

LACK OF BUSINESS ISN'T ALWAYS THE PROBLEM

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When you're just starting out in business, it's a safe bet that you need more clients. But what if you have been up and running for a while, and you're still not making as much money as you would like? You may be in the habit of thinking that attracting new clients is the answer, but this isn't always the case.

There are many reasons why a professional services business might not be earning enough, but they typically fall into four categories: not enough revenue, not enough profit, not enough customers, or not enough time.

Start by looking at your gross revenue -- the total amount your customers pay you over the course of a year. How does it compare to others in the same line of business? Ask some trusted colleagues or check with your professional association for any statistics they may have.

What percentages of your gross revenue remains after you cover cost of sales? This is your gross profit. As a service business, you may have no cost of sales. If, however, you are selling books, tapes or software, or accepting credit cards, your inventory cost and credit card fees need to be deducted from your earnings before making other calculations.

Now deduct your business expenses from your gross profit. What percentage of gross profit remains? Is this a typical percentage for your industry? If you can't gather comparable data from colleagues, your professional association, or a published source like Dun & Bradstreet's "Industry Norms & Key Business Ratios," compare your profit margin (net income divided by gross profit) to a desired goal of 70%.

LOW REVENUE

If your gross revenue seems low for your industry, your profit margin is at least 70%, and you have about as many customers as you can comfortably serve, concentrate on increasing your revenue, rather than trying to improve your profit margin or bring in new customers.

Consider raising your rates, which may mean finding a market that is willing to pay more. Look for customers who will give you higher dollar volume contracts or place larger orders. Think about hiring more administrative help, which would free up more of your time to charge out at professional rates. You should also work to increase your passive income by selling products created by you or others, reselling some of your existing work, or licensing a process you have developed.

LOW PROFITS

If you are spending more than 30% of your gross profit on overhead and marketing, work on improving your profits. Look for ways to cut expenses by reducing your overhead, or focusing on your most profitable line of business.

In addition, if more than 15% of your gross profit is spent on marketing alone (assuming you

are not a start-up business), consider cutting back on advertising or mailings, and using more referral-based marketing strategies. Seek out customers who will give you repeat business or long-term contracts.

TOO FEW CUSTOMERS

Low revenue combined with not enough billable work to keep you busy means you really don't have enough customers. If you don't have a marketing plan, it's time to create one. Focus your plan on the most attractive service you have to offer and the most lucrative market, rather than diffusing your energy by marketing several different service lines to more than one type of customer.

If you already have a marketing plan, but it's not paying off, you may need to break into a new market, look for a more appealing way to package your services, or form an alliance with someone who can send a steady stream of business your way.

TOO LITTLE TIME

It's possible that you simply don't have enough time to earn more money. When you are consistently spending over 25 hours per week serving clients, with more potential customers in the pipeline than you can realistically serve, it's time to hire an employee or bring in a junior partner. If you're not ready to take that step, think about subcontracting work to a trusted associate, and keeping a percentage of their billings.

In reading the suggestions above, you may have discovered that you don't have enough information to diagnose your earnings problem. There are six statistics every service business owner should know: revenue, expenses, profit margin, number of customers, average sale amount, and billable time. If you don't have the answers, start tracking these measurements today.

A. Answer the following questions in detail:

1. What is the difference between gross profit and net profit?
2. What do you have to consider if you think of increasing your prices?
3. What is meant by "passive income"?
4. What do you have to focus on as far as the marketing is concerned?
5. What is the difference between the revenue and the profit?

B. Find the synonyms of the following words or word combinations in the text:

1. colleague/employee
2. to bring profit
3. profitable
4. partnership
5. new company

6. fixed costs
7. to increase prices
8. business sector
9. to reduce costs
10. money you get from selling your products

C. Explain the following expressions from the text:

1. billable work
2. more potential customers in the pipeline
3. a safe bet
4. a steady stream of business
5. referral-based marketing strategies