The 16 Parts of Your Business

...that drive revenue, profit, and cash flow

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Hey there fellow business owner!

I'm thrilled that you have this copy of *"The 16 Parts of Your Business"*. As you may recall from my presentation, to have a growing and successful business (and one that doesn't fail!) you need to transform your business into a **money-making machine**.

Your business is a machine and like all machines, it has a purpose. And the purpose of your 'machine' is to make money.

If you can do this, you'll have a financially successful business that **you own** instead of you owning a high-demanding and low-paying job.

To make money, you need to improve 16-parts in your business. Each part helps drive revenue, profit, and cash flow.

Revenue is what you sell.

Profit is the revenue you keep.

And cash flow is the profit you keep.

You've got to get all 16-parts working at peak performance to have a financially successful business.

In this guide, I'll reveal the 16-parts and then give you a simple explanation for each.

If you have any questions, please do not hesitate to contact me at shelby@optimizedfinancialsolutions.com.

Shelby Ashley
Founder, Optimized Financial Solutions LLC

Parts that Drive Revenue

1. Leads
2. Coversion Rate
3. Purchase Frequency Rate
4. Retention Rate
5. Average Transaction Value

Parts that Drive Profit

6. Cost of Goods
7. Marketing Expenses (as a % of Revenue)
8. Payroll Expenses
9. Overhead Expenses
10. Other Income/Expense

Parts that Drive Cash Flow

11. Days Sales Outstanding
12. Days Inventory Outstanding
13. Sale of Assets
14. Days Payable Outstanding
15. Using Debt
16. Owner Investments

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1. Leads

Leads are the number of ideal customers that have been made aware of you through your marketing efforts.

This 'part' drives revenue because more leads, ideally, will result in more paying customers which will improve revenue.

For example, if you have a remodeling business and you post an ad online (e.g., Google Ads) for remodeling services and a potential customer calls your office after seeing an ad, then that is considered a lead.

You improve leads by optimizing your marketing. **Any money you spend on marketing should have a direct impact on leads received**.

2. Conversion Rate

This is the percentage of leads that become paying customers.

Whereas leads measure your marketing effectiveness, **conversion rate measures your sales effectiveness.**

This 'part' drives revenue because if you can convert more of your leads to paying customers, it will improve revenue.

Let's say that your remodeling business had 10 leads last week. If you were able to convert 2 of those 10 leads into a paying customer, you have a 20% conversion rate.

2 customers / 10 leads = 20% conversion rate

3. Retention Rate

This is the percentage of customers who come back each year.

This 'part' drives revenue because if you can get existing customers to purchase again, it will improve revenue.

Let's say that you had 1,000 customers who purchased prior to December 31st of last year. If you were able to get just 5% of those customers to come back and purchase this year, you would have 50 customers that already know, like, and trust you that will spend money with you this year.

Now, imagine that you were able to increase both Purchase Frequency Rate and Retention Rate? You will see a major increase in revenue.

4. Purchase Frequency Rate

This is the number of times a customer purchases from you in a year.

This 'part' drives revenue because the more times you can get a customer to purchase from you, the more your revenue will increase.

You can dramatically improve profit by getting existing customers to buy again. **Not only will you be earning more from each customer, you won't have to spend additional marketing dollars.**

In your remodeling business, if the only thing you did was get existing clients to buy again, you would increase your revenue without having to get new clients.

5. Average Transaction Value

This is the average value of every purchase a customer makes.

This 'part' drives revenue because the more you can get a customer to spend, the more revenue will increase.

Let's say that in your remodeling business, the average value is $3,500. By improving the average transaction value, to say, $3,800, you will see an increase to revenue without having to get new clients.

The Revenue Formula

Parts 1 through 5 drive Revenue.

Why is that? Because they all add up to Revenue using this formula (the parts are in green):

	Leads
x	Conversion Rate
=	**New Customers That Purchase This Year**
	Existing Customers
x	Retention Rate
=	**Existing Customers That Purchase This Year**
	New Customers That Purchase This Year
+	Existing Customers That Purchase This Year
=	**Total Customers That Purchase This Year**
	Total Customers That Purchase This Year
x	Purchase Frequency Rate
=	**Total Sales Transactions**
	Total Sales Transactions
x	Average Transaction Value
=	**Revenue**

As you can see, by improving one or more of the ‘parts’, you will improve revenue. Imagine if you improved all five parts that drive revenue? You’ll see a dramatic increase in revenue!

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6. Cost of Goods

(as a % of revenue)

This is how much it costs you to provide the 'goods' to each sales transaction and is measured as a percentage of revenue. The Cost of Goods should include all of the direct cost needed to deliver the end product or service to your customer.

