it's entirely subjective.

"So what?" you might be thinking.

Well, this seemingly tiny observation has a profound implication. You see, it means that whatever price you are currently charging, that price is wrong!

Actually, I probably need to clarify that statement. Let me be more precise.

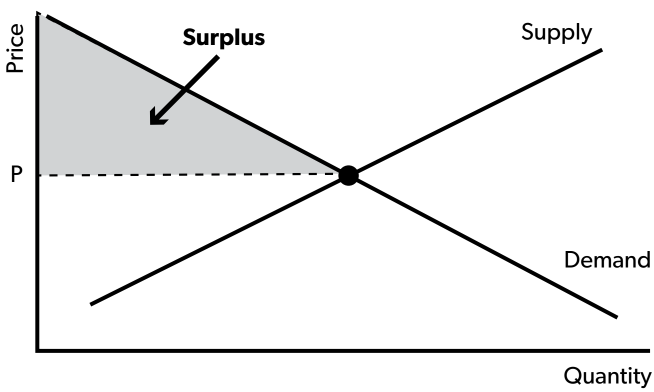
If you have a *single* price for your product, then that single price is wrong… no matter what that single price actually is.

The reason why your single price is wrong

You see, having only a single price causes you to lose out in two different ways… For some customers that price is too *high* – so they don't buy, and you lose them as a customer; while for other customers that price is too *low* – so you end up charging them less (and earning less profit) than they are willing to pay. Which means you lose again.

Economists call the amount by which you lose in this second scenario the "consumer surplus" – and it is shown by the shaded area on the supply and demand diagram you can see below.

The line labelled "Demand" is what economists call the "demand curve"; as price reduces, the quantity customers buy increases. The line labelled "Supply" is what economists call the "supply curve"; as price rises, suppliers will supply greater quantities. Where the Supply and Demand curves intersect is referred to by economists as the *market price* (denoted by P on the graph). The shaded area represents the extra amount that some customers would be willing to pay for your product or service. In other words, there will be some customers willing to pay a price greater than *P*.



So, one of the keys to dramatically improving your profits is to claw back some of this consumer surplus by charging different customers different prices.

But how?

How to charge different customers different prices

It sounds difficult, but in fact there are lots of ways to do this, such as:

- Offering trade-ins
- Creating different versions of your products and services at different prices
- Charging different prices in different distribution channels
- Charging different prices at different times
- Creating bundles that will appeal mostly to price-conscious customers
- And giving concessions to groups of customers who can't afford as much as your ideal customers

In this chapter, we'll look a little more at the first two of these strategies. But before we do, let's take a step back and look at the maths.

Example: Finding the magic price

Imagine that you sell widgets that cost you £1 each and for which there are three potential customers: A, B and C.

- Customer A is willing to pay £4
- Customer B is willing to pay £3 and
- Customer C is willing to pay £2.

If you set a single price at £2, then all three customers will gladly pay you that £2. So you'll make total sales of £6 and total profits of £3.

The table below shows how we arrive at the total profit.

Single price of £2	Quantity sold	Revenue	Cost@ £1 each	Profit
Customer A	1	£2	£1	£1
Customer B	1	£2	£1	£1
Customer C	1	£2	£1	£1
			Total Profit =	**£3**

Let's now change the price.

If you set a single price at £3, then Customer C won't buy, but the other two will still gladly pay you £3 each. So you'll make total sales of £6 and total profits of £4.

Once again, the table below shows how we arrive at total profit of £4.

Single price of £3	Quantity sold	Revenue	Cost @ £1 each	Profit
Customer A	1	£3	£1	£2
Customer B	1	£3	£1	£2
Customer C	-	-	-	-
			Total Profit =	**£4**

Now let's change the price once more.

If you set a single price at £4, then only Customer A will buy. So your total sales will be £4 and your total profits will be £3.

Single price of £4	Quantity sold	Revenue	Cost @ £1 each	Profit
Customer A	1	£4	£1	£3
Customer B	-	-	-	-
Customer C	-	-	-	-
			Total Profit =	**£3**

You'll remember, of course, that the magic price is the price at which you make the most profits. So, in this example the magic price is £3, giving you £4 in profits – which is 33% higher than at any other price. It is the magic price because no other price will deliver this much profit.

But a *single* magic price can still be the wrong price!

Finding your magic price is a great thing to do. But very often, having a single price is not the best strategy. Let's continue this example…

Remember we also know that: Customer A is willing to pay £4, Customer B is willing to pay £3 and Customer C is willing to pay £2.

So, what if instead of charging all of these three customers the same price, we charge each the full price they are willing to pay? Now our total profits will be £6, half as much again as the £4 profits we made at the magic price. The table below shows the calculations.

Different prices	Quantity sold	Revenue	Cost @ £1 each	Profit
Customer A pays £4	1	£4	£1	£3
Customer B pays £3	1	£3	£1	£2
Customer C pays £2	1	£2	£1	£1
			Total Profit =	**£6**

OK, so we've kept the numbers as simple as possible, and in the real world they are much more complicated. But it's vital to recognise that there is nothing fishy or special about the numbers in our example.

The real world complications do nothing to alter the fact that if you can find a way to charge different customers different prices so that they each pay what they are willing to pay, then you will always make more profits than you do by using any single price… even if that single price is your magic price.

