



Section 6: Phenomenal Administration Systems

Administration is tracking your numbers, the internal processes for running your office and making sure you have adequate insurance and legal protection.

Phenomenal Administration is having an abundance of data you need to make the best decisions in your when you need it. **Phenomenal Administration Systems** produce the data automatically and consistently.

Let's go back to your journey. The one and *only* reason your business exists is to be a *vehicle* to help you achieve your L.I.F.E. Goals. Your destination is living in freedom every day. Understanding that you are in exactly the place you are supposed to be. You are doing what you are called to do.

If you're on a journey, don't you need to know how you are tracking? You need mile markers. The GPS on an airplane tracks the miles flown and gives a chart that shows the route taken. Some commercial aircraft display the flight path and progress on the personal entertainment system. It shows you the route and along the way you can see how much time until landing. Regardless of the type of vehicle you have, you need an instrument panel. Do we have enough fuel to get to our destination? What's our altitude? What's our attitude? How much longer do we have to reach our next goal? Can you see that without stats, you're actually driving *blind*?

The Guessing Gauge

When I graduated high school I was a longhaired rebellious teenager. It was a miracle that I actually graduated. The moment the ceremony was over three of my friends and myself jumped into my old car to head to the beach to party for the weekend. I bought this jalopy with for \$250.00 with my paycheck from being a nighttime stocker at the grocery store. I had recently wrecked my good car and my mama and stepfather took it away. I decided to "show" them that I didn't need them, and bought this jalopy when I wasn't even of legal age.

This car was so bad that the missing muffler caused this awful white smoke to billow up into the backseat of the car, which meant you had to have the windows open even if it was raining. Otherwise you would die! It probably won't come as a surprise that the gasoline gauge didn't work either. So, I had to guess whether I had enough gas or not. And in those days we didn't fill up, we scraped up *change* when we needed gas! But here we're driving down one of those dark, lonely back roads of Alabama when we lost the "guessing gauge" game.

Two of us ended up walking for miles until a headlight appeared in the distance. As it got closer, we flagged the car down. The car was full, but they really wanted to help, and suggested that we prop up the trunk lid and sit in the trunk. Before you know it, we're on our way down the roads with our feet dangling out the back, watching the asphalt go by!

They dropped some folks off and took us to get gas.

Most small business owners don't have enough data to make the right decisions and don't really know how to produce it. Most are using a "guessing gauge" in their business, rather than operating by real stats. If you are one of those that isn't paying attention to your stats, my bet is that you'll be shocked to find that the numbers aren't as good as you "think" they are. That's the bad news.

About ten years ago, I was asking one of my coaching members about his profit margin. "I don't want to know" he said. He went on to say that as long as he had money in his business account, he was okay. "Don't you want to know how you are really doing?" I pressed. "No, because I might get depressed!" He exclaimed.

The good news is that when you truly know how you are tracking on your life and business journey, you can make the course corrections you need to make. Having the right feedback is key to making a profit in your business and working smarter rather than harder. Remember that the ONE and ONLY reason your business exists is to be a vehicle to help you achieve your LIFE GOALS! If you look at the Wheel Of Life, there is a Financial spoke on that wheel. That represents the amount of money you need to fulfill your life goals.

Now as Zig used to say, "money isn't the most important thing in life, but it *is* reasonably close to oxygen!" He goes on to say "sometimes you really need it!" The fact is that your business must make a profit. If you want to have a phenomenally successful business that is profitable, predictable and turnkey, you must address this area of your business. If you want to work less and make more, you've got to look at the finances of the business.

The point is if you don't know what your stats are, your driving blind! I never wanted to know anything about the numbers. I just wanted to take care of my clients. In fact, I didn't want to be a businessman. Imagine that? To me, a businessman was a boring, heartless person that only cared about money. I just wanted to provide phenomenal customer service and I figured by doing that, my business would do well.

Do you realize that you can do a \$2 million a year and spend \$2.2 million? It's not hard! I hated the numbers. And for the longest time, I used what I call "The Elvis Presley Accounting Method". Have you heard of it? It goes like this...