This 'part' drives profit because the lower you can get your Cost of Goods (as a percentage of revenue) down, the higher the profit.

Using our remodeling business example, let's say that you remodel the bathroom in a customer's home. Let's say that you charge your customer $4,000 but your cost (from your supplier) is $2,500. Plus, you incurred $500 in labor from someone on your team to come assist you. This means your total 'cost' is $3,000 which means that your Cost of Goods (as a percentage of revenue) is 75%.

$3,000 cost / $4,000 revenue = 75% Cost of Goods

The goal is to get this percentage as low as possible.

7. Marketing Expenses

(as a % of revenue)

This is the total cost of marketing measured as a percentage of revenue.

This 'part' drives profit because every dollar you spend on marketing should have a direct correlation to an increase in revenue. If that happens, you'll maintain a low Marketing Expense (as a percentage of revenue) and a high revenue, thus, improving profit.

Let's say that your total marketing expenses in your remodeling business last year was $20,000 and your total revenue last year was $100,000. This means that your total marketing expenses (as a percentage of revenue) was 20%.

$20,000 marketing expenses / $100,000 revenue = 20% Marketing Expenses

8. Payroll Expenses

This is the total amount of payroll not already included in Cost of Goods.

This 'part' drives profit because every dollar you spend on payroll should have a direct correlation to an increase in profit. In other words, **every employee on your team should either assist in improving revenue or reducing expenses (or both), thus improving profit.**

Let's say that in your remodeling business you have the following people on payroll:

- Office Manager (Makes $60,000 per year)
- Customer Service Rep (Makes $40,000 per year)
- Carpenter (Makes $90,000 per year)
- Three laborers (Makes $60,000 per year each)

This means that your total payroll per year is $250,000 plus all of the related taxes and employer expenses (e.g., benefits) minus any direct labor that was already recorded in Cost of Goods (from your carpenter and laborers).

Let's say that 80% of your carpenter and laborers' payroll was already recorded in Cost of Goods. That means that only 20% of the carpenter and laborers' payroll should be included in Payroll Expenses.

9. Overhead Expense

This is all of the operational expenses incurred that are not already included in Cost of Goods, Marketing Expenses and Payroll Expense.

This 'part' drives profit because **every expense spent in your business should provide a 'return on investment'**. If an expense does not provide a return, then you should not spend the money on the expense.

Examples of operational expenses are rent, insurance, and office supplies.

10. Other Income/Expense

This is the total of all income and expenses that your business incurs that are unrelated to your business's core activity.

An example of an "Other Income" could be money received from an insurance payout from a vehicle accident that one of your employees were involved in where they were not at fault. Since this income was unrelated to your business's core activity, it would be recorded as an "Other Income".

An example of an "Other Expense" could be the "writing off" of obsolete inventory that you cannot sell. For example, if you need to dispose of $50,000 worth of inventory that is not sellable, then this would be considered an "Other Expense" since this expense is unrelated to your business's core activity.

The Profit Formula

Parts 1 through 5 drive Revenue.

And, parts 1 through 10 drive Profit.

Why is that? Because they all add up to Profit using this formula (the parts are in green):

	Revenue (using Parts 1-5)
-	Cost of Goods
=	**Gross Profit**
	Gross Profit
-	Marketing Expenses
-	Payroll Expenses
-	Overhead Expenses
=	**Net Profit from Operations**
	Net Profit from Operations
+	Other Income
-	Other Expense
=	**Net Profit**

As you can see, by improving one or more of the 'parts', you will improve profit. Imagine if you improved all ten parts that drive revenue and profit? You'll see a dramatic increase in profit!

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11. Days Sales Outstanding

This is the number of days it takes to collect from customers.

This 'part' drives cash flow in that the longer it takes for you to collect from your customers, the longer you are without cash flow.

Not only are you without cash before a customer pays, but you typically must incur expenses (e.g., Cost of Goods) to service the customer, which means you are out even more cash.

Let's say that in your remodeling company, you completed a $10,000 job and agreed to let the client pay for it over three months. Essentially, you are extending credit to your client for 90 days.

This means that, from this one client, it will take you 90 days for you to collect which means that your Days Sales Outstanding is 90 days.

Ideally, you want this number to be lower rather than higher so that you have access to the cash sooner rather than later. However, if this number is too low, you could risk losing out on business due to too tight of a credit policy.

12. Days Inventory Outstanding

This is the number of days it takes for you to sell through your inventory, on average.

This 'part' drives cash flow in that the longer it takes for you to sell through your inventory, the longer you are without cash flow.

You purchased inventory with cash and, until you sell it, you are without cash. The cash is, figuratively, sitting on your shelves.

