WHITEPAPER

How Can I Measure and Improve Profitability?

| MAXIMIZER CRM

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Introduction

The most effective management teams look for relevant and comprehensive information to guide their businesses towards increased efficiency and performance. To make decisions that get to the heart of a company's goals, understanding and measuring profitability is crucial. Just guessing where your company's profits are coming from is no longer enough – especially in today's hypercompetitive business environment.

The good news is that technology makes the job of measuring, reporting and analyzing profitability more straightforward than ever. The key is to have the infrastructure in place to capture, organize and access the necessary information. Companies can already put a wealth of data at their fingertips by using a Customer Relationship Management (CRM) solution, which enables them to gain a better understanding of the factors impacting the company's profitability.

Such factors are often linked to the performance of your Sales, Marketing and Finance teams. However, this information may not be as clear-cut as you might think. For instance, the company might be winning business and significant revenues, but still losing money because of the heavy investment required to do so.

In this report, we look at why it is important to measure profitability, what methods and processes should be undertaken to do this and how profitability can be boosted. Ultimately, the easiest way to track and improve profitability is to use consistent reporting methodologies and implement a CRM solution that provides a platform for capturing, accessing and managing relevant customer data. This enables you to assess how various departments are contributing to profitability, and what processes are required to engrain best practices.

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Why companies should be measuring profitability

In assessing business performance, many companies focus largely on the rise and fall of revenues, but income generation never tells the whole story. Costs need to be broken down, matched with corresponding revenues and factored into the decision-making process. To understand how the business is performing, it is absolutely essential that you measure profitability, as well as other factors that contribute to greater efficiency and Return On Investment (ROI).

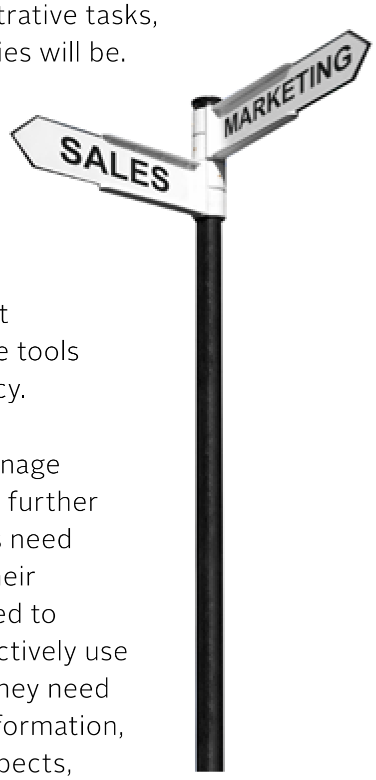
In the modern marketing and sales environment, successful sales are increasingly driven by information. Companies not only need to know which prospects and customers are worth investing in, based on Customer Lifetime Value (CLV)[1], but they have to use all the available data gathered during the marketing process to move potentially profitable prospects through the sales cycle quickly. As would-be-buyers empower themselves by researching potential purchases online before ever being in direct contact with a sales rep, companies have to do whatever they can to use the marketing intelligence this generates to understand who the customer is, what their profit potential is, and what the company can do to increase the margins.

The only way to gauge how successful your business is in dealing with customers is to measure success rates on a range of activities, as well as costs and revenues. Then use that information to develop a clear view of what your profit is and where it comes from. It is absolutely essential to view profitability by client, by area, by office, by type of work – whatever breakdowns work for your business. Profitability is the purest measure of financial success and the better a company understands it, the better its leadership can manage the business.

Reviewing and measuring what each pillar of the business needs to do to improve profitability

Sales

For a Sales department, time is money. The more time Sales can spend closing deals, as opposed to completing administrative tasks, the more profitable their activities will be. To improve sales productivity, management teams need to make sure they are looking for ways of better supporting Sales. That does not mean that the company directors should be micromanaging the team, but instead, ensure the team has the tools to operate at maximum efficiency.



Sales should be equipped to manage new business opportunities and further deals with existing clients. Sales need to have CRM data available at their fingertips and be properly trained to access the information and effectively use it. Essentially, to be profitable, they need to be able to call up the right information, about the right clients and prospects, at the right times in order to close deals. Reporting and updates need to be built into the company's processes and technical infrastructure to save time and ensure that no opportunity is squandered.

A Sales team can make or break a company and, if processes are not entrenched and effectively supported, effort gets wasted

[1] Who are my profitable customers and how can I find more just like them? Maximizer, April 2015

and the business can be at risk. Therefore, the management team needs to have a firm, measured grip on how the sales team is progressing towards its targets via reports. Sales reports allow a manager to see how much time salespeople are spending on different activities, if they are meeting their productivity goals and whether all the effort is actually translating into profits[2].