Elvis would buy a stranger a Mercedes and just spend money like there was no tomorrow. As Priscilla and his stepfather Vernon would get the bills back at Graceland, they were upset with Elvis. "How are we going to pay all these bills?" they demanded. "Don't worry about it, we can just get another gig!" was his response. And he could. He could just call Col. Tom Parker and do a million dollar deal on a table cloth.

I lived that way for a long time. I know how to market. I know how to bring in the money. I once bought an entire fleet of trucks at one time. In those days, the banks and would give you all the credit you wanted if you had cash flow. I got into big-time debt. Eventually it became about making all of the obligations. And that my friend, is NOT very phenomenal!

So, I decided to understand the financials. I studied my financials until I just about went snow blind! I got a handle on my numbers. And that was good. But to get it systematized, I knew I needed a team. I realized that handling the administrative part of the business was not my gift. Yes, I still read my reports on a regular basis (just like you keep an eye on your instrument panel if you are flying an airplane), but you don't have to do it all yourself.

I hired financial consultants and built a system for that part of my business. I put a team in charge and put the accountability pieces in place so I will know if anything is out of the ordinary. The people I have in that department love working with the numbers. I don't understand how that can be, but I am grateful for them because now our businesses are super profitable.

A Business without a Profit is Just a Hobby!

You may be like I was. You may love doing what you do. You may love serving your customers. You can be the best technical person in the world and be broke. You can be the best customer service person in the world and be broke. So, if you're gonna go broke, why not enjoy it? Sit on your back porch and have a glass of tea. Go to the beach. Instead of working 24/7 going broke, have some fun! Has it occurred to you that those customers, who don't want to pay your price, aren't going to care that you can't retire?

Healthy Profits Cure All Other Business Evils

What is a business "evil"? Taxes. Unpaid invoices that you have to write off. An employee steals from you. Damaged equipment or lost resources. Your former accountant didn't file your franchise tax properly and it cost you 35 grand. Sales didn't come in like you expected. You've got to have healthy profits to overcome these things. You can no longer just squeak by. The recent recession caught a lot of business owners in a precarious position. They had not positioned themselves well and were getting by on thin margins to start with.

Healthy Profits Can Make a Difference in the World

When you have healthy profits, and no "evils" come along, guess what? You have extra money to do all sorts of wonderful things! Of course you can use it for your business to pay off equipment, to take your business to the next level, or you could bless your staff with bonuses. You can give money to your favorite charity or to someone who is struggling. I believe this is one of the biggest blessings of being a phenomenally successful business owner. I paid the rent on a church in Costa Rica for many years. I have been able to faithfully give to my church.

Not too long ago a friend's wife was deported to Columbia. She was 17 when her parents brought her over here never got her paperwork properly done is now 30 with two wonderful kids. What was she to do? She has no one in Columbia. It cost somewhere in the neighborhood of \$25k to get her back legally. They didn't have that kind of money. But guess what? Myself and others were able to give thousands of dollars to get her back. You cannot imagine the joy I felt to witness the reunion with her two children after being separated for 8 months! What difference can you make in the world with healthy profits? Maybe go on a mission trip? Support someone who is going? The need is endless in this world.

Tracking Your Numbers, As Easy As 1-2-3!

There's an old saying that says, "anything measured improves". It's funny how the human mind works. When you have actual data in front of you, and you have a written goal, it's interesting to see how just that process alone can improve the numbers. Tracking and posting your numbers causes you to work hard on the strategies and systems to produce the result.

Here are the main things you want to track:

Total Sales - Have you set your sales goal? If not, your tracking won't mean as much to you. And by the way, when you track your sales numbers, post them some place you and your staff can see them every day. Even if you are a solo operator, post your sales goal and your tracking where you see it several times a day.

