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## **Grow Your Business By Increasing The Average Sale Value**

This month we discuss the third of the four ways you can grow your business, by increasing the average sale value.

Customers come to you for help and guidance. So it's important to let them know about all the options, including additional products or services that are available to add on to the original purchase. You've put a lot of time and money into getting that customer in to your business in the first place, so why not leverage the return on that investment where you can?

There are a number of common selling strategies you can use to increase the average sale transaction value.

### **Cross selling**

Cross selling is when you sell other products or services from your range in addition to the customer's original choice - "*Would you like fries with that?*" Look at your major product or service offerings and ask: What else could we offer to go with this item that would add value and help the customer get the most out of the purchase? Then develop cross selling checklists for each item that will guide team members in making suggestions to customers.

### **Up-selling**

A great way to up-sell from a lower to a higher priced item is to offer your products or services in three or more tiers, along the line of good, better and best; or bronze, silver and gold. Your first tier might be your budget items, the ones for price conscious buyers. Your second tier is the one you actually want the majority of customers to buy, and your third tier items will appeal to those who are happy to spend a little more for more value. Train your team members to offer three options from your range of items, explaining the tiers. Statistics show that most people will select the second tier item.

### **Bundling**

Bundling should make your products and services appear more attractive and create a higher perceived value in the mind of the customer. For example, a health professional might bundle together a free assessment when a customer signs up for a certain minimum number of sessions. Take a look at your full range of products and services and see if there's any opportunity to package things in this way in your business.

## Smart merchandising

Signage, ticketing, presentation and packaging, traffic flow, and point-of-sale displays are all types of merchandising that can increase your average sale if done well. Having educational information about your products or services, and sales tools like testimonials or brochures, can help build customers' confidence in your business and increase the average sale value.

## Work your margins and pricing

To increase your average sale value you must have a firm understanding of your margins and how they affect your bottom line. Avoiding discounting and price wars is important to maintain and increase your average sale value. If your present margin is 35% and you reduce your prices by 10%, then just to produce the same profit as before the discount your sales volume must increase by 40%! On the other hand, if your present margin is 35% and you increase your prices by 10%, your sales can reduce by up to 22% while still maintaining the same profit. Do some what-if scenarios around increasing and decreasing your margins to see just what the effect on profit might be.

## Sales Reps Need A Plan

Effective selling requires a solid plan of attack.

Without a plan, sales reps have no choice but to do their own thing – which may not necessarily be what your company needs them to do to achieve its sales targets. Undirected sales reps are likely to be too often found in the office or out on haphazard travel, spending time with the friendly accounts and pushing the easier to sell (but not necessarily profitable) products.

With a good INDIVIDUAL plan that has some discipline built into it for the rep the chances for sales success increase dramatically and ensure the focus needed at the individual level to get the right things sold to the right customers.

A good sales rep plan can be built if you keep these things in mind.

1. Base it on business goals, not whim - the company sales plan must be clear on what needs to be achieved. That puts the onus on you to have done your homework and developed an annual strategic plan for marketing that includes sales and gross profit goals and strategies for increasing sales to current customers and developing new ones. If management doesn't know what it wants from its sales team how can the sales reps know what is expected of them? How can you measure their effectiveness? How reasonable is it to complain of their ineffectiveness?

2. Include strategies to guide action - too often sales reps are given no more direction than to "*Get out there and increase sales by x%*". If management 'planning' is at the level of just tacking on an x% increase in sales volume in the budget without having developed the strategies for achieving it, that doesn't provide any direction for sales reps. In this situation reps are likely to fall short of their goal even though the budgeted increases may be realistic. Their sales plan will start with some strategic objectives but must then detail the activities expected of them that will allow them to achieve these objectives.

Each rep needs their own plan covering which customers they are to contact, when, how often, and so on.

A business that sells to other businesses for instance ought to have decided what sort of company is the best one to approach - will your product or service only appeal to large companies with a certain level of turnover? Or perhaps it's more useful to target new or well established companies; fast growing companies, or ones who have slow and steady growth?

What about industry sector, number of employees and location? The reps need to know your preferred targets.

In B2B you also need to decide on the person they will need to contact/persuade. Is this the Chief Executive, a Managing Director or a head of department? And will you need to talk to somebody else first before you get to this person?

If the rep is in a territory making calls it is often helpful to create a routing plan that directs him through the territory on specific days and weeks to make the most effective use of time and minimise backtracking. Planning this aspect can help significantly in getting reps out of the office and into the field.

Other things that could be set into their plan to be accomplished in a given period (such as each week or month) are number of client phone calls to make, number of contacts, appointments set, appointments conducted and value of sales to close.

3. Monitor results - since the plan has covered the goals and strategies down to task level, such as which customers or prospect groups are going to be approached, how frequently and so on, then each activity and the resulting sales can be monitored and checked to see if they are reaching the plan.

Don't make recording activities a burden to the rep but recognise that tracking a few key performance indicators is essential to keeping your company sales plan on track and will form the basis of your assessment of a rep's performance. Reviewing can take place on a monthly basis. Sales management excellence involves reviewing the results against the plan to determine missed opportunities and areas for improvement.

A genuine sales effort requires regular planning, tracking, and review to achieve the targeted results. Every sales rep requires their own action plan to direct their day-to-day activities and set up their accountabilities. An individual plan will force a rep to become more disciplined in his or her approach to selling and provide better opportunity for successful selling.