Price discrimination

In our example we made 50% more profits by switching from the magic price to charging each customer the full price they were willing to pay. In your business the impact could be more or less than 50%. But there will be an impact. Charging different customers different prices will increase your profits… and probably by a lot!

Does this mean that finding and using the magic price is a mistake? No, it's not. There may be instances where it is not possible to charge different customers different prices. And when you are able to charge different customers different prices, each of those different prices can be the magic price for a particular segment of customers.

Economists call this "price discrimination" – but we prefer the Plain English description of charging different customers different prices, since that's what it actually involves.

But how do you actually do it?

Well, the key is to be much more creative about pricing. And one of the most effective ways is the first item on our original list…

…Offering trade-ins

Have you ever wondered why white goods retailers are willing to give you £100 for that rusting washing machine that they invite you to trade in for their gleaming new £300 one?

They certainly don't want your rusty old machine – and they will probably just throw it away. So why on earth would they pay you £100 for it?

The answer lies in the concept of charging different customers different prices. If you already own a washing machine, your need for a new one is probably not as great as someone who doesn't have a washing machine – so the value to you is lower, and so too is the price that you are willing to pay for one.

If, on the other hand, you are a newly married couple setting up home for the first time, then your need for a washing machine is probably much higher – so you are probably willing to pay more for one.

Now, if the shop put up a sign saying "Newly weds pay £300 for washing machines – everybody else pays £200", there would probably be a riot!

So instead, they achieve exactly the same result much more subtly by offering a £100 trade-in.

Newly married couples haven't got an old washing machine to trade in, so they pay the full price of £300. While established couples do have an old machine to trade in – so they get a £100 trade-in allowance, and end up paying only £200 for their new washing machine.

Different customers are charged different prices, and the white goods retailer makes more sales, more profitably.

How you could use this idea

How could you take this idea and apply it in your business? What can your price-conscious customers give to you, or do for you, in order to qualify for a lower price? What can they trade in?

Maybe they can trade in items they have bought from your competitors? This means that they can switch to you straightway without waiting until they have had full value from their earlier purchases. For example, if they have two months left on a maintenance contract with another supplier, can you give them a two month payment holiday if they switch to your maintenance contract straight away?

Or can you honour the discount vouchers and coupons given to them by your competitors?

Or if they have been given a goodwill credit note by their current supplier because they complained, can you allow them to redeem that credit note against purchases from you?

How else can you use some form of trade-in so that it allows you to charge different customers different prices?

Other ways to charge different customers different prices

Of course, trade-ins are only one way of charging different customers different prices. Another way is to introduce a quality dimension by having a premium and an economy version of what you sell. Publishers, pubs and software companies are among the many businesses that already do this.

A book with identical words costs more in hardback than it does in paperback. In fact, the difference in price between a hardback and a paperback book is astonishing – sometimes as much as two or three times – and yet a hardback book costs just pennies more to produce. It's clearly not the printing cost that is driving the price difference – it's the fact that different customers are willing to pay different prices.

If you want Harry Potter quickly on the stroke of midnight when J.K. Rowling's next book is published, then you will buy the hardback edition and you won't care how much it costs. But if you are price sensitive, you will wait until it comes out in paperback, or perhaps even through a book club. So the publishers let different customers pay different prices. And as a result, J.K. Rowling has become phenomenally rich.

Now, think about other industries. The same pint of beer costs more in the lounge bar than it does in the saloon. And fundamentally, the same software code costs more in the professional version than it does in the "lite" version of many programmes.

And in each case, the purpose is crystal-clear… To allow different customers to pay different prices.

A third approach is to charge different prices in different channels. After all, airline seats are often cheaper on the internet than they are on the high street. And beer costs more in a pub than it does in a supermarket.

Often we are willing to pay more for something in one place than we are in another – so that too is another way of charging different customers different prices.

There are many other strategies and tactics for charging different customers different prices. Talk with us and we will explain other powerful ways of applying this principle to your business.

Key questions to ask yourself

Here are some important questions to consider. We recommend that you spend the next hour thinking about these questions very carefully. Your answers could transform your business.

- In how many ways do you currently charge different customers different prices?
- How can you use the idea of trade-ins to charge different customers different prices?
- What can your price-conscious customers trade in, or do for you, in order to qualify for a lower price?
- Can you launch several different versions of your products and services – some at higher prices than others?
- Can you charge different prices in different distribution channels?
- Are there some times when your customers might be willing to pay more than at other times? And like pubs with their happy hours, how can your pricing make that possible?

- What high value bundles of products and services can you create that will appeal to your price-conscious customers? Remember, you can also bundle in other people's goods and services.
- How can you use those bundles to encourage your price-conscious customers to spend more money with you?
- How many different kinds of price lists can you offer to your customers?
- Looking at all the different types of customers your business has, or could have, which types are not willing or able to pay as much as your best customers?
- How can you offer those types of customers concessions so that they pay less than your best customers?
- How can you make sure that your other customers can't also qualify for those concessions?
- What are your business' equivalents of a hotel's empty rooms or a grocer's perishable stock at the end of the day? And how can you use pricing ideas like late availability clubs and end-of-day sales to sell them to price-conscious customers before they become worthless?
- In how many ways can you get feedback about what your customers regard as fair? For example, can you use questionnaires, telephone interviews or focus group meetings?
- How else can you involve your customers in designing a fair pricing structure?
- How have you seen other businesses charge different customers different prices? And how can you adapt what they do so that it works for your business too?
- Thinking even bigger, what else could you do that no one else dares to?
- What systems do you need to be able to charge different customers different prices?