Our subconscious minds are designed to go to work on problems even when we aren't thinking about them consciously. When you plant your sales goal in your mind several times a day, it gets burned into your subconscious. Humans do what humans see. Whatever controls your subconscious mind is going to turn into action (even when you aren't consciously thinking about it). This explains why setting a goal, writing it down and focusing on it every day works. You are working toward that goal without realizing it. This is a strange truth, but it does work, so be sure to post all of your goals and visions, not just your sales goal.

If you have daily transactions in your business, you want to track and post your sales *daily*. In high volume cases, you may even want to track sales by the hour. My oldest brother owns a McDonald's in Magee, MS. and it is important for them to have an hourly pulse on the business because the labor decisions they make on an hourly basis determine whether they are profitable or not.

In my service company, we post our sales every day on a whiteboard so that our staff can see how we are doing. Each month we have a sales goal (which comes from our annual goal) and we post the daily sales and adjust our daily target based on the incoming data. This keeps the team focused on exactly what their goals are each day. Again, imagine you are on a long journey and you have determined that you need to travel a certain number of miles every day.

If you have a business that doesn't have daily transactions, then break it down in the smallest bites you can. For example if you are in construction for example, it's project driven, so you want to track how many projects you've done in a certain amount of time and what your average projects are.

If your business is driven by membership or monthly continuity (like fitness training, business coaching, etc.) then you want to track the number of new memberships, retention, attrition, etc. It's all about the monthly billing.

If your business is driven by events, you want to track each event. For example if you are a professional speaker, what is your average fee, how much product did you sell at each event, etc.

The idea here is that before we can set our sales goal, we've got to track how we are doing.

Upsells - As I shared in Phenomenal Sales Systems, the most profitable sale ever made is the upsell, and this is definitely something you want to track. Again, track them as often as they happen and post them where everyone can see them.

Sales by Category - Every business should have multiple products or services (also called profit centers) so that we have more to offer the customer. This makes the upsell possible and it gives us ways to grow. What products or services you should offer depend on a number of factors, and diversifying properly is a long, important discussion by itself, but for our purposes here, we need to know how much we are selling of each product and/or service.

For example, I have a member who is a tennis trainer in Australia. Most of her income is from doing tennis instructing in groups, but she has discovered she can make a lot of money selling tennis racquets, return nets, and even online training. And this is important because weather is a factor in her business since her groups are done outside.

Create a system where you can track each profit center individually. This can easily be done with industry specific software, Infusionsoft or even on QuickBooks. When you look at these reports, you'll see the categories you are strong in and those that aren't. Our natural inclination is to focus on the areas where there isn't much activity, but let me caution you that there may be a reason for that.

My friend Steve McKnight who is Australia's #1 real estate investment author says "make sure there are hungry fish before spending too much time fishing". Instead, maximize your primary service and focus on the growing trends first. Then you can diversify into other areas.

As you track those numbers you can then begin to think about the various ways to sell more in each of your categories.

Sales by Source - This is tracking where your clients, patients or members are coming from. Have they used your service before? Were they referred? Did they come from an advertising source? If so, which one and how much did it cost?

This is a very important area that is often overlooked. Even when it is tracked, it is usually done *wrong*.

The first step is to determine how much REPEAT business you have coming in each month. If your business thrives on repeat business, I hope you aren't making the "biggest marketing mistake of all" which is not marketing to past and existing clients. And if you are, I hope tracking these numbers will convince you that you need to take care of that.

This mistake warrants repeating...

I have often been coaching a small business owner and they say "I sent a mailer to my client base and didn't get a thing!". "Nothing?" I respond. "Nothing." they reply. "So, you are telling me that you did not have one single repeat customer the entire month?" I press. "Of course I did!" they retort. My next question is very soft and gentle...

"Did you know that your clients are so busy that they may not have even remembered getting your mailer, but the very fact that you mailed something to them reminded them to call you?"

