

[Talking Technology](#)

[Four ways to grow a business's bottom line](#)

By Steve Burns, Capital News contributor



Last week we looked closely at the issue of discounting. I received many requests for my discounting chart, which clearly shows what it is costing you to discount in your business.

This week we are focusing on some very practical suggestions for increasing the average transaction value in your business.

Before I summarize the feedback that I received from entrepreneurs in the Okanagan on their ideas for increasing the average transaction value, I want to drive home a point about the impact of the average transaction value on your overall profitability.

What would happen in your business if you are able to increase your average transaction value by 10 per cent. Let's look a little closer.

Say you own a small business that is doing quite well. You have 1,000 customers that each purchase an average of \$250 of product from you for a total of \$250,000.

Your gross margin is 35 per cent, which includes your salary and other direct labour costs and your fixed expenses are \$20,000.

This yields a net profit of \$67,500 for the year. What if you were able to increase the average transaction value by 10 per cent, what would the bottom line impact be on your business? It is 10 per cent profit increase isn't it?

Wrong! Let's look closer. A 10 per cent increase in the average transaction value increases this number from \$250 to \$275. This increases total sales to \$275,000 and increases net profit to \$76,250, which is a 13 per cent increase!

The number could be even higher as you likely didn't spend any more in direct labour or marketing costs to accomplish this so your margin on the incremental sale is likely higher.

Your fixed costs didn't change at all so really what happened is that your increase in sales of \$25,000 at your 35 per cent margin dropped an additional \$8,750 to your bottom line, which is a 13 per cent increase in net profit.

A 20 per cent increase in the average transaction value increases net profit by \$17,500 or 26 per cent!

Remember, this was only one way to grow your business. What if you applied all three of the ways to grow your business that we have learned by 10 per cent?

Increase the number of customers of the type you want to have, increase the number of times that they come back and increase the average transaction value all by 10 per cent at the same time?

Hold onto your seat again —the bottom line impact on your business is staggering 43 per cent increase in profit!

Check out the numbers below.

1. Number of customers of the type you want to have increased by 10 per cent: from 1,000 to 1,100

2. Number of times customers come back: 1 to 1.1

3. Average transaction value: \$250 to \$275.

Total sales: \$250,000 to \$332,750.

Gross margin: 35 per cent to 35 per cent.

Gross margin amount: \$87,500 to \$116,463.

Fixed costs: \$20,000 to

\$20,000.

Net profit: \$67,500 to \$96,463.

Profit increase: \$28,963 or 43 per cent.

I hope that these numbers don't bore you but rather excite you and get you thinking about how to apply the principals to your business.

Here is a quick summary of the suggestions that I received from Okanagan entrepreneurs on how to increase the average transaction value in their businesses.

1. Cross selling—often the best place to start when it comes to increasing the average transaction value is to identify cross-selling opportunities. Cross-selling occurs when you sell other products or services from your product or service range in addition to your customer's initial inquiry. This could include similar products or complimentary services such as technical support.

You must think about what else you can offer the customer that would add value to them, without being completely annoying in the process. You can develop cross-selling checklists that help your sales team to offer the customer all of the suitable items in every selling opportunity.

2. Upselling—move the customer to a high value item in the same category.

You could segment your products into three or more tiers—good, better and best or bronze, silver and gold.

If you have a broad range of products or services, always make a recommendation on three that could be suitable. Statistics show most people will select the item in the middle.

3. Packaging or bundling—in packaging items or services together, that is bundling them into one single purchase, you are usually able to add value to the customer. Here is where some discounting may make sense but be careful.

If you are a skeptic who doesn't think that the four ways apply to your business, I have a challenge for you.

Over the next month, pick one of the four ways and attempt to apply it to your business. Set a simple goal, such as increasing the average transaction value by 10 per cent. The four ways have their own way of proving themselves—by dropping profits to your bottom line!

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