

By **Paul Simister** BA FCA MBA CGMC

Who Is Paul Simister?

I'm an independent business coach and consultant based in Birmingham in the UK.

My fascination with helping small business owners improve their profits goes back to my first few months as a trainee chartered accountant. I met a lovely client called John who owned a struggling transport business.

Sadly his business didn't survive the early 80s recession.

It was my first experience of business failure and the personal misery it causes. I've always wished that I could have done more to help John and the other business owners I saw struggle to survive.

It's why, after a successful career in employment, I started my my own consultancy, training and coaching business in 1995 Looking back, it was one of the best decisions I ever made.

My main focus is helping your business to stand out from your competitors so that you find it easier to attract, convert and keep more customers and clients.

The Six Steps Profit Formula will help you.

You can find out more of my thoughts about business at the following websites:

www.DifferentiateYourBusiness.co.uk

www.MarketingTipsForSmallBusiness.co.uk

<http://BusinessCoaching.Typepad.com>

What is The Six Steps Profit Formula?

The Six Steps Profit Formula is my high level reminder of how you balance a top-down strategic approach to building your business with the tactics you need to use every day.

It can be used as:

- A guide if you are starting your business to make sure that you've covered the fundamental elements of business design.
- As a diagnostic tool for either a young business that is struggling or an established business that isn't performing as well as the business owner wants.

I use a number of different frameworks for thinking about business including the 5 Pathways To Profit Or Loss and the 3 Big Business Risks Every Business Must Consider.

These frameworks allow me to “slice and dice” my clients' businesses in different ways to give new insights on strengths, weakness, opportunities and threats. I'm going to provide an overview of each in the appendices.

What Are The Individual Steps In The Six Steps Profit Formula

The six steps in the profit formula are:

- Finding a “starving crowd”.
- Creating an irresistible promise that will tempt members of the starving crowd to buy.
- Getting your irresistible promise in front of the eyes and ears of your starving crowd so that they know about you and what you offer.

- Delivering on your promise with a great customer experience.
- Selling your customers a second item to increase the original transaction size and then selling subsequent transactions.
- Encouraging word of mouth referrals to reach deeper into your starving crowd. This will help make your irresistible promise even more irresistible to those potential customers who need social proof.

The Six Steps Profit Formula In More Detail

Before I go into more detail, please go back and read the six steps again so that you can see how the emphasis is on attracting, converting and keeping more customers.

Your profit will be disappointing if you:

- Struggle to attract qualified leads to your business
- Fail to convert a good proportion of leads into paying customers
- Don't continue the trading relationship after the hard work of winning the first sale has been done.

The Six Steps Profit Formula is a comprehensive model for your business that looks both outside at your customers and competitors and inside at your business systems and processes and how effectively your staff work as a team to bring value to your customers.

Step 1 Of The Profit Formula – Finding Your Starving Crowd

I've borrowed the "starving crowd" phrase from the late, great direct response copywriter and copywriting trainer, Gary Halbert.

He used to ask his students this simple question...

“If you and I both owned a hamburger stand and we were in a contest to see who could sell the most hamburgers, what advantages would you most like to have on your side to help you win?”

He used to get lots of different answers:

- the best meat,
- the tastiest burger recipe,
- the best location,
- the ability to charge the lowest prices etc.

The answer he was always looking for was “to find a starving crowd.”

If people aren't hungry, they won't buy hamburgers. If they are starving, then they might buy two.

It's the same for you.

Whatever your product or service, you need to be selling into a strong customer need, want or an impulsive urge to buy.

The Difference Between Needs, Wants & Impulses

A need is a “must have” for general well-being. Needs are usually based on logic. You understand bad things will happen if you don't take action.

Selling into a need can get urgent action. If a water pipe has sprung a leak in your house and drops start coming from a bubble in your ceiling, you need a plumber. If you don't take action, your house could be seriously damaged.

However meeting some needs might not be what you want.

This is why many people who need to lose weight or give up smoking cigarettes, don't take enough action, even when they are given a strong warning by their Doctor. They accept the logic that the issue is a health

risk but they don't do what they know they know they should.

This is because the want for the next cigarette or the next chocolate bar is stronger than the need to give up. After all, they can cut back tomorrow.

A want is a strong desire to possess or consume some product or service that is based in your emotions for how you feel pleasure or avoid pain and distress.