- How can you test your range of different prices to make sure that you really are charging customers what they are willing to pay?
- If money were no object, what other ideas could you test?
- How can you take those "money no object" ideas and turn them into something that is cost effective?

Your ideas and potential actions

Growth Driver 7
How to make business growth automatic

This final growth driver is the glue that holds all of the other drivers together: **turning all of your growth drivers into efficient systems.**

As Michael Gerber[4] reminds us, if you don't have proper systems in place, you're operating on luck. When you create and use great systems, then growth just happens automatically. It's about implementing the drivers we've discussed in practical, consistent ways.

As we saw earlier, if you want to get the best possible results, you've got to *have a plan*.

You've got to create SYSTEMS – so that you do the right things every single time.

You've got to keep testing different systems to see which work best.

You've got to train your team so that they can use those systems.

And you've got to measure the results.

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[4] The E-Myth Revisited by Michael Gerber, Harper Collins, 1995

Systems for growth

As we have looked at each of the growth drivers, we have continually stressed the importance of turning every idea into a system. As a result, you have already seen the immense benefits of having growth-orientated systems such as:

1. Referral systems
2. Other lead generating systems
3. Lead conversion systems
4. Systems for getting customers to spend more
5. Systems for getting customers to spend more often
6. Systems for getting customers to remain as customers for longer
7. Pricing systems

But you don't only need systems for growth. You also need systems for everything else.

And these systems need to be *excellent* systems.

You see, when you have excellent systems for everything that matters:

1. Everybody will be able to do everything to the same high standard by following those systems, so…
2. …the business will do things consistently well – which means far fewer problems, hassles and complaints. As a result…
3. …it will generate consistently better results – which means you earn more every year, and it is also worth more when you eventually come to sell it.
4. But its success won't be dependent on you or on anyone else – since it will be systems-dependent rather than people-dependent. So…

5. …you will personally be able to choose what you do (perhaps the things you enjoy the most) and how much time you spend doing them, and as a result…
6. …you will be able to enjoy the work-life balance that is exactly right for you.
7. And the business will be very much easier to sell – as they always are when they can be run just as easily by the new owner because they are not dependent on the previous owner's personal input.

Therefore, systems are the ultimate key to you and your family enjoying the benefits of:

Higher income – by improving your profits

Greater wealth – by making your business more profitable, valuable and saleable

More happiness – by giving you control over your work life balance

Systems really are the key.

The first 6 growth drivers on their own are not enough

We saw in the earlier chapters that each of the first 6 growth drivers can have a big impact on your sales and your profits. The trouble is, if they're not systematic – i.e. if you don't have the systems in place to make the 6 drivers automatic – then you're operating on luck. You're leaving it to chance.

With systems you can automate the growth drivers. And then by testing each system, you can keep searching for continual improvements.

So when we look at the SSTW mathematical model, we need to consider the systems we will create and test to ensure we keep improving each of the growth drivers.

In this chapter we will explain how you systemise your business. And in the next chapter, we will show you something incredibly powerful… something which involves synergy.

The 6 –step process for systemising your entire business

Given the crucial importance of systems, we are now going to give you a proven 6-step process you can use for systemising your entire business.

Step 1 – List your systems

List every system and process that relates to your business. In other words, **list everything that happens within it.**

Of course, that could be a big list. For example, it may cover your systems for:

customer service, stock management, team rewards, security, public relations, regulatory compliance, communication, hiring, training, decision making, research & development, production planning, organisational design, promotion, quality control, credit control, performance evaluation, personnel records, management development, record management, sales support, office management, insurance, outsourcing alliance, purchasing, invoicing, pricing, customer retention, marketing, cost control, salary policy, technology assessment, financial control, innovation, market research, management succession, learning, and so on…

The sheer number can be daunting. It's what Peter Keen, author of *The Process Edge: Creating Value Where It Counts*, refers to as the "Process Swamp".

But don't worry about that for now – in step 2 we'll look at how to sort and prioritise your list of systems.

A great way to organise your thoughts when listing all of your businesses systems is to categorise them into the key areas of your business, as follows:

Leadership	Systems to help you work out where you want the business to go – and what you, as a leader, need to do to make sure it gets there.
Operational	Systems for creating and delivering your products or services quickly and efficiently. This may include production processes, supplier management, stock control and product assembly.
Marketing	Systems that grow your business quickly, easily and profitably. This may include pricing systems and sales systems.
Customer	Systems to ensure you give sensational customer service and stand head and shoulders above your competitors. This may include customer training and support, and customer delight management.
People	Systems to recruit, train, manage, motivate and keep a great team of people.
Finance	Information systems that give you the key information you need – so that you make better decisions and get better results than ever before.
Administration	Systems that make the day-to-day tasks work perfectly. This may include facilities management and filing procedures.

TIP: Talk to us and we will show you how System Builder™ will give you a big start in systemising your business. It contains some ready-to-run systems for each of the above categories. See the Appendix for details of how to contact us and the help we can offer.

