

Special Report:

A Study in Knowing Your Numbers

Knowing your numbers is one of the most important skills the owner of a paint contracting company should possess. Knowing your numbers allows you to make informed decisions, make reasonable projections, and manage the growth of your business.

Numbers tell us what happened, or what will happen (all things being equal). They are a powerful tool for analyzing past performance and projecting future performance. When we understand these numbers they reveal a very informative story—a story of cause and effect.

When we analyze historical data, we are looking at the effect—the results of our actions. When we know **what** happened we can begin to identify **why** it happened—the cause. If we want to continue those results we continue the actions. If we want different results, we take different actions.

Understanding the Numbers

In this report, I will show how knowing your numbers can help you make decisions. I will focus on the following marketing/ sales numbers:

- The source for each lead
- The number of jobs sold
- The amount of sales
- Your advertising costs

This information can help us analyze our marketing, and in turn make better use of our advertising dollars. It can help us identify weaknesses in our skill set and where improvements can be made. It can help us project the results of changes in certain parts of our business.

There are many ways to track the information. One of the easiest, particularly in terms of analyzing the data, is to construct a spreadsheet. A spreadsheet will allow you to track and analyze your monthly advertising and sales statistics, as well as run various scenarios regarding the numbers.

Knowing our numbers helps us see how one part of the business impacts another. It helps us understand that one action will have a ripple effect. More importantly, it helps us see what that effect will be.

Let's say you decide that you want to grow your business. You currently do \$200,000 a year and want to grow to \$500,000 in 3 years. That's an increase of \$100,000 per year.

For this illustration, we'll assume the following:

Your closing rate is 33%

Your average sale is \$3,000

Your average lead cost is \$100

This means that for each job sold you need 3 leads, which will cost you \$100 each in advertising. To increase your revenues by \$100,000 you will need to sell 33.3 more jobs, which means 100 more leads, which means \$10,000 more in advertising.

This gives you some pretty powerful information. You now know you need to beef up your advertising, and by how much. You can now develop a marketing plan with specific goals in mind, as well as benchmarks for measuring your progress. You can also look at different scenarios to determine which is the most feasible. Most significantly, rather than simply guess you can make a very informed projection.

For example, you might conclude that spending \$10,000 more on advertising isn't realistic, but \$5,000 is. You can then choose to improve the other numbers, or scale back your growth plans. In either case you can make informed deci-

sions.

Improving Lead Costs

Let's look at reducing the lead cost. What if you could cut the cost per lead in half? (The cost per lead is calculated by dividing the amount spent on advertising and marketing by the number of leads generated.) Using the numbers above, you would now need to spend only \$5,000 more per year to increase sales by \$100,000. Of course, the issue then becomes how to reduce the lead cost so dramatically.

The point here isn't how to reduce the cost per lead, but the impact it will have on the advertising budget. Obviously, cutting the cost per lead in half is a pretty big task and probably not realistic. But a reduction of 10% to 20% isn't so crazy. And when combined with other measures could significantly reduce the advertising budget.

A 10% reduction would drop the cost per lead to \$90 and the total increase in advertising to \$9,000. A 20% reduction would mean an increase of \$8,000. Again, you must then develop a plan to realize these reductions.

A few simple ways to reduce the cost per lead are customer retention and referral programs. Both can be relatively inexpensive and generally result in a higher closing rate. Both can also increase the closing rate, which will further reduce the number of leads required.

Improving the Average Sale

Now let's look at increasing the average sale and the impact that can have on your advertising budget. (The average sale is calculated by dividing total sales by the number of jobs sold.)

What if you could increase the average sale to \$3,300—a 10% increase? This would reduce the number of jobs you need to sell to 30.3, the number of additional leads to 91, and the advertising budget to \$9,090. That's a decrease of

almost 10% simply by increasing the average sale.

Increasing the average sale can have an impact throughout the business. Fewer jobs need to be sold (which can reduce scheduling and administrative issues), fewer leads are required, and the advertising budget might be reduced. Small improvements can have a widespread impact.

One way to increase your average sale is to increase your prices. Of course, this may have other repercussions and needs to be considered carefully. Another way to increase the average sale is to offer upgrades to more durable products.

Again, this isn't about how to increase the average sale. There are many ways to accomplish that. But when we understand the numbers and how they can impact our business, we can make more informed decisions. We can decide on the best course of action to accomplish our goals.

Improving the Closing Rate

Now we will look at increasing the closing rate and the impact that can have on your advertising budget. (The closing rate is calculated by dividing the number of jobs sold by the number of estimates given.)

A 10% increase in the closing rate would result in a closing rate of 36.3%. This would reduce the leads needed to 91.7 and reduce the ad budget to \$9,170. As in previous examples, a small improvement in one area can result in widespread improvements in the business.

There are numerous ways for improving the closing rate: learning and using better selling techniques, offering more value to the customer, or lowering prices. This last is not recommended as it will decrease the average sale and likely offset the higher closing rate.

One of the most effective means for increasing the closing rate is higher customer retention and more referrals. These can also help lower the cost per lead.

Again, an improvement in one area has a ripple effect.

Improving all Areas

Finally, let's look at how small improvements in each area discussed above can have a very significant impact.

Let's look at a 10% improvement in each area:

The closing rate rises to 36.3%

The average sale increases to \$3,300

The cost per lead drops to \$90.

Which means, you must sell 30.3 jobs, generate 83.5 leads, and spend \$7,512 in advertising. A 10% improvement in each area can reduce the advertising costs by nearly 25%!

Again, the point here isn't how to accomplish these improvements, but rather how to project the results. When we can project results we can determine the most appropriate course of action to take. We can determine what our goal should be, and how we can attain it. Or, we can simply state some goal and hope that somehow we will attain it.

Knowing our numbers gives us a very powerful tool in managing our business. Rather than guess as to what might happen, we can make reasonable predictions based on past experience. While the past is no guarantee of future results, it certainly gives us a sensible basis for making projections.

Improving any of your numbers takes more than a few entries in a spreadsheet. It requires that you identify what actions will lead to those improvements, and then implementation of those actions. "I wish" and "I hope" simply won't suffice.

The importance of knowing your numbers cannot be overstated. Numbers provide us with objective measurements of past performance, and a means for making realistic projections about future performance. Knowing our numbers, and using them to run our business, allows us to take a scientific approach.

It is certainly possible to run a successful small business without a comprehensive grasp of one's numbers. The fact that something is possible does not mean that it is efficient or wise.

Effectively understanding and using our numbers requires that we capture specific data. The greater the amount of that data the more accurate our numbers become. Small samplings can be very misleading due to aberrations. Numbers do fluctuate, sometimes significantly. Large samplings even out these fluctuations.

For example, a particular piece of marketing may not generate any leads one week and 5 leads the next. If we looked at each of these weeks independently we would draw vastly different conclusions.

It takes time to collect sufficient data. The sooner you begin collecting that data, the sooner you can make meaningful evaluations. It is also possible to reconstruct data by reviewing your records—this should not be done randomly, but in a systematic manner so that the sampling is accurate.

Developing a system for collecting data will make the process efficient and more useful. A simple written form can suffice. A simple spreadsheet can be used to compile and analyze the data. In other words, this does not need to be a complicated process.

If you do not have the necessary data, the time to start collecting it is now. The future will arrive. Your numbers will tell you how you got there. And they will help you determine where you want to go.

If you would like to learn more about developing systems and procedures for your business, visit <http://smallbizsystemz.com>