If you look at what you buy, you'll see that most purchases are driven by a want. That's especially true where you haven't bought the cheapest alternative. "I need food, I want a juicy fillet steak."

An impulsive urge to buy is a fleeting want. You see something, you want it, you buy and you no longer want it. In fact you often wish you hadn't bought it. This is called buyer's remorse and happens when logic reasserts itself over the emotion involved in the buying decision.

Why Customers Buy What They Buy – The Hierarchy Of Needs & Wants

Customers may not know they want what you have to offer. This is why an important purpose of your marketing is to educate them on why you provide the best solution for their particular situation. In effect you are setting the buying criteria to help them get what they want.

To be receptive to your marketing message, they must recognise the motivating drive to buy.

When you want to sell, I find it's helpful to remember how you feel when you're thinking about buying something that appeals to similar wants and needs.

Let's look at the decision to buy a car.

There is usually a general need to be able to travel to work, to the shops and to see family and friends but you're not going to buy a car if you don't have a need for personalised transport. You can use the train, the bus, taxis

or even try car sharing.

People who live in a major city like London may not need a car because the transport system is so convenient and frequent. In fact a car may be a major nuisance because of traffic congestion and the difficulty in finding a parking space.

Let's assume that you decide you will buy a car. The next problem is how much will you spend and what particular car will you buy?

Billionaire Sam Walton, the founder of Wal-Mart drove an old Ford Pickup truck even though he could easily afford the finest Rolls Royce.

A car is bought to fill the transport need. An expensive car is bought because of the driving pleasure it gives or to display status and success.

It's Much Easier To Tap Into An Existing Demand Than To Create It From Scratch

It is a tough job to create demand for a product, but much easier to transfer existing demand to satisfy an existing want or need to your particular product or service.

This is why new technologies like fax machines took many years between invention and becoming a commercial success. Before it was invented, few people had a need to send paperwork to someone else and have it received immediately.

A subsequent innovation like email proved popular because it was a better solution to the same need to send documents quickly and has virtually replaced the fax machine.

Our basic needs and wants often remain the same – to travel, to be entertained, to feel good, to keep ourselves alive, to feel attractive, to care for our children.

How we prefer to satisfy those needs and wants change as products and services innovate to provide better, cheaper or different benefits.

People Don't Want The Product, They Buy What The Product Can Do For Them

There's an old marketing adage that nobody buys a drill because they want a drill. They buy it because they want the ability to make holes.

It's well worth looking at your business from a high level to remind yourself of what your products and services do for your customers.

Then ask yourself some difficult questions.

- Will customers still want the basic want or need in 5 to 10 years?
- Are technology developments likely to mean that there will be new ways to meet those needs?
- Can you innovate and lead the market with a product based on the new technology or is your goal to copy and follow product innovations quickly?
- How will you know what new ideas to back? What frustrates customers about the current solution most? What is currently stopping non-customers from buying?

Ideally you want to anticipate demand. To be there ready and able to supply the exciting new products when desire is at its hottest rather than playing a frantic catch-up game.

We will delve deeper into why defining and understanding your Market is so important in step two, your Irresistible Promise.

It's also why Demand Risk is the first of the three big strategic risks you need to keep monitoring to make sure you are moving in the same direction as the driving forces of your market.

Keeping Up To Date With Market Changes

You can monitor the changes in your market at the micro and the macro level and you should do both.

The micro level will gather information about changing priorities for meeting the basic wants, needs and desires of individual customers in different situations.

You do it by asking questions, listening carefully, keeping records of what is said and reflecting on what it all means.

Many markets keep fragmenting into smaller, more specific niches. It's nearly always possible to become more specialised although it's not always economically viable because the market (or starving crowd) can be too small.

Other markets do the opposite. They combine by bringing benefits from what have previously been distinct product-markets e.g. smartphones like the iPhone and tablets like the iPad have brought together telephones, laptop computers and cameras and taken demand away from each product-market.

You can also do it at the macro level by using popular strategy tools like [PEST Analysis](#) (the Political, Economic, Social and Technological forces that shape a market) and the [Five Forces](#) that determine market profitability.

Follow Demand Trends, Beware Of Demand Fads

It's usually better to be trading in a growing rather than declining market but you need to be aware of the difference between trends and fads.

A trend is expected to continue for the foreseeable future and is based on logical reasons for growing customer preference. The switch from typewriters to word processing software on a PC made sense.

