The 'ONLY' four ways you can increase your revenue

In all the noise and supposed complexity of doing business in the 21st century it might seem surprising that there are only four ways to increase your revenue. Arguably even these four strategies boil down to two. Here they are:

1. You can increase the revenue from each transaction you have with a customer. There are two ways to do this:
    - raise your prices;
    - up sell your customers additional products or services; or
2. You can increase the number of sales you make:
    - encourage your customers to deal with you more often in an given period;
    - find new customers.

Most businesses focus most of their energy on identifying new customers and there is a lot of sense in this approach to a degree. But given the amount of effort that new customer acquisition requires for many businesses and the consequent cost of each new customer, it would be foolish to ignore the other three alternatives. Let's look at them now.

1. Raising prices.

    Most businesses are, understandably, nervous about raising prices. But is this nervousness justified?

    There is a technical term for how sensitive your customers are to changes in price; it's 'elasticity'. Large insurance companies have got this down to a fine art and have an in depth understanding of their customers' sensitivity to price increases and decreases. They know for each £1 increase or decrease in premium just how many customers they will lose or gain. And they understand that their customers are far more sensitive to price when they are a new customer than on renewal. That's why it's always worth looking around the market when your insurances come up for renewal; you will generally get a better price as a new customer than if you simply allow your policy to 'auto-renew'. (And if you want to stay with your existing insurer for other reasons it's still worth shopping around so that you can ring them up with the best price available on the market for new customers and give them a chance to better their original quote).

Now, as an SME, it's unlikely that you will have the data within your own business that you would need to establish the price elasticity of your customers. Neither do I expect that you would have the resources available to develop the systems required to perform the calculations necessary to establish these ratios. But the purpose of this analogy is to highlight the fact that different customers have differing sensitivities to price changes and it's not always negative.

To take a quite different example; do you think that if Bentley decided to double the price of their cars it would make much difference to the numbers they sell? It might, at the margins, but I doubt very much that they would sell half as many cars and so an easy way for Bentley (or any other 'premium' brand) to increase revenue would be to increase prices. In fact, in some cases, increasing prices above competitor brands could even lead to an increase in sales as the typical customer for these products is likely to be extremely conscious of the cost of the products they are buying and in the case of the most exclusive brands in the world a higher price can only increase the exclusivity and hence the appeal of the product.

Returning to the real world and the products or services that your business provides, a good place to start in determining your pricing strategy is with a sound awareness of the value you are creating.

Every business has to provide something of value to its customers and then seeks to make a profit by capturing some of that value for itself in the price that it charges. So if you provide services to a business that will save it £1m of costs over the next five years, and you charge £10,000 for your services then you have captured 1% of the value. Arguably you should have little trouble charging £50,000 for this service, or even

£100,000. In theory, your client should be happy to pay £950,000 for your services, after they've banked their £1m of cost savings they would still be £50,000 ahead but I think you would agree that it's unlikely that many businesses would sign up for that one. It seems like too much hassle for what, ultimately, is a relatively small benefit overall. So you see that finding the right balance is a matter of judgement and will depend on your business and customers.

Referring back to the insurance companies, one reason they spend so much time on this is because most of us don't really value our motor insurance (in particular). Because it's a legal requirement, we resent paying for it, and as a consequence the product has become devalued and is regarded as a commodity. Consequently we pay as little as we can for it just to be able to put a tick in the box. Commodity type markets like motor insurance are not generally very attractive unless you can find a new way in or a more cost effective way of delivering the service as Direct Line did 25 years ago when they launched their 'direct' telephone based service which cut the broker out of the equation and saved all those commission payments (though in fairness I should point out that they then had to spend a fortune in direct marketing to get their offering in front of their potential customers).

So you need to understand how much value you are creating (for your customer) and how much they value what you are providing for them. The best businesses provide large, quantifiable benefits for their customers relative to the price they are charging and are bought at the choice of their customers who consequently have a good appreciation of the value they are receiving.

