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## **Take steps to increase business profitability**

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You've established a successful business. Now, how do you take it to the next level of profitability? According to business financial advisor Paul Svendsen, there are four fundamental ways to increase your profits: winning new customers, keeping customers, increasing the average sale and improving your businesses processes. Svendsen is a Certified Public Accountant from Bend, Oregon, an area with a growing concentration of high-tech entrepreneurial ventures. He helps companies develop systems to measure effectiveness and increase sales.

### **Win new customers**

Every business works hard to win new customers, but some ways are more effective than others, Svendsen said. "People often buy based on differences they perceive among businesses," he said. "Educate people about what makes your product or service better than those of your competitors."

Another strategy is to measure advertising effectiveness. For example, run different ads and measure sales after each one, Svendsen said. List separate phone numbers or post office boxes to differentiate responses.

Eighty percent of sales are made after the fifth contact, Svendsen said, so follow up diligently on inquiries to capture new customers.

People who are referred to you are four times more likely to buy from you, he said. Establish host-style arrangements where you and a noncompeting business with similar customers do ongoing, joint promotions targeted to each other's client bases. "Not only do you access another target market immediately, but the other business is endorsing you to their customers, making them more likely to buy from you," he said.

### **Keep customers**

Studies show that acquiring new customers costs six times more than making more sales to existing customers, Svendsen said. "You pay through marketing and advertising to get that first sale, but every subsequent sale costs only the goods or the labor to complete the service, both of which are covered in the price," he said. "So for every sale you make to an existing customer, you keep more profits."

Sixty-eight percent of customers leave you for a competitor because of something called perceived indifference, he said. "You didn't appear to care whether they bought from you, and you didn't invite them to come back and buy again."

The solution is nurturing customer relationships. Svendsen recommends collecting customer demographic and purchasing information for a database. Use it to stay in touch by sending regular thank-you notes, advice and tips, vouchers and service reminder notices. Invite your best customers to participate in a customer/client advisory board where they give you feedback.

Answer the "what's in it for me" question with each customer contact. Manage the process by using a communication schedule that outlines the dates and methods you will use to contact your customers during the year.

### **Increase the average sale**

Increasing the average transaction amount can generate a big payoff over time. The average transaction is the total value of sales divided by the number of customers. If you sell \$400,000 worth of goods or services to your six biggest customers each year, the average sale is about \$66,667. If you increase the average sale by \$10,000, you get \$60,000 more in annual income, at higher margins because selling costs were already covered.

Svendsen recommends training all employees to cross-sell, where they suggest related products or services in addition to the customer's initial inquiry. "Upsell" inquirers from a lower cost item to the next step up. For example, have a "good," "better," and "best" tier of products, with the "better" being the one you want the majority of people to buy. Statistics show most people select the item in the middle. You can also package combinations of products and services, "bundling" them in a way that adds value for the customer.

### **Improve business processes**

Edward Deming, who redesigned the Japanese car industry, showed that only four percent of business mistakes were caused by human error, with the other 96 percent caused by lack of systems, Svendsen said. He recommends using systems and manuals to map out the tasks needed to serve customers and make a profit. Svendsen tells business clients to measure their current operational performance, delivery record and customer satisfaction, then establish performance standards to produce and deliver the product or service successfully and profitably.

Svendsen recommends asking yourself this question: "What is the one thing I could do in my business that seems impossible to do, but would completely transform my company forever?" Thinking in these terms can lead to new approaches that generate tremendous competitive advantages, he said.