Gene Siciliano

YOUR CFO FOR RENT®
For a few weeks, a few months, or a few years

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; *and* it might make more sense for their business 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 for. Return on Sales ("ROS") is one way to measure that.

It's the simple measure of how much of each sales dollar the company is keeping, bottom line. The calculation is: <u>*Net Income Before Income Taxes*</u> *divided by* <u>*Gross Sales*</u>.

Here are some questions you should ask about your ROS and the answers that will help clear things up.

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 value them. At the same time, keep in mind the profit margin issue discussed below, and *make sure these are truly profitable customers.*

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 know what each customer brings to us in terms of profit and service cost. 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*.

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 be organized and disciplined around our marketing programs. That means a sales and marketing plan that is well thought out, adopted, and then implemented, with the results 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 to pass on our cost increases without having our customers think we're taking advantage of them?*** Entrepreneurial CEOs resist raising prices for fear of angering customers – OK, virtually all CEOs experience this. Yet when asked what their customers value most about their products, few say low price. The trick is to give them more of what they value, remind them of it, as you raise prices to cover your own cost increases in providing the things they value. *ROS is best improved by choosing those things that your customers value, and will pay a bit more for, but that will not cost you as much to provide.*

5. ***How can we handle our own sales staff's resistance to price increases?*** Sales people hate price increases more than customers, because they think it makes it harder to sell. If they're selling price it does, but if they're selling value, 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 and resources is just another way to fail down the road. *Make your sales force your advocates for a more profitable company*, not simply a bigger one.

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. (*Studies show greater customer loyalty from those whose problem got fixed 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 outflow to enable your staff to reach out to everyone on the list. Or everyone on the A-list. And if you can't figure out how to get contact information from those you've reached via social media, find a new social media support person.

8. ***How can our sales compensation plans do more to enhance our sales results?*** We are often bedazzled (yeah, that's a technical term) by how many companies pay their sales people a fixed salary, or a fixed percentage on every sale, new or re-order. One client even paid his sole salesperson for every sale the company made, even when that salesperson had no hand in making the sale. The reason often presented is the difficulty of calculating more complex commission plans. Another way of saying that: *we are willing to accept lower sales to make the work of our accounting department easier*. Doesn't look so smart when presented that way, does it?

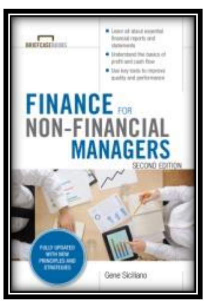
If you want help implementing these answers in your business, if you want someone from "out-of-town" to blame it on, if you just want to lay out a plan of action, or if you want someone to do it for you, call us. We can do that.

[Contact me](#) for more information.

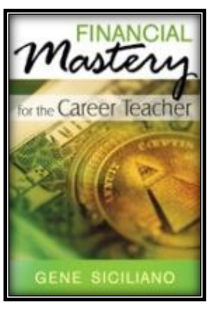
Gene

Gene Siciliano, ***Your CFO for Rent®***

Finance for Non-financial Managers, 2nd Edition, McGraw-Hill 2014, covers 14 key topics in the increasingly demanding world of business finance. This new and significantly expanded revision includes a wealth of new material, following on the heels of the best selling original. Because managers can no longer afford to be non-financial.



Gene brings his extensive financial management acumen and plain language writing style to the world of personal finance with ***Financial Mastery for the Career Teacher,*** Corwin Press 2010. Written at the urging of an educational publisher, the guidance and strategies in this book will work for professional people well beyond the education industry.



[***Gene Siciliano***](#) is the founder and president of Western Management Associates, source of *Your CFO for Rent* ® services for over 25 years. The firm provides interim and part-time CFO/Controller services, executive coaching and guidance in operational finance and exit strategy. Gene and his team of seasoned CFOs and controllers have a clear mission in their work with CEOs and owner/operators of privately owned companies. Our value proposition:

- Increase the company's net worth and profitability by improving the management team's financial proficiency and bottom line results, and
- Develop and execute strategies that will make your company more appealing to a buyer or investor, if and when the time comes for an ownership transition.

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