2. Up selling

How often have you gone into a restaurant and having decided what you want the waiter then asks 'would you like some new potatoes with that'? Or 'would you like some bread or olives while you look at the menu?'. Hotels are also often pretty good at this, either offering you a better room for a small additional charge or selling you a breakfast or a dinner on check in that you had thought (when you booked) that you'd probably manage without. In fact I would wager that if you think back over the last couple of weeks you will be able to identify at least a couple of occasions where someone offered you something in addition to what you had decided to buy. Extended product warranties are another example of this. You want to buy a new cooker, or a fridge freezer and just as you're about to pay for it the sales person points out to you that for a small additional charge (relative to the price you are laying out) you can cover parts and labour in case of breakdown or malfunction for another three (or five) years.

It's a very simple tactic but one that often works because the initial commitment has been made. In fact in the case of the restaurant examples given above I doubt many people even think about the cost of what they are being offered or bother to check the menu price before making a decision. Having made the decision to have a meal out it's really just a question of whether you fancy bread or olives today (or not); it's not a price decision at all. The extended warranty decision is similarly clever in the way it is presented. Having just decided to spend (say) £600 on a new cooker, an additional £30 for an extended warranty appears like a no brainer.

And so the challenge for you is to identify some additional product or service that will provide extra value for your customers for a relatively small additional cost to the customer but which will, in the process, add to your turnover and in all likelihood your profit as well.

(It's a bit beyond the scope of this paper but ideally your up sell, whilst providing additional value to your customers will cost you little or nothing to provide. Profit margin on up sell items is often close to 100%).

3. More frequent dealing

The third approach to increasing revenue (without acquiring any new customers) is to find ways to encourage your customers to deal with you more frequently. How you go about this will depend very much on the nature of your business and how you deal with them currently. Again, restaurants have some good examples of making this happen as do the UK's largest grocery stores with their various loyalty programmes that keep their customers coming back and, more importantly, away from the competition.

You might be able to implement something similar in your venture; a loyalty programme need be no more complicated than a simple card that you stamp each time a customer makes a purchase of a minimum value to be redeemed for a predetermined amount once all the stamps have been collected.

If you provide services then something similar could apply.

In the world of professional services I suspect that a loyalty card might not look too professional and so a little more creativity is required. But if you look at your business model it would usually be possible to offer packages of services that provide a discount so adding value to the customer. For example instead of a customer paying for coaching as they go, one session at a time, you could (and many coaches do) offer six sessions for a fixed price (probably payable up front or in three instalments say to get the benefit of the deal).

Other professionals have increasingly moved away from providing services on a pay-as-you-go model to a retainer type model where the basic services are provided for a fixed monthly cost. Additional services can then be provided as required for an agreed additional fee but the point is that rather than leaving yourself open to your client going somewhere else each time he or she needs something doing, the retainer arrangement creates the beginnings of a relationship that properly managed on your part can create some loyalty to you and hence an increase in repeat business.

Summary

The over riding point to bear in mind in each of these examples is that you are dealing in every case with your existing customers; people and businesses who have already made the decision to do business with you, who know you and what you do, and who hopefully are already sold on the value you bring to their lives and businesses. You know how difficult it is to get to this point with a new potential customer or client so why do so many businesses ignore these strategies and devote all their time and effort on new customer acquisition?

Actually, I suspect this is largely down to habits that originate in the start up phase when a business has no customers and new customer acquisition is the only game in town. Which is absolutely fine; for the start up phase.

But once you've been in business a while and have (hopefully) established relationships with a number of customers, think about how you can leverage those relationships further for your mutual benefit to provide more value adding services to customers who already appreciate just how wonderful you are for an additional fee that generates more profit and revenue for your business.

Contact me, Chris Fry, to learn more about my experience and expertise, and for an initial no-obligation discussion about the freelance finance director and business coaching services that I provide.

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