## **Avoid A Retirement Crisis**

At some stage every business owner must sell or pass on - transition from - their business. Many 'transitioners' have predicated their post exit plans on having a nice nest egg from the sale of their business. But here's the hurt – it is estimated that as many as 40 per cent of baby boomer owners plan to leave within the next five years. That means we may see a glut of small businesses for sale making it increasingly difficult for SME owners to sell their business at the price they had been counting on.

The fact is, 'hoping' is not a strategy. Hoping won't create value in the business. A strategy involves actually being in control of your business, being aware and goal focused, and having a plan for an organised and profitable ending.

So what will it really take for a business owner to successfully extract themselves from their business? To leave under their own terms; when they want to; and get the price they need?

### **Strategically decide WHAT you want to have happen**

You can't develop a transition plan without having your end objectives in mind. You need to start by considering your endgame and making some specific decisions:

- How you would prefer to transition - sell, pass on to family, etc
- What you want to do after transition – specifically, so you can set a budget for it

- Just how much money you will need to leave with to make your post transition plans a reality – not just ‘as much as I can get’
- When you want to go – this determines how much time you have left to make things happen in the business

### **Plan HOW you are going to make it happen**

Strategies need to be assessed and specific plans developed for how they will happen. For instance, precisely how to structure the sale to a third party for top price after taxes; or just how you will transfer your business to family members, co-owners, or employees while paying the least possible taxes and receiving the greatest financial security.

The obvious option may not necessarily be the best. Structured withdrawals staggered over a number of years where the owner takes less than market price up front but remains under contract for some time to help out during changeover, maybe in a part time capacity, can add up to a bigger sum than simply taking the first cheque offered. That’s the value of planning things out.

### **Actually GET ON with making it happen**

Making it happen means taking each of the strategies in the plan and implementing what needs to be done to achieve it. Typically the major one will be to increase the value of the business. Can you imagine putting your home on the market without getting it ready? Not likely – you know it needs to look good and be in good repair to bring the best price. The equivalent with businesses is called grooming for sale. Grooming means looking at ways to improve the value of the business – developing a bigger market share for instance and improving productivity.

Secondly, the business needs to be in sale ready condition. At the time of sale the buyer will run a thorough due diligence check of your business records to satisfy themselves of the viability of the business and the validity of the claims you have made about it. You need up to date financial records and several years’ backup records that all make the business look good.

The third key factor is taking YOU out of the business. If most of the value of the business is predicated on your involvement – your own knowledge of processes, your own ways of doing things and so on - then it isn’t worth much without you. Instead, you have to be able to demonstrate that yours is a turnkey operation that the buyer can run as effectively as you. One way to do this is to have trained employees and systemised processes in place that allow the business to run without your constant oversight.

### **Transition planning can bring immediate benefits too**

Even if retirement seems a long way off and even though some things are going to change your ultimate goals as time goes by, the fact is that because transition planning revolves around taking steps to improve the value of your business there will usually be some immediate benefits from starting the process.

- More profit
- Higher efficiency
- Greater peace of mind
- Clearer focus

To develop a viable transition plan professional guidance is essential. The source of that support may be your accountant, lawyer or business advisor.

## Taking Control Of Profit

'Profit' is what's left over after you've paid all your expenses. The important thing to note is that profit is '*what's left over*'. PROFIT IS A RESIDUAL. It is a consequence of what happens in and to your business. Some of these things are within your control and some of them are outside your control. If you're going to have any effect on your profit, you have to focus on those things over which you have control.

As it turns out there are four specific factors that determine profit and over which you have some degree of control. These are:

1. The PRICE you charge for the products and/or services you sell.
2. The QUANTITY (or volume) of products or services you sell.
3. The costs you incur directly in producing or buying the products and services you sell. These are referred to as VARIABLE COSTS because they increase or decrease as your sales increase or decrease.
4. The costs you incur whether you make any sales or not. These are called FIXED COSTS because they don't change with changes in sales volume, at least not on a day-to-day basis.

Many business advisors offer a profit improvement potential analysis service that works by running 'what if' scenarios on the business' figures to demonstrate how significant improvements to profitability can come about from just small changes in these four factors.

These usually start from using your current figures as base and estimating what would happen with a small increase or decrease. In the table below let's assume the current figures are in the BASE column and make a 5% alteration to give the figure in the RESULT column.

In this example, a modest 5% improvement in each factor (without any consequential unfavourable impact on any of the other three) would more than double your profit from \$1,000 to \$2,190. This is a 119% improvement in profit and from only a 5% improvement in each of the factors that affect profit.

	BASE	CHANGE	RESULT
Price	\$100	5% increase	\$105
Sales Volume – units	100	5% increase	105
SALES	\$10,000		\$11,025
Less VARIABLE COSTS (\$60 each)	\$6,000	5% decrease (\$57 each)	\$5,985
Gross Profit	\$4,000		\$5,040
Less FIXED COSTS	\$3,000	5% decrease	\$2,850
NET PROFIT	\$1,000		\$2,190

It is evident that a relatively small % change in each of the four factors has a staggering effect on the resultant profit. And of course the reverse is also true. If you discount your price, allow

your sales volume to fall, fail to control your fixed costs and let your variable costs get away from you, even by small amounts, you can end by destroying a profitable business.

Obviously to make the increases happen you need to review your operations in the areas that affect the figures – cost cutting, process improvement, more active marketing and so on. But the results can be well worth the effort and cost of implementation.

## **Regular Pieces**

### **How To Make The Most Of Your Newsletter**

Be sure to read each article with the mindset 'How could this apply to our business.' Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member. To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We're here to help you get started.

### **Memorable Quotation**

*Wherever you see a successful business, someone once made a courageous decision.*

- Peter F. Drucker

### **An Important Message**

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