The following five types of sales reports help paint a useful picture of the sales representatives' activities, indicating where they are achieving success and where profitability is threatened:

- **The Daily Communications Report –** Know how many calls, emails and other communications your sales reps make each day. When analyzing this report, it is important to look at factors such as number of successive communications made, specific types of communications made, absence of a type of communication and excessive numbers of a certain type
- **The Productivity Report –** This report consists of a summary of outbound calls, conversations, voicemails, e-mails, customer meetings, product demonstrations and proposals generated throughout the day
- **The Pipeline –** This report encompasses all prospects actively being pursued by Sales and collates them according to their phase in the sales cycle. This allows the manager to keep track of how quickly a prospect progresses from lead to close and also, be aware of when a prospect drops out
- **The Sales Forecast –** The sales forecast holds sales people accountable for the deals they intend to close, helps determine which opportunities might call for executive attention, enables revenue projections and indicates what post-sale service might be necessary
- **The Long-Range Sales Forecast –** Prospects and customers in this report have told sales representatives that they have budgeted for a particular product or service in the future. This goes toward long-term planning and may not even be reflective of the sales pipeline.

These reports must reside on the CRM platform, providing both quantitative and qualitative information that management can review and then act upon to make changes in the team, adjustments according to performance, such as sending a rep for further training, or eliminating a type of approach for a specific product or target audience.

Marketing

With content-led inbound marketing playing an increasingly significant role in the generation of better quality leads that provide improved ROI, more effective measurement of campaign activity has become increasingly important to marketers.

A Cranfield School of Management survey of marketers conducted in 2013 identified improving the measurement and accountability of marketing investment and activities as one of the top three marketing priorities for companies[3]. This and other top marketing priorities are linked as having the right technology – i.e. marketing automation and CRM, which makes better measurement possible.

[2] Sales and Marketing Management, 5 Sales Reports Every Sales Manager Should Be Reviewing, January 2010

[3] Ideas for Leaders, New Priorities for Marketing Leaders, 2015

A reliable and practical process for tracking and measuring marketing ROI provides a valuable means of determining how to increase profit potential. The ability to identify strengths and weaknesses in campaigns and make adjustments based on ROI-related data enables Marketing to improve effectiveness. Inefficient operations put a massive strain on marketing resources, which hinders efforts and lead generation.

A company's leadership team and its top marketers need to work together to ensure: the organization has sufficient and standardized tools for measuring and assessing ROI; everyone who needs to has access to the resulting data; and the processes and technical infrastructure are in place for putting the tools to good use. Measurement success is determined by deciding when to measure, what to measure and how to measure[4].

A good marketing report examines metrics that are indicative of whether the department is contributing to the achievement of key business goals, the most important of which is profitability. Marketing automation, CRM data and online analytics have made it easier than ever for marketing to establish where things are going right and wrong. According to HubSpot the most important metrics are:

- Customer acquisition cost
- Marketing percentage of customer acquisition cost
- Ratio of customer lifetime value to customer acquisition cost
- Time to payback customer acquisition cost
- Marketing originated customer percentage
- Marketing influenced customer percentage[5].

It is important that company leaders evaluate these metrics together with sales metrics to ensure that the proper coordination between the two teams is taking place and that highly productive results on one side of the equation are properly feeding into the efforts of the other. Management needs to ensure, for instance, that leads passed on from marketing are being followed up effectively by sales and that feedback from sales on lead readiness is being picked up by marketing.

Finance

Buy-in and participation by Finance is critical to leveraging sales and marketing improvements to boost profitability.

Finance often provides the backing for investment that will result in better ROI and improved profitability. Finance needs to liaise with the company leadership to plan and determine the financial outcomes of marketing and sales investment. To give its full backing, Finance needs to quantify the expected outcomes from the planned investment. This is achieved by running the numbers and analyzing what the expenses are against the incremental sales and financial contribution[6].

4 Lenskold Group, CMO Guide to Marketing ROI, 2010

5 Hubspot, The 6 Marketing Metrics & KPIs Your CEO Actually Cares About, January 2013

6 Lenskold Group, CMO Guide to Marketing ROI, 2010

In order to assess and maximize profitability the finance department needs to be measuring, using activity-based costing:

- The processes and expenditure practices to identify profit wastage
- Customer profitability
- Customer returns that you are making the most profit from
- Inventory and resource management[7].

Finance provides the all-important reality check on the marketing and sales process with respect to profitability. However, if the sales and marketing departments are faithfully and correctly measuring and analyzing their activities and justifying investment, Finance will have all the reason it needs to back their efforts.

The value of leadership in establishing the right processes to improve profitability

Every company needs a leader to establish a vision and oversee the implementation of that ideal, while balancing the relevant benefits against costs. Someone needs to lead the way in ushering in changes that better equip the company to succeed. A big part of leading a business is then ensuring Key Performance Indicators (KPIs) are in place to get the entire company performing properly and achieving measurable targets.

