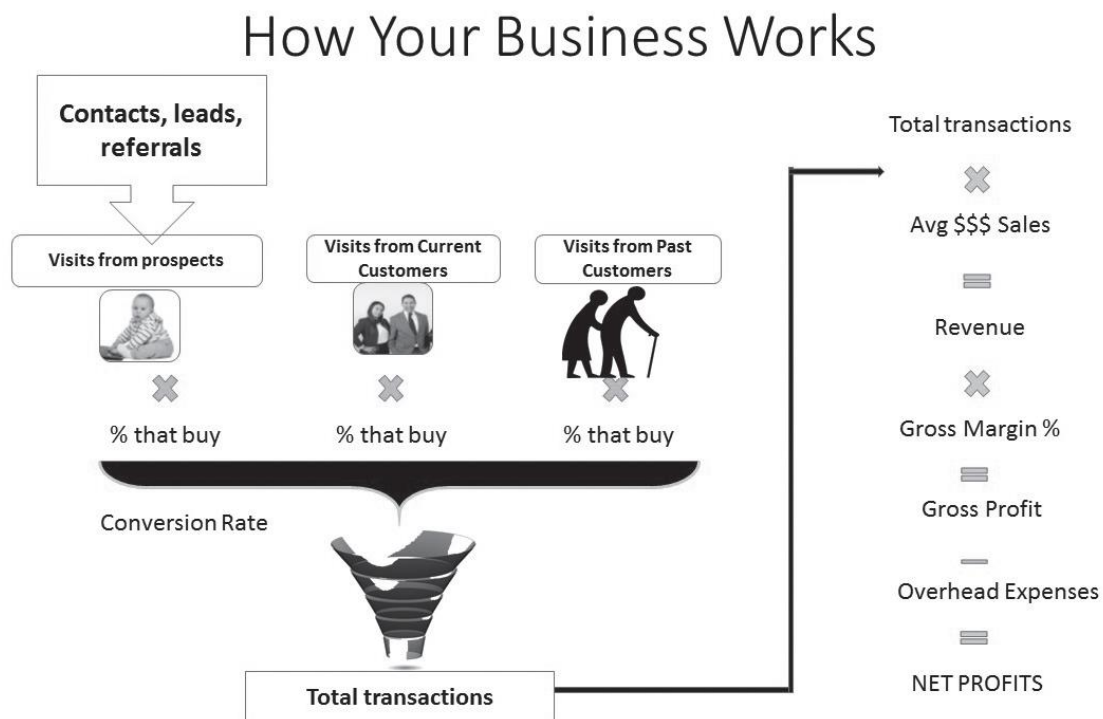




## How Your Business Works The Universal Business Model

It doesn't matter if you have a one-person consulting company or a Fortune 500 corporation, because the principals are the same. Businesses need customers who are willing to buy our product or service and, as the customers buy our products, we need to turn those customer purchases into profits (after paying our expenses). The total value of the profits depends, however, on what transpires in the business: from marketing strategies to management decisions. To make healthy profits, we need to understand how business works and make changes that maximize our return. The changes do not necessarily need to be substantial. However, focused strategies that improve our business in key areas will result in a substantial improvement to the bottom line. The following slide shows exactly how these different areas work in a typical business.





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### **Existing Customers**

Every business needs customers and all existing businesses have customers unless they are in their last days. We want to try to get our existing customers to buy more from us.

### **Potential or Prospective customers**

Every business also has prospective customers who they are trying to reach and get to become regular customers. We try to attract our prospect through our marketing programs.

### **Past Customers**

Every business has customers that have left them or past customers. The number one reason why customers leave us is because of poor customer service.

### **Conversion Rate**

The number of these customers, prospects and past customers that buy from us after having contact with us is called the conversion rate. We see conversion rates used frequently in online business measurement, as they try to “convert” the number of people that have come to the website into buyers.

**Total Transactions** is the number of buyers that we have converted from our three streams.... Current customers, prospective customers and past customers.

**We then multiply the total transactions by our Average Sale.**

### **Average Sale**

Our average sale is the monetary amount (dollar figure) that is determined by our total sales divided by the number of customers in that period. If we sold \$150 and had 10 customers our average sale would be \$15

**This gives us our Total Revenue.**

### **Gross Profit**

If we take our Total Revenue and multiply it by our Gross Margin percentage we get our Gross profit.

### **Gross Margin Percentage**

Our Gross Margin percentage is the difference between what it cost us to produce our good or service and what we sell it for. So if we sold something for



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\$150 and it cost us \$100 the gross profit is \$50. If we divide our gross profit by our total selling price 50/150 we find that we have a gross profit margin of 1/3 or 33%

### **Gross Profit – Overhead Expenses = Net Profit**

**Overhead Expenses** are all those things that we pay out to run our business. Its not the cost of the things we sell but all those other things. Our rent, utilities, advertising, insurance, labor costs, etc etc.

**Net Profit** is all the money that is left over after everything else and everybody else is paid. Typically this is the money that you as the owner of the company can use for other things like investments, savings or donations. This is the reason that you started the business so that you could have this money to live the lifestyle that you imagined.



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To Increase Your Profits you need to focus on each of these 7 Strategic areas

- 1) Increase the # Visits from Prospects
- 2) Increase the # Visits from Existing Customers
- 3) Increase the # of Visits From Past Customers
- 4) Improve the % of those who Buy: Conversion Rate
- 5) Increase the Average Dollar Sale
- 6) Increase Gross Margin Percentage
- 7) Decrease Fixed Costs

In the Profit Builder Program we focus on each of these areas in depth to help you really grow your profits. Incremental changes of only 10% in each area will result in more than 100% increase in your profitability.

Identify 3 areas based on the basic business formula above where you think you would like to focus on first. Write them down here.

1.

2.

3.