Sure, you want to have a strong mailer with strong copy, but the fact is that people are busy and their mind is crowded with so much information, that when they get your mailer, they may not even read it. That does NOT mean that it didn't work. Because when they saw it, they planted in their mind "I need to call them". And one day for no apparent reason as they are driving down the road, it surfaced in their mind once again. And they took action. No, they didn't remember the offer. They may not have even remembered consciously getting the mailer. *But they CALLED!*

So, how will you know if your Client Base Marketing is working? By tracking over a period of time. Client Base Marketing should not be tracked the same way as advertising for new customers. Paid advertising for new customers is kind of like day trading. In day trading, you buy stocks that you want to give you an instant return. It's risky. Sometimes you win; sometimes you lose.

Client Base Marketing is like a savings plan. You continue to invest a little bit every month and the value continues to grow. Over a long period of time it gets huge. I mentioned in Phenomenal Marketing Systems that the first time I realized this in my own business and increased my mailers from 4 to 12 per year in that business, that we saw a trackable increase of over \$200k. My cost was around \$21,000.00. That was 1999. Today, that same business does almost \$3M per year and our repeat business is 65% of the total sales. Translation? Almost TWO MILLION dollars a year in REPEAT business! Can I afford to invest in marketing to past clients? I can't afford *not* to!

So, put a process in place to track ALL Repeat business, not just the offer. Not just the campaign.

Step 2 is to track your REFERRALS. How much business is coming in from referral sources? Who is referring us? How much did we do in referrals from our clients?

And finally, step 3 is to track NEW DIRECT business from paid advertising sources. For all paid advertising, you want to track the ROI dollar for dollar. For example, if I invest \$1,000.00 and get \$4,000.00 in new business from that source, I have a 4 to 1 return. When you understand your COGS (below) and you begin to understand your "client acquisition" cost, you can make better decisions in your business.

Are you overwhelmed yet? Relax. Remember that once you learn this stuff, it will be an easy process. You will have phenomenal software that will spit this stuff out for you. In fact, as I was writing this piece, I just popped over to my software to see how one of my campaigns was doing. I simply clicked on Orders for the date range and got instant feedback. When you are driving your car, how long does it take to see how much gas you have? Not long. Just a glance. That's because there is a system in place to report that to you.

And please answer this question for me... if you knew you could reach your ultimate life goals (your *ultimate* life goals), would it be worth figuring this out? If not, you won't do it.

Average Order - Whether you sell a product or a service, what is the average amount of each transaction? We have a coaching member in remodeling. If her income is \$500k per year and she does 100 projects per year, her average order (project) is \$5,000.00. What if she raised or lowered her prices? See pricing section below.

Sales Closing Rates - Another valuable stat is tracking leads and prospect activity. Whether you do a traditional process where a prospect calls your company and you do a sales presentation, or you have an online business where you are generating leads, you want to track this activity.

Perhaps you have prospects come to your store, you want to know how many customers came in and how many purchased. If you have a medical practice, how many clients came in and what did they buy? One of our coaching members is an Optometrist. They give the prescription for eyeglasses or contacts, but that does not mean the patient will buy them from his practice. It takes a specific strategy to make that happen consistently. With tracking, we know how many did and how many didn't. We can then begin to think about strategies to close more of those sales.

Now, let's go back to the remodeling company again. Let's say she does 200 proposals per year. If she did 100 projects, what was her closing rate? 50%. If she increases the closing rate to 60%, the result would be: $200 \text{ proposals} \times .60 = 120 \text{ projects} \times \$5,000.00 = \$600,000.00$ That's \$100k in additional revenue just by increasing the closing rate a little bit!

Average Production Rate - How much are you making per hour? How many man hours does it take to finish the project? How many products are you delivering per hour? If you can decrease the number of hours and keep the same revenue, you are making more per hour.

Returns or Re-Services - This is not only a financial cost, but there is a branding cost. This is something that needs to be closely monitored. It's hard not to get emotional about refunds or returns. Instead, put your thinking cap on and find out how to solve the problem. Are you attracting the right type of client? Is it a service issue, or is it the way the product is being presented? If the client isn't doing their part, try to figure out how you can help them get more value.