Step 2 – Prioritising your systems

It is important to realise that not all systems add value to the business; some only provide support. Some systems have the potential to create much more value than others. For example, in most businesses a system for ensuring that a customer is delighted on fulfilment of an order would be of more value than a system for opening the post.

In his book, *The Process Edge*, Peter Keen suggests that many businesses have fixed the wrong processes, and so have not reaped significant and lasting benefits from reengineering and quality improvement initiatives. And Peter Drucker said many years ago, "**There is no point doing well that which should not be done at all**."

Now that you have listed all the systems and processes that take place within your business, you need a method for determining which systems are documented and improved first. Essentially you want to start by documenting and improving those systems that will have the greatest impact on your business and its performance – it's the big impact, value-creating processes that need more immediate attention.

We need a method for classifying systems into some sort of priority. To give you an example of what we mean, here's a really simple method you could use. It's a method which is particularly relevant to a small business with few systems and where the business owner does most of the work.

The business owner's time is at a premium. As the business owner, you need to free up some time and delegate responsibilities to existing team members. So, start by listing the routine tasks you carry out in a typical week or month, together with a rough estimate of the proportion of time spent on each task.

Then identify which of those tasks could most easily be delegated to existing team members once a system is in place. Identify those tasks which, once a system is in place, will free up the greatest amount of your time. Very often these will be tasks which are dealt with in larger businesses by functions that take place at the lower levels of the traditional organisation chart. For example, sales visits/calls, book-keeping, payroll and other personnel issues, secretarial and administrative duties.

Now that you have created a list of all the things that happen within your business and prioritised the systems, you should create a "Systems Action Plan". This is simply an action plan which sets out *when* you are going to create each system… obviously starting with those systems which will have the biggest impact.

Typically this approach could free up as much as 20% of your time. That's one day per week!

Why is that? Simply because when we do this exercise with business owners, we find much of them spend time doing tasks that somebody else could and should be doing if they just created a system and trained other people to do it.

Let me give you an example.

To grow my business, I use LinkedIn and other social media tools to build relationships with my target market. One of the activities I do is to write a short discussion post about once per week and then post that discussion over the course of the week to the 30+ LinkedIn Groups I am a member of. I would typically post the discussion to about 5 LinkedIn Groups every day.

It didn't seem to take long to do each day, because I simply copied the text from a Word document. Nevertheless, when I sat and thought about this, I realised I probably spent over an hour every week on this activity… an activity which could easily be dealt with by somebody else.

So I wrote a step-by-step system documenting exactly what I did (in fact, I did it as a 10-minute video). I then sent it to a member of my team and they now do all of my LinkedIn Group posts.

That saves me over an hour every single week.

Can you see, therefore, that by identifying half a dozen tasks like this, you can soon start to save yourself 6 to 7 hours per week? That can free up a whole day.

And once you have freed up 20% of your time from implementing these types of systems and delegating those tasks to somebody else, you are in a much better position to tackle the remaining systems that need documenting. The rest of the list no longer seems quite so daunting.

So get some quick wins under your belt first.

Now that you have your Systems Action Plan, take each system in turn and apply the following steps, starting with the system which will have the biggest impact on your business.

Step 3 – Map your systems

Before jumping in and documenting each system, you should create a process map. And then analyse that system to ensure it is efficient (which we'll cover in step 4). After all, there is no point in spending time documenting an inefficient system.

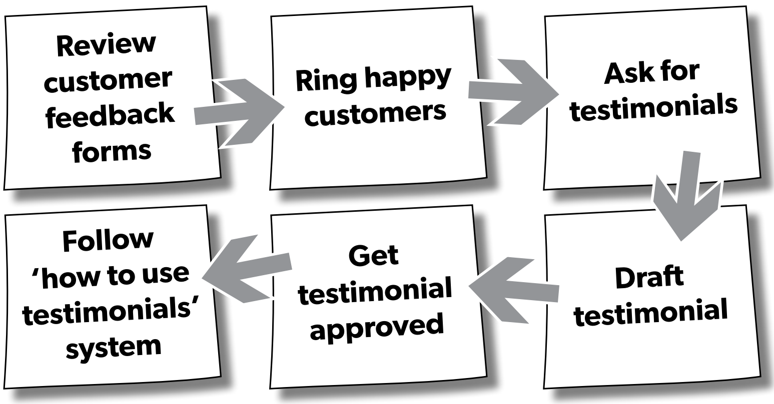
The purpose of mapping is to establish what is happening in the business, how predictably it is happening and why. And so you should create the process map based on the flow of activities within the process as they *actually* happen (rather than how they *should* happen).

Process mapping and analysis sounds quite complicated – and it certainly can be. But don't worry; we're going to simplify it for you.

A process map is simply a visual representation of how a system works – the step-by-step processes. It can be a flow chart with boxes to denote each activity within the process, or it could be a series of Post-It notes on a wall showing what happens and when.

For example, the diagram below is a simple process map documenting how to get great testimonials from customers. A simple series of Post-It notes maps out the key steps.

System for getting testimonials



Of course, you'll need to note exactly what happens in each step of the process above. For example, the scripts – or words you say – when you ring a happy customer, how you ask for a testimonial, and the process you use to get permission to use your customer's testimonial. And we'll cover that in step 5 – writing your systems.

