How to Boost Your Return on Sales in 8 Steps

We often hear that it’s more valuable to your bottom line to cut a dollar in costs than to get a dollar in new sales, and that’s usually true, to a point. But that philosophy overlooks the challenge for the entrepreneur who’s running a growing company.

The CEO of such a company is trying to build momentum, add capacity and build infrastructure. For that company, it may very well be easier to add sales than to cut costs. It may make much more sense to focus on sales and growth strategy.

For entrepreneurs of growing companies, building a presence in the marketplace and getting sales are all important; and the next most important thing is keeping as much of the proceeds from those sales as possible after all the costs are paid. Return on Sales ("ROS") is one way to measure that.

It’s the simple measure of how much of each dollar sales the company is keeping, bottom line. The calculation is:

\[ \text{ROS} = \left( \frac{\text{Gross Sales}}{\text{Sales}} \right) \times \left( \frac{\text{Contribution Margin}}{\text{Price}} \right) \]

1. How do we best take advantage of the fact that sales from existing customers are typically more profitable than sales from new customers? We should pamper them, give them extras without being asked, offer specials not available to others (e.g., the “private sale”) and generally let them know we appreciate their business. A highly profitable customer warrants some extra attention, while a marginal or losing customer does not. We must know the Contribution Margin of what we sell, and of each account we sell to. Then we must make the choice to drop the bottom 10% of our customers that don’t bring enough profit. Even startups must keep this in mind—a losing customer will probably NEVER improve your bottom line, no matter how much they buy.

2. How do we deal with customers that demand a lot of service and insist on discount pricing for what they buy? We need to approach each customer business by business. A highly profitable customer may ask for more service, but a losing customer will probably never improve your bottom line, no matter how much they buy.

3. How do we make sure our sales and marketing intentions don’t fall victim to the frantic pace of our business day? With all the day-to-day challenges to our focus, we need to keep organized and maintain our marketing plans and strategies. That means a sales and marketing plan that is well thought out, adapted, and then implemented, with the targets monitored routinely and plans adjusted as needed. Sales and marketing, perhaps more than any other segment of the company, are at risk of letting the pace of the race distract from the location of the finish line.

4. How can we raise our prices on our cost increases without having our customers think we’re taking advantage of them? Entrepreneurial CEOs resist raising prices. An offer of anger to the customer is a no-no. A highly profitable customer warrants some extra attention, while a marginal or losing customer does not. We must know the Contribution Margin of what we sell, and of each account we sell to. Then we must make the choice to drop the bottom 10% of our customers that don’t bring enough profit. Even startups must keep this in mind—a losing customer will probably NEVER improve your bottom line, no matter how much they buy.

5. How can we handle our own sales staff’s resistance to price increases? Salespeople hate price increases because they think it makes it harder to sell. If they’re selling price increase, but if they’re selling price, it should be a non-issue. If it’s an issue in your company, the options are improved sales training, upgraded sales management, or induced turnover in sales staff. Simply demanding more without providing the tools the salesperson needs is just another way to fail down the road. Make your sales force your advocates for a more profitable company, not simply a bigger margin on the same sales.

6. How can a simple thing like a warranty boost sales without costing a lot of money? If you’re familiar with your product’s performance, you will know what replacing it might cost. And every warranty replacement builds customer loyalty that you can’t buy. (The warranty cost might be $50, $100, or $150, but if it gets fixed than those who never had a problem will be significantly more satisfied than those who never had a problem.) This can be part of the price increase rationale. You can even offer an enhanced warranty – quick turnaround, no questions asked, replace or repair, etc. – if you know how often you are likely to have to honor it.

7. What’s the best way to improve the effectiveness of a B2B outreach campaign? So many small businesses do social media or direct mail and then wait for the phone to ring. In reality, they should be ringing it. Any outreach campaign, whether US mail, email, or social media, must be followed up by a direct contact. Stagger your outreach to ensure your staff to reach out to the same target each day. Or each week. Or each month. The only way you can’t figure out how to get contact information from those you’ve reached via social media, find a new social media supportperson.

8. How can our sales compensation plans do more to enhance our sales results? We are often bedazzled (why, that’s a technical term) by how many companies pay their sales people a fixed salary, or a fixed percentage on every sale. They pay salespeople a percentage on every sale, because they think it makes it easier to sell. If they’re selling price increase, but if they’re selling price, it should be a non-issue. If it’s an issue in your company, the options are improved sales training, upgraded sales management, or induced turnover in sales staff. Simply demanding more without providing the tools the salesperson needs is just another way to fail down the road. Make your sales force your advocates for a more profitable company, not simply a bigger margin on the same sales.

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