Recently, I got curious about my family tree and did the free trial on Ancestry.com. I found out some interesting things, but wasn't keen on keeping the subscription. That doesn't mean I don't think it's a valuable program. It just doesn't seem to be for me. Perhaps there are other services they could provide me with that I would want to subscribe to. But my guess is that the folks over at Ancestry.com aren't fretting over losing me as a customer. They have estimated how many people will stay with them and for how long. And they are *tracking* those stats to insure they hit them.

Don't let your emotion drive your business decisions. For example, don't dump your guarantee because you have one or two people take advantage of it. Instead, how many people are you closing because you *have* the guarantee? How much more can you charge because you *have* the guarantee? How many more referrals are you getting because you *have* the guarantee?

Your Income Statement - Your Profit and Loss Statement (also known as your income statement) tells whether you made money or not. There are only 5 numbers on any Income Statement whether it's the smallest business in the world or one of Warren Buffet's companies.

My goal for you is for you to be able to plan your future Income Statement on the back of a business card. Once you understand these 5 numbers, you can create the picture simply and easily as you will see in just a moment, but you must understand each of the five numbers first.

1. Income - All the revenue or sales you make less refunds.

2. COGS - Cost of Goods Sold, also known as Variable Expenses, are expenses that vary with the amount of income. This would typically include labor and materials. I find that many small business owners are missing this vital stat. The goal here is to determine the running percentage of your COGS.

3. Gross Profit - Gross Profit is the amount that is left over after subtracting the COGS from the Total Income. Also called the Contribution Margin as it is the amount that "contributes" to the overhead and profit.

4. Fixed Expense (also called Overhead) - These are your expenses that don't change drastically with swings in revenue. Sure, your advertising might change some, and you may have some things in Fixed Expense that vary depending on where your accountant has things listed on your Chart of Accounts, but basically it stays the same whether you do one dollar or a million in revenue.

5. Net Profit/Loss - This is the amount of money that is left over after all expenses. This is the amount that helps fund your life goals. Of course the amount listed here may or may not be the actual amount depending on depreciation, interest and the way that accounting is done. However, when you do what I call a 12-month "cash flow budget", you can predict how much taxable income you will likely have once you know your first four numbers.

No matter how many line items you have on your Income Statement, they are grouped in 5 categories:

Income

- **COGS** (Cost of Goods Sold or Variable Expense)

=**Gross Profit** (or Contribution Margin)

- **Fixed Expense** (or Overhead)

=**Net Profit/Loss**

Creating Your Phenomenal Financial Future

The thing I love about being a business owner is that I can decide in advance how much money I want to make personally, and based on cost, figure out how much income my business needs to bring in for me to make that amount of money. Of course this all is "Lord willing". And I can do it with these simple five numbers. Let's take a look.

Start with the amount of cash you want to get from your business (remember you have to share a bunch of that with our greedy, inept government so they can borrow a bunch more money from China! UGH!).

So, let's say you want to make \$100k.

Now, we must figure out how much our Fixed Expense is. Let's say it is \$50k for the year. That means our Gross Profit needs to be \$150k.

Here's the tricky part. We need to figure out what our COGS % is to create our Sales Goal (Total Income). The way you do that is track your labor and materials for as many periods as you can. Let's say that your COGS is 40%.

That means your Gross Profit will be 60% of the Total Income.

Now I can simply take my Gross Profit and divide it by .60 and that gives me my sales goal.

Here's our example:

\$100k Net

\$ 50k Fixed Expense

\$150k Gross Profit

When I multiply the GP by .60, I get \$250k. Which means I have to produce \$250k in Total Income to make \$100k net.

Here's the full picture:

\$250k Income
- \$100k COGS (40%)
=\$150k GP (60%)
- \$ 50k Fixed Expense
=\$100k Net Profit

So, now I know that I must figure out how to do \$250k in sales. That might mean I have to invest more in marketing, or increase my overhead which means I'll have to do more than \$250k. The idea here is to work backwards. To first figure out how much *you* need to make from that business first. Then, figure out the marketing strategies to bring that amount in and adjust the numbers as you plan those strategies.