But first, in step 4, once you have found out exactly what happens in your current process and captured it in the form of a process map, you need to analyse the system.

Step 4 – Analyse your system

Why do we analyse the process map and systems?

The purpose of analysis is to:

- measure how efficiently the process is responding to what the customer wants (customer demand),
- gather information to identify where the waste and inefficiency is, and
- understand the impact it has on the customer.

Your starting point is to identify and define the objective of the system. In other words, what is the purpose of this process? You see, until you know what the purpose of the system is, you can't measure how efficiently it is working.

The objective of your system should have an impact on at least one of the following:

- To deliver sensational service to customers
- To improve efficiency
- To increase revenue

If it doesn't impact on any of these three, then perhaps it is not a worthwhile system.

Earlier in this book we talked about "converting sales leads into customers" as the second of the key growth drivers. Let's say that one of the things your business does is issue people with quotes (this is something done by many different businesses, including electrical contractors, landscape gardeners and roofing contractors).

What is the purpose of that quoting system?

It could simply be to increase revenue by turning enquiries into paying customers. But only by knowing what the objective is can we measure how well it is working. So, the next step is to identify an appropriate measure. In this case, the measure could be the "quote conversion rate" – in other words, what proportion of quotes issued convert into paid work.

Measuring this number gives us a starting point, a benchmark; then as we change the system we can identify whether those changes have a positive or negative impact on our conversion rate.

When you are analysing your system, a really powerful – yet simple – process to use is the "5 whys" questioning procedure for each activity, illustrated in the diagram below. This is how you use it.

For each step in the process, ask yourself the questions about the activity. By asking these questions, and in particular the "why" questions, you will really think about each activity.

Very often you'll realise there are things you do in your business that are done that way simply because that's the way it's always been done. But on reflection, you may recognise there is a much better way of doing it.

The Five Whys		
Activity		**Answer**
What is the purpose?	**Why** is it necessary?	
Where is it done?	**Why** is it done there?	
Who does it?	**Why** does that person or machine do it?	
When is it done?	**Why** is it done then?	
How is it done?	**Why** is it done in this way?	

Asking questions like these is a great way to understand what is happening, how well and predictably it is happening, and of course, why it is happening.

One of the things you are looking for when you are analysing your systems and processes is waste and efficiency. By *waste* we mean:

- time spent re-doing activities which haven't been done right the first time,
- duplication of effort, and
- doing things which don't add value to the customer.

It has been estimated that people working in manufacturing organisations spend about 20% of their time dealing with waste. In service organisations this is even worse – about 40%. So clearly the identification and elimination of waste can result in massive cost savings.

Some examples of waste include:

- Re-work (re-doing things or returning things that are wrong)
- Completing unnecessary forms, paperwork and reports
- Handling progress chasing requests
- Not having access to the right equipment
- Working from unreliable or inaccurate information
- Querying incomplete instructions
- Dealing with misrouted phone calls or post
- Resolving invoice queries
- Doing things that other people have already done or are doing at the same time
- Dealing with problems caused by other departments not doing their job correctly the first time
- Fire-fighting (dealing with symptoms rather than causes)
- Attending unnecessary or poorly managed meetings
- Obtaining authorisation
- Handling issues that others should have dealt with

I wonder how many of these occur in your business?
It pays to be honest!

When you are designing systems, be aware of waste and inefficiency. To create an efficient process (sometimes referred to as "lean service") you should be aware of the following indicators:

- **First-pass yield**, which refers to the percentage of times an activity is performed right first time. This is critical in determining the efficiency of a process. For example, in a manufacturing business, if the first-pass yield is low then not only is time wasted, but also direct costs may be incurred again, work in progress consumes capital, and customer delivery deadlines are often missed. This could in turn result in a reduction in customer loyalty and even late delivery penalties.
- The **cycle time**, which means the length of time from start to finish, should be kept to a minimum. If the computer maintenance company can improve the time to fix from 2-6 days to 24-48 hours, then it has developed a more efficient process.
- **Customers' pull service**, i.e. they get what they want. For example, a washing machine repair company that can arrive at the customer's premises at the exact time that the customer wants has a far more efficient system than the competitor than gives the customer the option of a time between 9.00 a.m.-12.00 noon or 12.00 noon-5.00 p.m.
- There are a **minimum number of handovers** or steps in the process. Each time a system involves another person or department, its efficiency decreases.
- Efficient processes do not have **batching** or **queuing**.
- Efficient processes have the **expertise at the front end**. Many problems can result from untrained/non-technical people dealing directly with customers. For example,

next time you go out and buy a new hi-fi system or television, contrast the quality of the advice you get at Richer Sounds with any other high street electrical goods outlet. At Richer Sounds, the whole customer service experience is far superior – and as a result, customers end up willingly spending more money.

- An efficient process maintains a **smooth flow** throughout. For example, a few years back I was invited to the Aston Martin factory to see the production of the DB7. The production of the car went through 28 separate stages. Each of these took approximately 75 minutes to complete. If any of these stages varied significantly from this, then bottlenecks would appear in the process.

> Mapping and analysing systems is not rocket science. It is about asking the right questions of the right people in the business and applying some common sense.