A fad is a sharp growth in demand that is expected to be temporary and it will fall away again quickly. Fads are often built on the short term emotions involved with wanting to be one of the “in-crowd”. The fashion industry is a great example of how a style can be so right one year and so wrong two years later. Children's toys tied into a popular movie head for

the bargain bins when the next big blockbuster appears.

Ideally you want to invest in building up your share of a market that is driven by a solid trend. You need to be very cautious about spending money that may never be recovered from chasing a demand fad.

Some times demand doesn't look sustainable and a fad is easily recognised as such. The rule for these situations is to get in early, make your money and get out or don't bother.

Other times what looked like a fad proves to be much more enduring. I remember having a meeting with a well respected insolvency practitioner in the late nineties. He thought that the coffee shops spreading into the UK high streets based on the popularity of the TV show Friends and their get-togethers in Central Perk was a fad. He predicted that a lot of money would be lost as the coffee shops closed and opportunistic owners were trapped paying for long property leases.

I agreed with him but we were both wrong. I went back to the town where I went to school as a child recently. There wasn't much there apart from various pubs, hairdressers and coffee shops. I still don't understand the appeal of Starbucks and its imitators but our culture has changed.

A more obvious trend that was perhaps hyped up, first as a trend and then as a fad was the growth of retailing on the Internet.

Plenty of dreams of getting rich quick disappeared when the dot-com bubble burst but the commercial logic of ecommerce stores like Amazon is irresistible.

The UK electrical store Comet has recently gone in administration (an insolvency procedure that is likely to lead to mass closures of stores). One of the big reasons given is that it failed to invest in establishing a compelling presence on the Internet. It failed to follow the trend.

If you're not sure whether a surge in demand is based on a fad or trend, my advice would be to treat it as a fad while you investigate more.

Step 2 Of The Profit Formula – Your Irresistible Promise

Once you've found your starving crowd, you need to make the audience an offer that is distinctive and incredibly compelling.

Mark Joyner calls it an Irresistible Offer.

The Theory of Constraints consultants call it a Mafia Offer - an offer your customers can't refuse.

Rosser Reeves called it your unique selling proposition that you should emphasise in all your marketing promotions.

I call it your Irresistible Promise:

Customers in your target market should find your offer so distinctive and so attractive that it is virtually irresistible (assuming they've got the money) because it appears to have been designed especially for them.

This is bullseye marketing.

How Your Irresistible Promise Fits Into Bullseye Marketing

The closer what you offer uniquely matches what your market wants, needs and sees as an urgent priority, the greater the probability of making the sale.



How Bullseye Marketing helps to explain why customers buy

If you sell a commodity product that is virtually identical to every other competitor, then you're trapped in the possibly buy sector along with all your other competitors. The customer will struggle to make the choice between the competing alternatives.

If you sell a differentiated product, then some potential customers will know that what you offer doesn't fit what they want. For other possible customers, you will step away from the competitors and move towards the centre of the bullseye and increase the probability of the lead converting into a customer.

The "promise" part of the Irresistible Promise is also important.

Do you remember when you were a child and your Mum asked you to do something? There was a big difference in my commitment between saying:

- I will do it; and
- I promise I will do it.

The first meant that I might do it. The second meant I'd given a firm commitment and I was prepared to be held accountable.

My Mum knew the difference and I found that I did a lot of promising.

Customers are cynical and have been taught that they can't trust what many marketers say most of the time.

Trust has to be earned and not automatically given.

To make your marketing credible, you need to see your marketing as a firm commitment to deliver the claimed benefits consistently and reliably.

The Irresistible Promise is not based on shallow differentiation of a hyped up marketing promise that doesn't run through your business system or value chain.

In the 20th century, marketers were told to sell the sizzle and not the steak. In the 21st century with customers and consumers empowered to make their opinions heard through social media, you can't afford to sell disappointing, tough steak because bad word of mouth comments will spread quickly.

Now you need to accept that you're selling the sizzle and the steak .

It's no longer good enough for the offer to sound good before the buying decision. It has to look good after the product or service has been experienced.

How The Concept Of The Irresistible Promise Works

This idea of an irresistible promise works at two different levels:

The business level to create brand differentiation away from competitors.

Think about what big brands that inspire great loyalty like Apple and Starbucks mean to you at an emotional level to understand the irresistible business promise. They help define how you see yourself.