Of course it never works out perfectly the first time, but anything measured improves and as you get to know your stats and trends, you can plan your financial future much better. Zig Ziglar said anything worth doing is worth doing poorly until you learn how to do it well.

The phenomenal news is this: When you get this working, you can *continue* to increase your bottom line number! As you get good at building a business - growing sales and building a team, you can make as much money as you want! You just have to build the vehicle that will take you there.

Creating a 12 Month Budget

The previous was a simple sketch of the process. Now, you want to create a 12 month budget. Forecast your income and expenses line by line for each month for the next 12 months. If you have QuickBooks, it's great to do it there because you can run an "Actual vs. Budget".

Caution: Due to interest, depreciation, accounts receivable, the accounting method you use, and other factors, this will not translate into actual cash, so consider creating a 12 month CASH FLOW budget. In this case, you will list the actual amounts you expect to come in and out during those times.

An income example is this. When we book a coaching client that will pay us over 24 months. We book in the entire amount as a sale in our CRM software, as the client has committed to the full amount. But we will budget the next 12 months income for what we actually receive. An expense example is an equipment payment. If you have financed equipment, the interest and depreciation will show up on your Income Statement, but it will not match the actual payment. The tricky part of all this is that you could be showing a profit and not have good cash flow. You can have great cash flow, but not be profitable. Eventually the cash flow runs out.

Accounts Payable - Be sure to always have a pulse on your monthly bills and be able to report your AP at any point. You could be showing a lot of cash, but your outgoing bills can wipe it out quickly.

Accounts Receivable - This is who owes you. Another big mistake is not have a process in place to bill your clients and to follow up on a regular basis to make sure you get paid. In fact, don't bill people unless you absolutely have to. Do a credit application and/or take a company credit card that you will bill if you don't receive payment within 30 days. If you are servicing residential clients, it's insane to bill them unless they are ultra wealthy and truly pay their bills with a check from the office.

A couple of years ago, I was doing an on-site consultation for a contractor. He had about \$400k in receivables in a business that was only doing about \$800k! I couldn't believe it. Upon investigating, I found that he wasn't sending the initial invoice until 90 days after the project. No *wonder* he had collection problems! He would get busy and didn't have a system to delegate to someone else.

At one of my conferences, I met with a couple on a break that had come to many of my meetings and I had become friendly with them, and they often opened up to me. The wife began to share how she was considering divorce because their business was struggling, and she felt it was his fault. She had always been responsible with her money and to go down with this ship was unacceptable to her.

I went out to consult with them and found that their biggest problem was not sales, but cash flow. They weren't collecting their money soon enough. The bottleneck was due to the project manager not completing and filing the final paperwork at the end of the project (the husband was in charge of that department).

I asked them this question "If you were collecting all of your money on time, would you have any financial issues in the company?" "No, we would be just

fine.", they both agreed. So, I set up a simple system that made it easier for them to complete and submit the file to the client. And the best part was the husband had to physically take each and every completed file to the wife's office (she did the books) and she had to give him a kiss every time! No file, no kiss. It was a cute and fun little solution, and it worked. At this writing, they are smiling and still happily married.

Isn't it funny how one single thing can affect the entire business and even our lives? Especially when it has to do with money. Most divorces triggered by money issues. The root cause is selfishness and irresponsibility, but the subject that gets the emotions going is usually financial.

Balance Sheet - Your balance sheet shows what you "own" and what you "owe". It tells the story of where you are and where you've been. It also reveals what your vehicle is actually worth. Your net worth is very important and it is increased by your PROFIT. Although this is not something you'll stress over weekly or monthly, you do need to become familiar with it and follow it over time to make sure it is accurate and that you are increasing the net worth of the business.