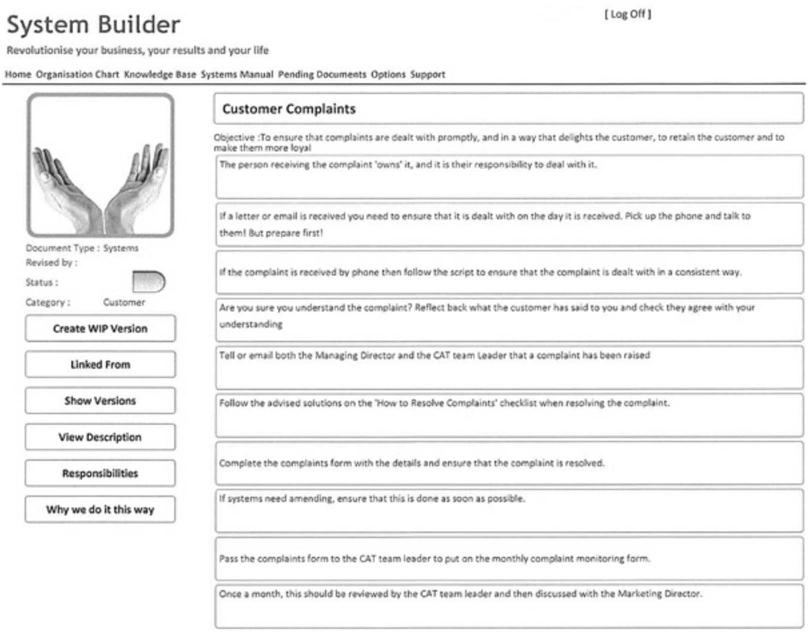
Now you are ready to *document* the system, but this time *as it should happen*, not how it happens now. In other words, you're going to ensure it can meet the objectives and that you remove as much of the waste from the system as possible.

Step 5 – Writing your system

There are few hard and fast rules governing the format of a system. Opposite is an example of a fully documented system from System Builder™ for dealing with customer complaints.

You can see from the example opposite that it sets out who is responsible for the system; the Customer Services Manager.

You should then set out the objective of the system. In this case it's "To ensure that complaints are dealt with promptly, and in a way that delights the customer, to retain the customer and to



make them more loyal." Remember, the objective should have an impact on at least one of the following:

- To deliver sensational service to customers
- To improve efficiency
- To increase revenue

So, in this example, the objective will have an impact on delivering sensational service to the customers. Also, by dealing with and resolving complaints *promptly,* it will have an impact on efficiency.

If the objective does not impact any of the above, then you must ask the question, "**Does this add value to the organisation?**" And if not, perhaps your time could be spent better elsewhere. Remember what Peter Drucker said: "**There is no point doing well that which should not be done at all**."

You should then document each of the steps in the process. Very often these will include a link to another system, including a standard letter, script, form, checklist or instructional video.

Step 6 – Implement your system

And finally, the step that is most often overlooked – involving the team in implementing the new system. As each system is documented, you must tell the team about the system, train them how to use it and make sure it is followed every single time.

One of the many keys to the success of McDonald's systems is the fact that everyone follows them *consistently*. They are part of the induction process and they are part of the culture. The system is what makes McDonald's one of the most successful businesses in history.

Once you have documented your first system, trained your team and implemented it, then move onto the next system in your Systems Action Plan from step 2.

A final note about systemising your business: creating systems is not something that happens overnight. It can take many years. Nevertheless, it's critical if you want to build and grow a sustainable business that is not wholly dependent upon the business owner being there.

Without systems, you are operating on luck. Everything happens by chance. Everything relies on people. And a people-reliant business suffers significantly when there are illnesses, holidays and people leaving the business.

In contrast, a business based on systems simply works.

Saving the best until last

So, those are the 7 key growth drivers that lie behind our *Simple Stuff That Works* model. This SSTW model allows you to see the impact on your business from making small improvements across these key growth drivers.

We used a case study business – Mooredge Decorators – to illustrate the profit improvement possibilities from making tiny improvements in the first 6 key growth drivers. And I'm sure you'll agree – for a small business making tiny *true* profits of just £2,500 – the results can be staggering.

However, we've saved the best until last.

You see, there's a powerful concept behind this SSTW mathematical model which uses *synergy* to turbo-charge your results. We call this *Synergistic Impact*. And we'll look at this concept in the next chapter.

Your ideas and potential actions

Bringing the 7 Growth Drivers together

How to get exponential growth

As you will have seen from our case study business, all the little improvements in each of the 7 key growth drivers start to add up. But so far, we have only looked at the impact of each of these strategies ***in isolation***. If you combine these strategies together, you will achieve something much greater still – and we call that ***Synergistic Impact***. Let me explain.

Here are the results our case study business achieved when it made small improvements:

- The new referral system has increased sales leads by 5%, and that added £10,850 in bottom line profit.
- Thanks to an improved sales script, a small increase in its sales lead *conversion rate* from 35% to just 38½% added an extra £4,340 to its profits.
- A 10% increase in how much customers spend adds a massive £21,700 to their profits.
- And a 10% increase in how *often* customers buy using a "next sale" script would add £21,700 to their profits.
- By implementing some great customer service systems and improving the customer defection rate by just 10% (from 20% to 18%) this very small improvement will improve profits by £5,425.

- And when John increases his prices by 10% – and despite then losing 15% of his existing customers, and despite total sales falling – this is what happened to the bottom line profit… it rises by £31,200.