The second level is the product offering level. This is the product or

service you actually decide to buy.

People are attracted to brands but they choose between and buy product and service offerings.

They ask themselves “what do I get exactly for a particular price and do I believe that’s best value for money?”

When you’re buying a car, you’ll be attracted to a particular brand and model. However you won’t buy if the cars you are offered are the wrong colour, have the wrong specifications or if you can’t have it as quickly as you want.

Instead you may decide to wait until what you really want appears or you may decide to buy the next best alternative from a different supplier and brand.

Your task when putting together your Irresistible Promise is to:

1. Create loyalty to your brand based on strengthening the emotional “know, like and trust” factors: and to
2. Create product preference at the offering level by providing better value for money than competing alternatives including substitutes that meet the same basic want or need.

The Language You Use In Your Irresistible Promise

I play a game called marketing bingo which is particularly well suited to the Internet and Yellow Pages where you and your competitors gather together in front of the eyes of possible customers.

Often you can go through the marketing promotions and if you hide the brand name, you will struggle to tell one business from another. You'll see phrase after phrase repeated because there is little effective differentiation.

On my [Differentiate Your Business blog](#), I use the analogy of a dazzle of zebras. On its own, a zebra is a remarkably distinctive animal with its

black stripes. However those stripes confuse predators when there is a herd because they are literally dazzled. Lions can't pick out individual members that stay with the herd because the stripes make it impossible to see where one zebra finishes and another starts.

It's the same with customers when they are faced with a “sea of sameness”. People want easy decisions but similar marketing makes decisions hard because customers know the companies are likely to be different with one more suited to their wants and needs.

Competitive Risk is the second of the big three business risks. Demand for the product or service may be strong but if competitors have a dominant competitive advantage, you have a big problem.

Step 3 In The Profit Formula – Get Your Promise To The Eyes & Ears of Your Market

Once you've created your Irresistible Promise, you need to get it in front of the eyes and ears of your target market.

This is your choice of marketing media and where you make the decisions about advertising, direct mail, social media marketing, being found on the Internet and all the other marketing techniques that make potential customers aware of what you offer and why they should buy from you.

First you need to test the promise.

While you will have designed your Irresistible Promise based on your understanding of customer needs, wants and priorities and priced it at a level that provides competitive value for money and a good profit margin for your business, the offer needs to be validated with customers.

Market research and feedback from customer focus groups and individual customers can be helpful for creating a valuable offer but the rubber hits the road only when money has to be exchanged.

Suddenly priorities alter and what seemed like “nice-to-haves” turn into

unjustifiable luxuries that push up the price too much.

Once your Irresistible Promise is proven, it should be rolled out and seen by as many members of your starving crowd as is possible.

And make sure the promise is seen as often as possible as well.

You should use direct response marketing that encourages an immediate action by an interested prospect rather than brand-building promotions. This way you can track what is working and make sensible decisions as well as continually trying to improve conversion rates.

Even the best crafted offer written by the finest copywriter is strengthened through multiple exposures with target customers. Familiarity makes it easier to make a buying decision because it builds confidence.

I recommend you split your marketing action in two ways:

- Search marketing – some of your target customers know they have the problem and are sufficiently motivated to look for a solution. Your main marketing task for these customers is to make sure that you are found where people look. This means ranking highly in the Internet search engines like Google.
- Outreach marketing – relying on being found by customers who are ready to buy isn't enough to generate sufficient demand for many businesses. I like clients to have three or four outreach marketing methods that are designed to interrupt and attract customers who are becoming aware that they have a problem that needs to be fixed but haven't started looking.

Step 4 Of The Profit Formula – Deliver A Great Customer Experience

The most successful businesses know that it is an expensive task to acquire a new customer and the big money is made on subsequent sales.

This is what marketers call the back end. The most profitable companies work hard to both create new customers and sell to them again and again.

The idea falls down if the first experience delivers much less than the customers expect and they decide that they no longer like your business or trust it.

Customers buy because your business appeared to offer the best value for money on the key attributes they used to assess customer value.

Research into customer satisfaction and loyalty has revealed that dissatisfied customers don't buy again and even worse, spread negative word of mouth that persuades other people not to buy.

It's said that it takes between five and seven positive recommendations to overcome one negative review. You can test this yourself when you study customer reviews at Amazon and TripAdvisor and the criticism hits one of your emotional hot buttons.

Unfortunately satisfied customers aren't very loyal either.

You did what you said you would but no emotional connection was created with the business. The customers are open to approaches from your competitors and may be actively looking for a closer fit to what they want. They know that they haven't found the centre of their own bullseye.

The only loyal customers are those who are very satisfied.

These people received a great customer experience and have formed an attachment or emotional bond with the business. Moving away from you to a competitor represents a risk that things are more likely to be worse than better.

Again you should be able to see this in your own buying behaviours. Perhaps you always go back to the same hotel when you visit a favourite city on a short break. Or to the same restaurant.

I talked earlier about selling the sizzle and the steak. The sizzle was

exciting enough to get the first buying decision, subsequent purchases depend on the steak being as juicy and tasty as expected.

Deliver Great Customer Service At The Moments Of Truth

It's easy to talk about “great customer service” to both your customers and staff but it's such a general feel-good statement that it often has little meaning.

You need to be much clearer in what you mean by customer service by defining what is good and bad for specific situations.

You can break down the overall customer experience into a series of moments of truth where the customer makes contact with your business and staff or when he or she uses your product or service.

Each of these gives a chance to delight, meet expectations or disappoint the customer.

Imagine you want to take your husband, wife or partner to a nice restaurant to celebrate an anniversary and you've had one in particular recommended.

You search Google and click on their website.

- A good experience would be to immediately find the telephone number. Even better if there was a facility to check whether there are tables available on the evening you want.
- A bad experience would be to find the website and struggle to find a telephone number.

You then call the restaurant

- A good experience would have the telephone answered in three rings by a friendly, polite person who listens to your request, confirms the booking and after hearing that it's a celebration offers various personal touches to make the evening even more special.
- A bad experience would be to hear “this telephone number has been

disconnected”, to have it ring continuously with answer at a time when you would expect it to be staffed, or to be answered by a rude person who clearly resents the interruption.

I'm sure you get the idea and you can see how each of these contact points of moments of truth can be defined for what is and isn't acceptable behaviour.

By focusing on 3 levels – delight, satisfactory and unsatisfactory behaviour – it helps make it clear to your employees what you want and what you will and won't accept when the pressure is on.

Excellent customer service is easy when there are few customers but it gets harder as your capacity is taken up so there has to be some give and take.

I recommend you take the time to define your moments of truth with customers and even get their feedback on what represents satisfactory and delightful service.

The third of the big three risks every business faces is capability risk. Can you consistently and reliably deliver on a the promise that is needed to beat your competitors?

It can if it defines the moments of truth and puts in the systems, procedures and staff training to make sure that performance is consistently up to standard.

Step 5 Of The Profit Formula – Sell A Second Course And Then Another Meal

You've found your starving crowd and you've presented your irresistible offer and your customers have bought.

You've then delivered a great first experience.

To stay with the food analogy, what would a restaurant do after a delicious main course has been served and eaten?

The waiter or waitress would politely ask if you would like dessert and may start describing their lusciously tempting puddings. Perhaps the sweet trolley has been paraded past you several times with something that looks really yummy getting smaller as other diners take their pick.

If you manage to resist the sticky toffee pudding, the death by chocolate, the cherries jubilee or peach cobbler, the waiter doesn't give up. You can expect to be offered the chance to have a coffee or liqueur.

This process happens for two reasons:

- It's good service to look after customers and to make sure that their complete needs and desires are met.
- It's also done deliberately through effective business design and staff training to maximise the transaction value of your visit.

If 17 year old kids fresh from school can be trained to ask “do you want fries with that” when you order a burger, you can get your staff to do it. An upsell or cross-sell should be part of your business system and an essential element in your profit formula.

Your relationship with the customer shouldn't end with the first transaction.

Staying with the restaurant example, the waiter could tell you about the special theme evenings that are happening in the next couple of months or they might have been advertised on posters in the bar to pique your interest. Perhaps the restaurant asks for your email address to keep you informed about events and special offers or encourages you to follow them on Twitter.

Other types of business can set up the next service immediately. For example a hair dresser could say “Shall we book you in again in four weeks time?” and get the booking made there and then.

If it's appropriate, ask yourself what you can do to set the next purchase

transaction into motion. You can do it with the customers best interests at heart and without being or appearing pushy.

Step 6 Of The Profit Formula – Encourage Word Of Mouth Referrals

The final step in the profit formula is to encourage your happy customers to do your marketing for you.

Once again it starts by delivering a great customer experience that people want to tell others about.

That doesn't happen by accident but by carefully designing the customer moments of truth to deliver something really special.

Then you've got to encourage customers to recommend you to others.

The restaurant owner could let it be known that he really appreciates all the positive reviews on TripAdvisor. Remember overwhelming positive proof can counter any negative reviews from people who were disappointed.

Let your customers know that you want more business and you love receiving referrals.

There have been times when I haven't given referrals to businesses that I have a good relationship with the owner and think the business provides an excellent service. That's happened when I've asked how things are going and heard back various versions of “Things are really busy. We're struggling to cope.”

What you should be saying if you want to be positive is “We're busy but we always appreciate even more business. We're committed to providing a great service.”

Giving a referrals means putting your personal reputation on the line. A bad experience reflects badly on you. Any hint that the service may not be

up to standard or any doubts on the quality assurance process means that it's hard to give a positive recommendation that can be attributed back to you.

Marketing Shouldn't Stop At Referrals

If you're getting a good proportion of your new business through referrals then that is great news.

Congratulations.

Perversely it can signal that there is a much bigger marketing opportunity that you may not be exploiting.

I see accountants who boast that they don't need to do any other marketing because they get so many referrals.

I've also talked to business owners who have looked for an accountant on the Internet and failed to find one with an irresistible promise. In desperation they have resorted to asking other business owners if they could recommend someone because they are so confused by the marketing bingo.

These referrals are often not as strong as you might expect and might sound something like...

“We use John Jones & Co. They don't seem too expensive and we haven't had any major problems with them.”

It's hardly a ringing endorsement.

This passive marketing is leaving the accountant's new client acquisition process to chance and there is little control over positioning or the type of clients that are attracted.

If an accounting firm is good enough to get plenty of referrals, it should be able to put together a compelling marketing campaign with plenty of testimonials.

The Six Steps Profit Formula In Perspective

There you have the six steps in the Profit Formula.

The first two – the starving crowd and your irresistible promise are strategic because they answer three of the biggest questions:

Who are you going to sell to?

What are you going to sell?

How can you beat your competition?

Step 3 is pure marketing as it looks at how your message is carried to your target customers.

Step 4, step 5 and step 6 are about having the right business model in place with the right processes and staff training to deliver a great customer experience and then to leverage it into extra sales from repeat purchases and referrals.

Assess Your Business Against The Six Steps Profit Formula

1 – Hungry Crowd

- Are you marketing into a strong need or want?
- Do customers buy from you, your competitors or providers of substitute products or can they delay a purchase or even do nothing?
- Are you clear on why customers buy?
- Are you innovating to find better, cheaper ways to meet your customers basic wants and needs or finding new and different ways to relieve any frustrations customers have when dealing with your product or service?

2 – Irresistible Promise

- Are you clear on what differentiates you from your competition?
- Do you believe that you effectively communicate these differences? Would customers and people who decide not to buy from you agree?
- Are you committed to delivering on your marketing promises?

3 – Eyes & Ears Of Your Market

- Do you get your message in front of enough of your target market?
- Do they see and hear your message often enough?

4 – A Great Customer Experience

- Do you believe that you, your regular customers and your employees would describe the same great customer experience that you're striving to deliver?
- Do you all think you deliver it consistently?

5 – Another Course & Another Meal

- Do you have procedures in place to encourage customers to increase

their purchase value based on meeting their real needs?

- Do you encourage repeat purchases regularly?

6 – Referrals

- Are you satisfied with the number of referrals and recommendations that you get?
- If not, do you ask for them and make sure your customers know that you value referrals?
- If yes, do you use these high number of referrals in your other marketing?

Appendix 1 – The 5 Pathways To Profit

In my report, *The Profit Tipping Point*, I talk about the five pathways to success or failure.

The first four were based on academic research into why businesses fail and the fifth is an overriding cause from my own experience.

The academics looks at businesses that failed and looked to see whether their sales were increasing or decreasing and whether the market was growing or declining.

1. Decreasing sales in a declining market – **the market deterioration pathway**. This is the normal course of events when firms are trapped in a shrinking market.
Success can come from growing within a growing market.
2. Decreasing sales in a growing market – **the competitive disadvantage pathway**. These companies were comprehensively beaten by competitors.
Success comes from having a strong competitive advantage.
3. Increasing sales in a declining market – **the fight for market share pathway**. Suicidal competition destroys margins by driving down selling prices and forcing up costs.
Success comes from trading in a market where competitive rivalry is weak because each competitor has a distinct position that makes it unique.
4. Increasing sales in a growing market – **the loss of control pathway**. Business failure in this favourable situation happens when management planning and control is weak and the managers don't anticipate the cash crisis that often accompanies growth.
Success happens when the right financial controls and systems and processes are in place to manage the strains of growth.
5. The fifth pathway to success or failure is the **inner game of the owner**. A weak inner game with little vision of the future causes

inconsistent decisions and ineffectual action. A strong inner game has purposeful action based around clear priorities to reach a powerful vision.

I'd like you to think of each of these pathways as a set of weighing scales that are linked together. A strong weighting in one can counteract a weak rating in another.

If your market is declining and you can't find a niche that has the opposite long term trend, then you need to strive for a competitive advantage, excel at management and have a strong inner game.

If your market is favourable, then you can enjoy an easier ride to profitability although you won't maximise your profits and you're vulnerable to strong competitors when market growth levels out and a shake-out occurs.

Appendix 2 - The 3 Big Risks Every Business Faces

This next way of looking at your business is to look at the big things that could go wrong. I always use it if I am talking to someone who is thinking about starting a business or is finding it tough to get established.

Risk 1 – Demand Risk

The first big issue any business faces is whether enough customers and clients are prepared to pay a “fair price” for a solution to the problem or for help to realise an opportunity.

I admire people who are prepared to think differently from the norm and to innovate. However when I watch the Dragons' Den television programme, I am astonished by some of the strange products people want the Dragons to invest in. If you watch (and I believe there are similar programmes in other countries) you'll see that the Dragons are very keen to establish what evidence there is that there is genuine demand.

I put “fair price” in inverted commas because it's a dangerous concept to get too buried in your head. I've used it as a compromise price between the costs of producing and supplying the product or service and the value the customer receives from the product.

If $\text{value} > \text{price}$, the customers should be prepared to buy it, subject to issues from risk 2.

If $\text{price} > \text{cost}$, the supplier should be prepared to supply. If $\text{cost} > \text{price}$, supply shouldn't be made unless there is a loss leader strategy in place and profit is made from selling other items.

The problem with thinking in terms of fair pricing is that the average customer isn't fair. He or she doesn't give any thought towards your cost and a discount off any price is good news.

Risk 2 – Competitive Risk

If you have a really innovative product, you may not have competitors at

the start but as your great idea gets better known, there will be imitators.

Much more often, you already have competitors who provide a similar product or service in terms of what it can do for the customers. Sometimes the product is identical although the service issues around it can usually be differentiated.

The second risk is the problem that you can't win customers away from your competitors or keep them away.

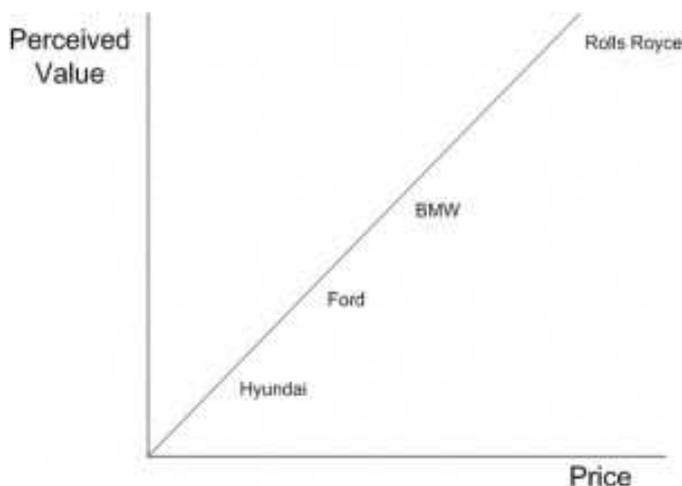
I delved into this topic when I talked about Step 2 of the Six Steps Profit Formula, creating your own Irresistible Promise.

Please remember the ABCD of business success.
That's an Advantage that is Better, Cheaper or Different.

You'll know from your own experience of a buyer how frustrating it is when you have particular requirements and all the suppliers you contact offer very similar products that don't give you what you need.

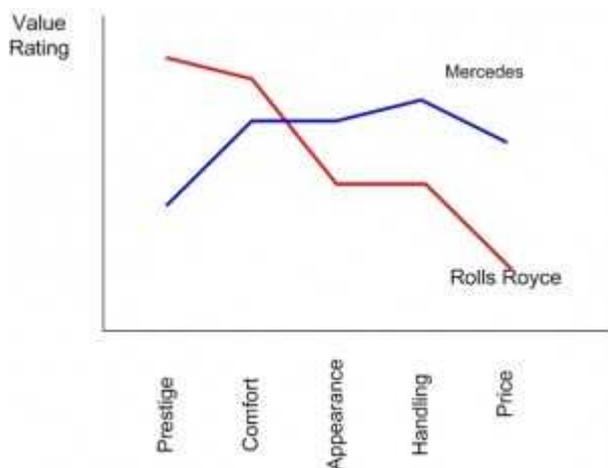
Sometimes giving customers a different choice is enough. It pulls you into the centre of the bullseye for some and pushes you towards the outer rings for others.

One choice is to find a different position on the value for money line.



The above example shows cars in the different price ranges.

Another choice is to offer something different in the attributes that make up the assessment of value for customers.



The above customer value attribute map compares luxury saloons from Rolls-Royce and Mercedes and shows how one may appeal more to the person who wants to be chauffeured around, the other appeals more to a wealthy driver.

The truth is that unless the demand for your product far exceeds the supply available from you and your competitors, your business has to survive competition and the inevitable downward pressure on price.

Risk 3 – Capability Risk

The third and final big risk is whether you can deliver on your promise that wins customers and creates both repeat business and referrals.

Again you'll know from your own experience of buying how many things sound good when you're making the buying decision but are disappointing when you use or experience.

This is the problem of “over-promising and under-delivering” and is the topic for the last three stages of the Six Steps Profit Formula. It is that important.

How To Get From Where You Are To Where You Want To Be

I hope the Six Steps Profit Formula report has helped you to think about your business in different ways.

Perhaps you haven't found your starving crowd.
Or your promise isn't as irresistible as it could be.
Or you're not getting enough of the right eyes and ears on your offer.
Or your business is weak in one of the other three areas of the Profit Formula.

The key questions are...

1. What Are You Going To Change?
2. And How Are You Going To Do It?

I want to introduce to **Profitable Growth Strategies**

This is a membership website that has been developed to help business owners to attract, convert and keep more customers profitably

You can find out more about the 30 Day Trial at
www.ProfitableGrowthStrategies.org

Or you can carry on reading and I'll give you a brief outline.

When you start your trial and login, you'll be taken to the dashboard that looks like the following screenshots



You can see that it has been professionally designed – personally I think it looks great.

After your trial has ended and you decide to stay as a member, you will be taken through a weekly business development process – the E-Learning Weekly Series – which is ideal for you if you want to develop your business gradually over the next twelve months.



Next the dashboard shows the option to create a Customised Marketing Roadmap (on the left) which takes you through a process that determines where you are best spending your time based on your answers to questions to find out your priorities.

Alternatively you can start with the Quick Start Program developed to get you making money very quickly. I encourage you to take this during your 30 day trial.

Or if you know that you want to start with attracting more leads, you dive into the Profitable Growth Strategies training for that purpose.



Or if leads aren't your problem, you can jump straight into the training to help you to get better conversions, sell more transactions or to charge higher prices and get better transaction values.



The last two sections of the Profitable Growth Strategies training look at other ways you can increase your profit or systemize your business so that you can open up in new locations or even franchise it.

As you can see, there is a lot in this system and I've only shown you the very top level.

I could go on and on but I know the best way is for you to experience it yourself.

If you want to grow and develop your business or if you need to increase your profit and cash flow I urge you to take the 30 day trial.

Visit www.ProfitableGrowthStrategies.org

Your Feedback

It's said that “feedback is the breakfast of champions”.

I'd like to know what you think about the Six Steps Profit Formula.

Has it made you think about your business in a different way?

Has it highlight gaps in the way your Profit Formula works?

In particular, what do you think you will change after reading it?

Let me know please by [emailing me](#).

Best wishes

Paul Simister

www.DifferentiateYourBusiness.co.uk

www.MarketingTipsForSmallBusiness.co.uk

<http://BusinessCoaching.Typepad.com>