The Only 3 Ways to Increase Profits

1. Lower Overhead. If you have a large business, this may be an option for you. At one of my recent workshops, I was having lunch with the attendees. One of them was a guy that does business turnarounds. As he pulled up into the parking lot of this \$10M company, it was filled with brand new company vehicles. He knew immediately one of the reasons the company wasn't making profit. Of course overspending is a symptom of a deeper root issue.

I like having new equipment, but not at the expense of going broke. If you are emotionally tied to stuff or people that aren't helping you become profitable, you need to get serious about what happens to all of those people and all that stuff, if you keep losing money.

If you are a smaller business, you may actually need to increase your expenses. One of the things I routinely see in small business surveys is that small business owners don't invest in enough marketing.

2. Lower Variable Costs. If you have production staff, materials or product cost, this is the next area you can take a look at. Are you watching these areas? Are we being as efficient as we can? If not, you may want to add Phenomenal Leadership Systems (next chapter) to your list.

3. Increase Sales. This is my favorite way to increase profits. I opened the chapter on Phenomenal Marketing Systems with the only 3 ways to increase sales: Increase sales from existing clients (by upselling and marketing to your client base), increase the number of clients you get, and increase price.

This is a perfect time to talk about your price. If I didn't convince you that you could do it through marketing, perhaps I can convince you here.

How to Price Your Service for MAXIMUM Profit!

Once you have your reporting sorted out, you can then begin to see what happens if you raise or lower your price. Remember that your goal is to make a maximum amount of profit, so you can have enough time left over for family, friends, faith. You want freedom, and being profitable gives you the freedom to have options.

You may feel that your pricing is set by the market, or by your customers. You may feel that it is set by what your competitors do. When you understand how to *differentiate* your business from others and you finally understand that all of business is about relationships, and you begin to practice the proven principles of positioning yourself as the most desirable choice in your space, you can command higher prices.

The biggest consideration in pricing your services is your COST of doing business. Everything else is secondary. If you don't charge enough, you don't make the amount of profit you need to reach your life goals. Can you see how everything points back to that? The bottom line of your business funds your purpose in life. That's why your business exists. So, to price your service for maximum profit, you've got to understand your cost. Here's a simple formula to figure this out:

Step 1: Determine Your Average Order (see above)

Let's say it's \$250.00

Step 2: Determine How Many Orders. Let's say in a one-year period you had 1,000 orders (or jobs, patient visits, coaching sessions, etc.)

1,000 orders at \$250.00 = \$250k for the year.

Step 3: Determine Your COGS (Variable Expense) Percentage. Let's say it's 40%.

$\$250.00 \times .40 = \100.00 GP on each order.

Step 4: Determine Your Fixed Expense (Overhead). Let's say it's \$50k
So, here's your picture again:

\$250,000.00 Income
- \$100,000.00 COGS (40%)
=\$150,000.00 GP (60%)
- \$ 50,000.00 Fixed Expense
=\$100,000.00 Net Profit

Now, simply do these two exercises with Price and Volume. Price is your average order. Volume is the number of units.

Scenario One: Raise Price, Volume Stays the Same. Let's say you raise your price ten percent and don't lose any sales volume.

$\$250.00 \times .10 = \275.00 per order $\times 1,000$ orders = \$275k for the year. Now, here's your picture:

\$275k Income
- \$100k COGS (36%) (Amount stayed the same, but % went down!)
=\$175k GP (64%) Amount and % went up!)
- \$ 50k Fixed Expense
=\$125k Net Profit (The increase went straight to PROFIT!)

Is it possible not to lose any customers when you raise your price? You bet it is. In fact, you may gain more clients! I've seen cases where the price was so low that prospects didn't believe the value was there.

Scenario Two: Raise Price and Lose Sales Volume. How much sales volume could you lose? Let's say you raise your price 10%, but you lose 10% of your sales volume.

$\$275.00 \times 900$ orders = \$247,500.00

\$247,500.00 Income (Income down only \$2,500.00 but we are doing ten percent less work!)
- \$90,000.00 COGS (36.3%)
=\$157,500.00 GP (63.7%)
- \$ 50,000.00 Fixed Expense
=\$107,500.00 Net Profit

You made \$7,500.00 MORE by working LESS!!!