Adding up each of those profit improvements results in a staggering £95,215 in additional profit every single year. However, *Synergistic Impact* means that isn't the final improvement to profit.

Here's where the magic happens

The real annual profit improvement is actually much greater. In fact, the overall profit growth is not £95,215 but £114,256 (which, over the 25 years before John retires, adds up to a total of £2,856,400 in extra profits).

But why is the true figure £114,256 a year?

It's down to this one word – *synergy*. And what it means is that each of the key growth drivers work on each other. Let me explain with that much simplified version of the SSTW model we discussed in the first chapter of this book.

Right at the start we had an imaginary business, remember, with 10 customers who each spend £10 ten times each year. So, we only have 3 of the growth drivers here: number of customers, how much they spend and how often they spend.

Total sales for this business would be 10 x 10 x 10 = £1,000.

If you increase any one of these drivers by 10% this is what happens. Let's assume we increase the number of customers by 10% from 10 to 11. Total sales now become…

11 x 10 x 10 = £1,100.

In other words, increasing any one of the sales drivers by 10% increases sales by 10%.

So what happens if you increase all 3 of the sales drivers by 10% at the same time?

Remember, in chapter 1 you wrote down your answers in the boxes.

Some people instinctively think the result is a 10% improvement in total sales. That certainly isn't correct. Many others think 30%, as you probably did when working on the calculation in chapter 1, remember?

And whilst that's nearer to the correct figure, it's still not right.

Let's do the maths.

Increasing each of the drivers by 10% means that 11 customers will spend £11, eleven times per year. And so…

11 x 11 x 11 = £1,331

That's actually a 33.1% increase in total sales.

There's an extra 3.1% which comes from synergy, i.e. the whole is greater than the sum of its parts.

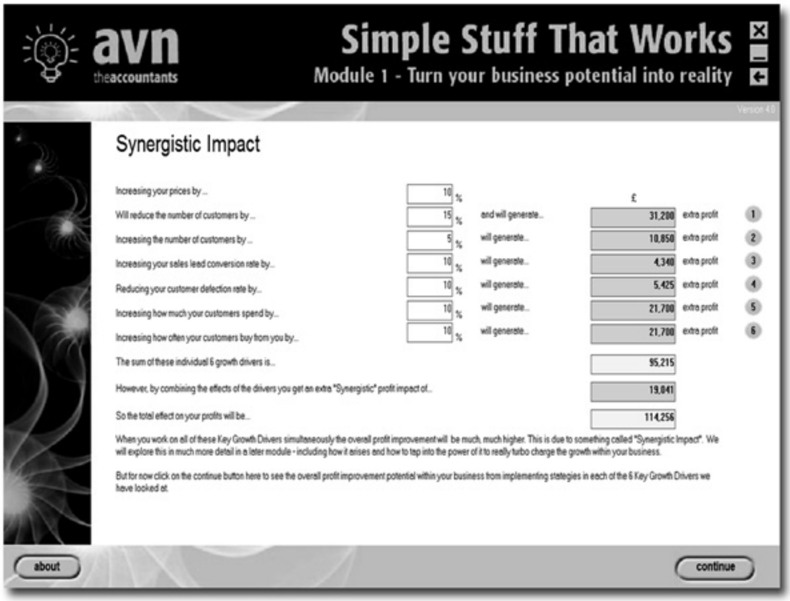
When we apply this to the SSTW model, which uses all of the key growth drivers – and factor in the impact on profit (which is much, much more important than sales) – the results are even more profound.

And that's why the impact on the profit of our case study business is a massive £114,256 and not £95,215.

The screenshot on the following page from our Simple Stuff That Works software illustrates this exact point.

So what is the single most important thing to learn from this?

Making a lot of small improvements is better than making one big improvement.



When you truly understand *Synergistic Impact*, you realise that it is far better to make small improvements to all of the 7 key growth drivers than to focus all of your energies on just one.

You see, most small businesses looking to grow make the mistake of only looking for new customers. All of their efforts and spending is focussed on getting sales leads – the most expensive and difficult of the 7 key growth drivers!

If you want to grow your business by 20% next year, don't focus all of your energy on getting 20% more customers. Instead, aim for smaller improvements in all of the growth drivers. It's much, much easier to do it that way. And thanks to *Synergistic Impact*, your results will be better.

Less effort. Better results.

This is so important that we'll say it again…

...it's far more effective to spend a bit of time making small improvements in each of the growth drivers than to focus on getting big results in just one area.

The question for you is "What simple strategies will you implement to harness all 7 key growth drivers and raise your profits?"

When you work with us to help you grow your business, we will look at making many small improvements in all the key areas of your business, rather than one or two big things.

In other words, we will look at SSTW – Simple Stuff That Works – as opposed to CSTD – Complicated Stuff That Doesn't.

And finally…
The most powerful thing you can do to grow your business

There's one more step you can take that will unleash all the profit-building power in your business. If you do only one thing after reading this book, it should be …

Start by acknowledging this simple truth: Business Is Hard.

As business owners we work long hours, we get sucked into the challenges, fire-fighting and the niggles of daily business. Customers, suppliers, our team, the tax man – they're all competing for our time. And we're so close to all this that we rarely, or never, stand back and see how the business is working.

