

How do You Spell Success?

Many business owners make the mistake of using the wrong measure to determine success.

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Your Profitability Pulse

Many Small Business owners “keep score” with gross revenue – the top line number that tallies the total business volume sold in a period. But those that only focus on the top line and ignore how much is left over after the bills are paid find themselves on a “business development treadmill” – always chasing new business in order to make the money necessary to take care of the business

they already have.

If this sounds like you, you need to check your Profitability Pulse. I’m going to ask you several questions and if you answer “Yes” to less than five, you need to adjust your focus to more on profitability and less on gross revenue. How to do that? Simply change what you are measuring... and the keys are in the questions. Here we go:

Yes	No	
☐	☐	I know what percentage of profit my business earned last year and I have set a profitability goal for this year.
☐	☐	I have established a minimum acceptable profitability quotient (net revenue divided by gross revenue = percentage of profit or “profitability quotient”)
☐	☐	When I prepare a new bid or price a new product, I calculate the cost of development (including advertising), cost of the sales process (commissions and employee support cost), cost of delivery (materials and supplies, employees or contractors) and cost of after sales service (all

		material and labor to keep the customer happy) to determine net profitability.
☐	☐	I have determined my “hourly value” and include that figure – along with other hard and soft costs – to determine my pricing.(You hourly value is the total amount of money you want to pay yourself in a year divided by the total hours that you work in a year. That equals the \$/hour that is your hourly value)
☐	☐	When I have business that “loses money” I at least cover my hard costs (costs of materials and supplies) and have pre determined that business activity as an investment for future, more profitable business.
☐	☐	My employees, contractors and vendors receive increases in compensation on the basis of how profitable my business is as a whole rather than tenure or how long they have showed up to work.
☐	☐	I treat my own compensation the same as I do for employees or contractors in that I only adjust upward when my company net profit goes up.
☐	☐	I routinely “purge” non-profit customers/clients from my revenue base in order to make room for profitable customers/clients.

Now a word of caution for sole practitioners in a service business – like a consultant, massage therapist, tarot card reader, attorney or garage mechanic – all of the business factors mentioned above ***still*** apply to you... think about it carefully.

So regardless of what business you are in, the only dollar number that really matters is the one that is left after everything is paid and that number should be getting bigger over time... otherwise you simply have a job, not a business.

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