You can do these calculations many different ways to see how much sales volume you would have to lose for it to affect profit.

Special Note: Don't get boxed into thinking you have to raise prices across the board. There may be certain products or services you need to lower your price on. You could raise your price only on certain items. For example, I had a client who does high quality cleaning of expensive Oriental rugs, stone floors, and high-end carpets. One of the most time consuming parts of cleaning fine carpets in someone's home was cleaning the stairs. One year the only thing he raised his price on was stairs. The result is he made a LOT more money!

Operations Tracking

Tracking is not exclusive to the financial side of the business. Marketing, Sales and Expenses obviously has a direct impact on the numbers that can clearly be seen, but marketing and sales are supported and validated by service, which impacts the numbers in repeat and referral business.

The desired outcome of your Phenomenal Operations System is to exceed your client's expectation - to wow them - to make them feel special. So, how do you track that? Feedback from clients is the best way. Do you have a way of seeing what they see?

There may be many production stats to measure in your business (like production rates per hour as mentioned before), but here's a quick-list of things to track that will help you in your small business if you aren't already doing them.

Client Feedback Surveys - As discussed in the chapter Phenomenal Operations Systems, 90% of unsatisfied customers will never let you know because they don't want to create a conflict. They have been trained that few business owners care enough or really know how to handle a complaint; it is easier for them to just go somewhere else.

Having a way for them to give you feedback anonymously is vital. A simple way to accomplish this is a survey. It can be online or offline and that depends on what they are buying and how it is delivered. In my service company, we include a simple 60-second survey in our Thank You Letter Package that they can mail, fax,

or submit online. They do not have to put their name in, so they can avoid the fear of retaliation.

We offer the opportunity to put their name and a testimonial. We also ask for a signature for permission to use the testimonial. Fortunately, most of the feedback forms we get are positive, but every now and then there is some kind of communication break down and there is something they are disappointed with, and we respond immediately. In our seminars and conferences, we often do feedback forms. These forms help us to see what resonates with the audience and what doesn't.

If you aren't getting enough feedback, give a gift for the feedback. This is valuable information, so give them something. Many retail establishments and restaurants have a website link on their receipt, but if there isn't something compelling to make me take time out of my busy schedule to do it, I won't. It might be better to have a way of doing it on check out.

On-Time Tracking - How often are your staff members on time to work? How often do you deliver your product or service on time? If you aren't on time, you've already blown the "most phenomenal service experience". Having automatic reporting on these items can alert you to issues before they become epidemic.

Did you notice that I said "On-Time" tracking instead of "Late" Tracking? The reason is that you want to recognize the good that people are doing because individual recognition is the most powerful motivator for humans.

Imagine a clean, white piece of paper with a black dot in the middle of the page. What do you see? A black dot! What does your employee see? All the white space on the page that represents what they did right. The black dot represents what they did wrong. Okay, okay, I know there is probably more than one black dot on the page, but when you become a phenomenal leader and you install a Phenomenal Leadership System, you will understand how to positively influence your team.

"I Caught You" Cards - These are cards where team members or clients can recognize a team member for something specific. A fun thing to do in your team meetings is to read these and recognize those that are "written up" in a good way. I have noticed these cards at hotels as well. Track the number of positive comment cards you get on specific employees and reward them for it. Behavior rewarded is behavior repeated.

Tracking Leadership Results

John Maxwell says, "Everything rises and falls on leadership." Everything that you have tracked so far is a result of leadership in one-way or another. John also says, "The toughest person to lead is yourself", so even the results you are responsible for rise and fall on leadership. Speaking of Leadership... see the next section on Phenomenal Leadership Systems...

Be sure to listen to the Audio CDs and Go Deeper with Online Training in the Inner Circle...



Full Inner Circle Members Access In-Depth Tracking Systems Online...
Simply log onto www.HowardPartridgeInnerCircle.co