If you purchased, let's say, $5,000 worth of inventory to stock in hopes of selling to customers and it takes an average of 120 days to sell through that inventory, then your Days Inventory Outstanding is 120 days.

Ideally, you want this number to be lower rather than higher so that you have access to the cash sooner rather than later. However, if this number is too low, you could risk losing out on business due to not having enough, or the right, inventory on hand.

13. Sale or Purchase of Assets

An asset is something that your business owns, such as a truck or a machine. When you sell it, you receive cash.

Conversely, when you purchase an asset, it will decrease cash flow (unless you use debt).

This 'part' drives cash flow in that when you sell an asset, your cash flow will increase.

14. Days Payable Outstanding

This is the number of days it takes for you to pay your suppliers.

This 'part' drives cash flow in that the longer it takes for you to pay your suppliers, the more you get to hold on to your cash.

Let's say that it takes you 30 days to pay your suppliers for a recent job. You could get paid from your customer prior to having to pay your costs to service the customer.

For example, if it takes you 20 days to get paid by your customer and you pay your supplier in 30 days, then you have access to excess cash for 10 days that can be used in other ways.

Ideally, you want this number to be higher rather than lower so that you have access to the cash longer. However, keep in mind that that your suppliers are your business partners, and they would like to get paid in a timely manner as well. Not to mention, many suppliers often provide discounts to their customers for paying early.

15. Using or Paying Down Debt

Debt is the idea of borrowing money to fund your business. This money, of course, must be paid back to the lender. Debt can come in the form of bank loans, credit cards, or borrowing from friends or family, to name a few sources.

This 'part' drives cash flow in that when you buy things using debt you are not having to use cash, which improves cash flow.

Of course, paying down debt will reduce cash flow as you are using cash to pay back the lender.

Debt can be used to improve the financial health of your business **only if you're using it to purchase something that will have a *return on investment* (ROI).**

Before using debt, carefully assess if what you are purchasing with debt will actually provide a return. For example, if you purchase a machine for $50,000, you should be confident that the machine will provide at least $50,001 in cash flow over the life of the machine. Of course, the higher the return, the better.

16. Owner Investments or Distributions

Owner investments are the amount of money that any owners of a business invest, from their personal funds, into the business. Owner Distributions are the amount of money that any owners of a business take out of their business for personal use.

The idea, of course, is that any investments that are invested by the owner(s) will provide a 'return on investment'.

This 'part' drives cash flow in that the more investments into the business, the more cash flow will improve.

Ideally, of course, the point of a business is to provide a return for its owners in the form of 'owner distributions', which would lower cash flow.

The Cash Flow Formula

Parts 1 through 5 drive Revenue.

Parts 1 through 10 drive Profit.

And, parts 1 through 16 drive Cash Flow.

Why is that? Because they all add up to Cash Flow using this formula (the parts are in green):

	Profit (using Parts 1-10)
+ / -	Days Sales Outstanding*
+ / -	Days Inventory Outstanding*
+ / -	Sale or Purchase of Assets*
+ / -	Days Payable Outstanding*
+ / -	Using or Paying Down Debt*
+ / -	Owner Investments or Distributions*
=	**Cash Flow**

**Each of the Cash Flow parts have a + or – because they can impact cash flow either positively or negatively. For example, if you use debt it would increase cash flow, if you pay down debt, it would decrease cash flow.*

As you can see, by improving one or more of the 'parts', you will improve cash flow. Imagine if you improved all 16 parts that drive revenue, profit and cash flow? You'll see a dramatic increase in your cash flow.

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Your Next Step

To have a growing and successful business, you **must** turn it into a money-making machine using the 16 parts presented in this guide.

However, although making money is the point of your business…it's not easy to do.

It's not easy because most business owners are not necessarily **numbers** people. And…**money**, **cash flow**, and the **16 parts of a business** are all numbers.

Most business owners understand they need to know their numbers, but they're not exactly **excited** about pouring over data to understand their parts and determine which ones need improving.

But…I am.

I own Optimized Financial Solutions. I am a financial professional who works **exclusively** with small-to-medium sized business owners just like you.

I do one thing well: ***I transform businesses into money-making machines.***

And, I'm passionate about this.

If you could use help on transforming your business into a money-making machine, let's get on a 'Right Fit' call.

We'll get on a 20-minute Zoom call and learn more about each other and ensure that I'm right for you and you're right for me. If so, I'll then share with you exactly what I'll do for you, how I'll do it, and my fee.

Then, you decide if this is right for you.

To schedule a Right Fit call, go to: https://calendly.com/shelby_ofs/30min

Thank you for reading,
Shelby Ashley

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