And even if we do step back, it's hard to be objective about something we see every day.

So the most powerful thing you can do to help your business is to get an outsider involved. There are lots of ways of doing that. You can have a business coach, for example. Or it could be a mentor. It could even be a formal non-executive director.

But for most businesses it's even simpler than that. For them, and we suggest for you, the key is to have a numerate outsider sitting in on your board meeting once a month or once a quarter.

Don't have a regular board meeting?

You should. Even if you don't call it that.

Having a strategic focus

The leaders of every business should take time out at least once a quarter to look at the bigger picture – to focus on *strategy*.

And getting somebody in who understands business – and the key numbers in business – will help you get a different perspective. Talking to somebody else will help you to come up with ideas. In fact, you probably have all the answers, but most business owners are so busy doing the daily tasks they don't have the time and objectivity.

Just as every elite sportsman has a coach to build their capability, so the most successful businesses have a numerate outsider to come in and hold them accountable and help them build and grow their business. To nurture a strong and healthy business, you absolutely must get this help from someone as you grow.

We are accountants with a difference. We are trained to sit down with business owners on a regular basis as numerate outsiders – and help those business owners build more successful businesses. We have access to leading business development tools that are proven to work for all kinds of businesses throughout the UK – engineers, designers, lawyers, retailers, distributors, manufacturers and many, many more.

> Those tools work because – like everything we do – they are based on Simple Stuff That Works principles – principles that have proven themselves time and again here in the UK and all round the world.

To find out more, including how we can help you, take a look at the Appendix at the back of this book.

And that's just about it from us. So now it's over to you.

But remember… The quality of the decisions and action you take *today* determine the quality of the results you get *tomorrow*.

And remember too… If you don't do anything with what you've read, nothing will change, and nothing will get better.

So what decisions and actions are you going to take?

Thanks for reading our book.

We hope you've found it challenging. We hope you've found it stimulating.

And most of all, we hope you USE it to take ACTION to make your business even more profitable, even more successful and even more enjoyable to run.

Appendix

HIGHWOODS & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Highwoods & Associates is a proud member of AVN, providing top-class training and support at affordable costs. AVN is one of the UK's best-recognised associations of accountants who are passionate about helping business owners build more successful and profitable enterprises that are enjoyable to run.

As an association, we have approximately 300 U.K. offices, 5,000 team members, and over 100,000 clients. Together, we have co-funded the research and development of a suite of tools, resources, solutions and systems specifically designed to help businesses like yours become:

- More successful
- More profitable
- More enjoyable to run.

Based on our combined experience of working with our clients, we know what works and how to make it work for you. To show our commitment and to thank you for your time spent reading this book, Highwoods & Associates would like to give you the opportunity to take advantage of our brilliant offer:

For just **£299 + VAT**, we would like to offer you support to lay the foundation for your business to reach its full potential. This package includes:

Simple Stuff That Works Support Package

This involves using our powerful multimedia software, Simple Stuff That Works, to:

- Help you identify all the key profit improvement ideas for your business across all 7 Growth Drivers – so no stone is left unturned.
- Review the ideas that other businesses have tried – so that you can see what has already been proven to work.
- Calculate the extra profit these ideas will generate – factoring in the exact numbers and mathematical models for your business – so you can see what is possible and what is at stake.
- Help you create a prioritised action plan – so your good ideas get turned into action and results.
- Create a simple report summarising it all – so nothing gets forgotten or overlooked.

Other benefits

Key Improvement Possibilities Report – This non-jargon report is based on a diagnostic review of your affairs that looks beyond the 7 Growth Drivers to consider all the other main ways you can add substantial amounts of money to your business and personal bank accounts.

Benchmarking – Comparing your business to others in your industry so you can see where your strengths and weaknesses really lie; you can then use those insights to create an even more powerful action plan for improving your results and getting the very best from all 7 Growth Drivers.

"System Builder" software to systemise your business – Developed for AVN accountants and their clients, this comprehensive cloud-based software tool gives you a platform for systemising every aspect of your business – so you can get the very best out of the 7 Growth Drivers.

Accessibility (Meeting with Mo Barrie) – The meeting is to help you harness the full potential of the book and develop a plan of action to ensure your business success.

More Help Available – Once we have proven our worth, you can ask us to attend your board or management meetings to help you further.

To find out more, or to get help from Mo Barrie or the team at Highwoods & Associates, please visit **www.highwoodsandassociates.co.uk** or email **info@highwoodsandassociates.co.uk**

"Quite simply, the best book I have read giving entrepreneurs simple tips to make them more successful. A winning combination of robust advice that is easy to apply, time and time again. Read this book, and watch your business soar"

Andy Bounds – Britain's Sales Trainer of the Year, and author of international best-sellers *"The Snowball Effect"* and *"The Jelly Effect"*

"A definitive book on business that uses devastatingly simple language and examples to get across profoundly powerful ideas that will transform your results."

David Thomas – Sunday Times No.1 bestselling author, Grand Master of Memory and US Memory Champion

"You'll LOVE the real-life stories and the oh-so-simple insights. And better yet, you'll see the profits flowing back into your business in a heartbeat. It really is that simple. AND that quick!"

Paul Dunn – author of *"The Firm of the Future"*

£21.00

HIGHWOODS & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS