

# E-Class #02: How to Live and Breathe the Five-Part Formula

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**Checkpoint:**At the beginning of every E-Class, there is a "Checkpoint" for you to track your progress with. This might include tasks or worksheets to have completed, skills to have learned, or strategies to have implemented.

Checkpoint:

- You've created a strong, clear business vision that is realistic and achievable.
- You've posted your vision in a place where you and your staff will be able to see it on a daily basis.

You're going to achieve your vision (and your dreams!) by adopting the five-step process into all areas of your business.

It's one thing to try a new marketing strategy, but it's another to change your approach altogether. It's just like dieting. Sure, if you cut 20% of your calories for two weeks you're going to see some results. But, the minute you go back to your old patterns, the results quickly disappear.

Temporary changes generate temporary results. Sustainable results require changes in behavior; the removal of old habits and creation of new ones.

All of the advanced marketing strategies that you'll learn in our E-System will contribute to one of the five steps. By the end, you'll have worked through all areas of your business and optimized them for success (remember, a 10% increase in the 5 areas can lead you towards doubling your profits (not revenues!).

In this E-Class we will cover:

- How the five-step process will impact all areas of your business
- How to get used to working with the five-part formula
- A review of the five steps
- How to set yourself up for success with the program

**The five-step process is a way of doing business. It's not a temporary strategy, and it won't generate temporary results.**

The five-part formula is so effective because it touches on each and every area of your business. It will improve and increase and generate and sharpen and strengthen everything that you and your employees do.

Once you complete a step, you'll never go back to your old way of doing things again. This is a program for positive change and powerful results. The change is long lasting and the results are far reaching.

Choosing to begin the five-step process will have an impact on every area of your business:

<b>Lead</b>	<b>Conversion</b>	<b>Number of</b>	<b>Average Sale</b>	<b>Profit Margins</b>
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Generation	Rates	Transactions	Value	
Any strategy you use to get people to call or walk through the door.	Any strategy you use to get people to BUY from you.	Any strategy you use to get existing customers to buy from you more often, or stay loyal to your business.	Any strategy you use to get customers to spend more money in a single transaction.	Any strategy you use to maximize the percentage of the cost of each product/service that is profit.
Advertising Promotions Press Releases Listings Website Online marketing	Sales process Sales staff Sales scripts Point of sale Image Merchandising Staff scheduling Staff happiness Staff training and development	Customer service Customer loyalty program	Point of sale Impulse items Sales process Sales scripts Stock Stock availability Exclusivity of products/services	Product or service costs Expenses Rent / lease Business supplies Pricing strategy Salaries

**Let's get used to working with the basic formula that the five-step process is based on. You'll want to post this formula somewhere visible, where you can see it on a regular basis.**

# of Leads
X
% Conversion Rate
=
# of Customers
X
# of Transactions
X
Average Dollar Sale
=
Revenue

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X
% Margin
=
£ Profit

As you can see, each of the shaded lines is a factor that influences the bottom line - your profit. Each of the shaded lines is a step in the five-step process. You will work on each line sequentially, and the impact on your profit will build over time.

**A nominal 10% increase in each of the five factors would look like this:**

Starting Point		Goals (10% Increase)	
Leads	4,500	Leads	4,950
Conversion Rate	30%	Conversion Rate	33%
Customers	1350	Customers	1633.5
Transactions	1.3	Transactions	1.43
Average Sale Value	£140	Average Sale Value	£154
Revenue	£245,700	Revenue	£359,729.37
Margins	24%	Margins	26.4%
Profit	£58,968	Profit	£94,968.55

Here are a few blank charts for you to use to see how a 10%, 20% and 50% increase in each of the factors will impact your profit.

Create the chart below on your pad of paper (use the same pad as last week ideally - the process of writing this down will give you a 400% better retention rate). Use the left side of the chart to fill in your existing numbers. If you don't know, take a guess. The point here is to understand how little increases will have big impacts on your bottom line profits. We'll show you how to start tracking your results at the beginning of each step in the program.

Starting Point		Goals (10% Increase)	
No. of Leads	(#)	No. of Leads	
Conversion Rate	(%)	Conversion Rate	
Customers	(#)	Customers	

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Transactions	(#)	Transactions	
Average Sale Value	(£)	Average Sale Value	
Revenue	(£)	Revenue	
Margins	(%)	Margins	
Profit	(£)	Profit	

Starting Point		Goals (20% Increase)	
No. of Leads	(#)	No. of Leads	
Conversion Rate	(%)	Conversion Rate	
Customers	(#)	Customers	
Transactions	(#)	Transactions	
Average Sale Value	(£)	Average Sale Value	
Revenue	(£)	Revenue	
Margins	(%)	Margins	
Profit	(£)	Profit	

Starting Point		Goals (30% Increase)	
No. of Leads	(#)	No. of Leads	
Conversion Rate	(%)	Conversion Rate	
Customers	(#)	Customers	
Transactions	(#)	Transactions	
Average Sale Value	(£)	Average Sale Value	
Revenue	(£)	Revenue	
Margins	(%)	Margins	
Profit	(£)	Profit	

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## **Step One / Lead Generation: How can you get more people to walk through your door, pick up the phone, and/or visit your website?**

Your leads are your prospects or potential customers. They are people who have taken action in response to your ad or promotion, and have shown interest in your product or service, but have not become a customer because they haven't purchased yet.

Lead generation is important because you can't increase the number of customers you have. This is because customers are the by-product of two things:

### **# LEADS X % CONVERSION RATE = # of Customers**

This means that you have to generate more leads and get more of those leads to make purchases in order to increase your customer base. Note; this is a very important step because your 'cost of client acquisition' (price you pay to acquire a new client) is the most expensive function of your business.

Yours, ours and every business on the planet btw...

So lead generation is about finding ways to reach the people who need or want what you have to offer and getting them to act - to pick up the phone, visit your website or walk into your business. This is what the majority of marketing strategies are trying to do.

- advertising
- business listings
- direct mail
- promotions
- press releases
- flyers
- referral partnerships
- publicity
- coupons

## **Step Two / Conversion Rate: How can you get the people who walk through your door, pick up the phone, and visit your website to BUY something?**

Conversions are the second factor in the customer equation. A conversion rate is simply our leads divided by our number of transactions in a specific time period.

### **# TRANSACTIONS / # LEADS = % Conversion Rate**

This is a key focus of your business and your staff's time. After all, why spend time and money attracting tons of qualified leads if you can't make them buy when they're in the store? We call this "confusing being busy... with being successful!" Don't let it happen to you.

Several aspects of your organisation impact your conversion rate:

- Your business image and the first impression customers have of you/your business
- The strength and effectiveness of your sales team
- Your sales process and staff training and development programs
- The strength of your sales scripts (Do you want fries with that?)
- The level of purchase risk involved in your product or service

## **Step Three / Transactions: How can you get your customers to buy from you MORE than ONCE?**

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The process of attracting and converting a customer is one that costs you money. Customers cost you money. They're an investment that you need to make the most of to stretch your lead generation dollars.

You can reduce the cost of your customer by increasing the number of times that they purchase from you. This increases the total number of transactions in your business and the amount of money that flows in.

So instead of continuously chasing down leads and converting them to customers, increasing transactions is about keeping our existing customers loyal and coming back to spend money.

<ul style="list-style-type: none"><li>• exceptional customer service</li><li>• customer loyalty programs</li><li>• incentives</li><li>• newsletters</li></ul>	<ul style="list-style-type: none"><li>• convenience services</li><li>• bonus amenities</li><li>• referrals</li></ul>
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### **Step Four / Average Sale: How can you get your customers to buy MORE from you each time they buy?**

Your total revenue is the product of how many customers you have, how many times they purchase from you, and how much they spend.

#### **# CUSTOMERS X # TRANSACTIONS X £ AVERAGE SALE = £ Revenue**

Increasing the average amount of money customers spend with you is the final way you can increase the amount of money that comes into your business. It's amazing how small increases in this value can have big impacts on your revenue. If I were to come into your business tomorrow and you IMMEDIATELY needed to increase profits - this is the first place I would look and the easiest area to make a large improvement in your profits.

You'll have to show your customer that they needed or want more than what they purchased. The amount that you are able to increase will depend on the type of business you are in - it's easier to sell gel pens than an additional dishwasher - but generally every business can find opportunities to increase this figure.

<ul style="list-style-type: none"><li>• The strength of your sales team</li><li>• Merchandising at your point of sale</li><li>• Add-on items</li><li>• Cross-selling</li><li>• Usage of impulse items</li></ul>	<ul style="list-style-type: none"><li>• The strength of your sales scripts</li><li>• Upselling</li><li>• Opportunities for packaging and widgets</li><li>• Staff training, development and incentives</li></ul>
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### **Step Five / Margins: How can you make more profit off each product and service you sell?**

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The last opportunity you have to influence your profit is your profit margin. Your total revenue times your margin as a percentage equals your total profit.

**£ REVENUE X % PROFIT MARGIN = £ Profit**

Essentially, your goal here is to make your profit margin as high as possible. As the final factor in the profit calculation, increasing your margin is a vital step towards maximizing your profits.

If your margins are too low, you'll never make any money - regardless of how many customers you have, how often they buy from you, or how much they spend. Your revenue will perpetually go back into your business and be spent on costs.

There are three ways to maximize your margins:

1. Increase prices
2. Cut operating and product/service costs (operating costs include rent, leases, salaries, commissions, and office supplies)
3. Increase gross profit margins (gross profit is revenues minus labor, materials and overhead related to the product/service)

Alarmingly, many business owners do not genuinely know their weekly/monthly/annual profit - you need to go into the business of generating a profit (this will be a paradigm shift for many - it is not about greed, it is about looking after those you care about. The more money you make, the more you can provide for your family, charity, your church etc...) and work towards increasing that profit each and every day, week, month and year.

**Now that you have a good grasp on how the five-step formula works, and an idea of the marketing strategies you'll learn to work with, take a few moments and set yourself up for success.**

1. Schedule time in your week to work through the E-Classes.

You'll receive an E-Class each week, and each will take approximately thirty minutes to three hours to complete, depending on the strategy or implementation requirements. Identify two timeslots in your weekly schedule that you can set aside for this task - **it's important!** This will keep you from putting the E-Classes off for later, and delaying the positive changes to your revenue stream. But remember that if you fall behind by a few E-Classes, don't worry. The program is designed to work at your own pace, with your own schedule.

2. Post reminders of your vision, goals and targets in visible places.

Keep yourself focused and on track by surrounding yourself with the positive changes you have already made, and will continue to make. Post your business vision, personal and business goals and targets in your office and staff rooms.

3. Include your staff in the process.

Your employees are a powerful resource in your business - they ultimately are the people that you will need to trust and empower to run the business without your own day-to-day involvement. They are the people that your customers come in contact with on a regular basis, and represent your business image, brand and message.

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Let them in on what you're doing, and educate them on the five-part formula. Show them how their actions, input and skills contribute to the operations and profitability of the business.

4. Start paying attention to your current numbers and tracking systems.

Now that you have an idea of what factors and figures you'll be working to increase, start paying attention to what those numbers look like now. If you have tracking systems in place, run some reports and get an understanding of your current situation. Think about these questions:

- where do your customers come from?
- what marketing campaigns work the best?
- what lead generation strategies work the best?
- how many of your customers buy from you?
- how often do they buy from you?
- how much do they buy from you?
- what do your existing profit margins look like?
- what percentage of your items are high margin, and which are low?

**Now that you have an idea of where your business is going, let's start mapping out how you're going to get there.**

The next two E-Classes are about setting SMART goals and retraining the way you think about yourself and your ability to achieve what you deserve. There's lots of important work to do!

Congrats for tuning in,