In order for companies to improve overall efficiency and profitability, leadership also needs to build a management team equipped to interpret and act on the incoming data. This team of top managers can then work to enact the leader's vision for building profitability, encouraging employee buy-in while making efforts to explain why the related processes and solutions are important.

A leader also needs to look at how the company is equipped to execute their vision and achieve greater profitability. The company needs the right mix of properly trained employees and technical infrastructure, including a CRM solution that acts as a platform for the processes and activities necessary to ensure ROI and profit growth.

A paper published in the Harvard Business Review in 2014 identified five drivers of organisational effectiveness that company leaders should be aware of, including:

1. Connecting marketing to their business strategy and to the rest of the organization
2. Engaging all employees with brand purpose
3. Focusing their people on a few priorities as opposed to many tasks simultaneously
4. Organizing and promoting agile, cross-functional teamwork
5. Building internal capabilities that are needed for success[8].

[7] Lenskold Group, CMO Guide to Marketing ROI, 2010

[8] Harvard Business Review, The Ultimate Marketing Machine, August 2014

Improving profitability using methods and reporting tools that promote efficiency

When implementing measurement-based reporting as a methodology for improving profitability, it is vital to start by identifying and managing costs. The easiest way to achieve this is to conduct an annual or even quarterly profitability analysis. This will enable you to examine the exact amount of time and money spent on different customers, while comparing the current year's sales with previous years. You also need to use the reports being generated to analyse the conversion rate on a monthly basis. This helps you to identify pain points and determine the causes.

To enact plans that meet growth goals, companies also need to find ways of bolstering marketing and sales effectiveness at little additional cost. According to global management consulting firm Accenture, there a number of ways to do this:

- Leverage social media, mobility and analytics to support the investments which have been made in marketing and sales technology
- Employ descriptive and predictive analytics to gain a full view of customers and take pre-emptive steps in the sales, marketing and service continuum where churn might occur
- Look at customer-buyer analytics, customer value analytics, and cost-to-serve analytics in order to focus the sales models
- Align costs to serve based on the overall value of the customer to the company, while creating personalized messaging for each[9].

Improved efficiency not only boosts ROI by alleviating strain on marketing and sales resources, it frees up more resources to improve targeting and retention activities aimed at more profitable customers.

Where CRM fits in – measuring, reporting and action

CRM provides a foundation for measuring profitability, ensuring that all the necessary data is accessible and analyzable for everyone in the business who needs it. The reports generated from an effectively configured CRM solution can highlight performance hot spots, flagging up where activities should be emulated or adjusted.

Using a well adopted CRM system enables workflow automation to establish standardized, repeatable and effective methods of managing customers. All essential business processes are aligned into one system, which will help increase ROI while significantly impacting lead generation and, at the end of the day, enhancing profitability.

CRM helps to make management decisions quicker, while ensuring the resulting actions are based on up-to-date factual assessments of the business. It also enables the collection and analysis of information streams from different sites and different departments. CRM puts up-to-date information in the hands of management, making realistic forecasting easier and informed business decision-making the norm.

[9] Accenture, Top Five Focus Areas for Improving Sales Effectiveness Initiatives, 2013

Proof points: case studies that demonstrate the power of measurement

Evidence from case studies demonstrates that measuring factors affecting profitability improves efficiencies and, ultimately, margins.

Ariat (2013) – By implementing a campaign tracking strategy and robust measurement via a CRM solution, Ariat (an equestrian athlete apparel and footwear company) saw a 17% increase in per-visit value on their website, data driven improvements that led to an 18% decrease in cart abandonment, a 14% increase in e-commerce rates, and a 206% increase in email signups. This activity revealed a fantastic ROI and provided the company with opportunities for future growth[10].

Maass Media (2013) – A boutique digital analytics consulting firm that focuses on implementation, reporting, analysis, optimization and training, helped a large telecommunications company to understand how display campaigns contribute to lead generation and to be able to make better decisions around budget allocation. Using a data-driven attribution model they discovered that some placements were undervalued by 58% and the client gained a new found confidence in data driven marketing decisions[11].

Conclusion

No matter what size your business is, measuring and understanding your profitability is critical to success, as is using CRM to manage the process. There is no point taking a shot in the dark and guessing where your profits are coming from, when all the necessary up-to-date information can be put at your fingertips. Having the figures to hand and using them to guide management decisions will significantly bolster your leadership and enable you to steer the business to a stronger position in the marketplace.

What's more, making the effort to implement measurement processes, encouraging and training your staff to follow them, and then analyzing the resulting data will ensure you have a clear view of your company's profitability and what factors are affecting it. CRM is essential to achieving this clarity with respect to profits, providing a basis for managing the whole process and ensuring everyone involved is on the same page and doing their part to increase margins.

[10] Google Analytics Case Study, Ariat Uses Data to Improve Customer Experience and Drive Results, 2013

[11] Google Analytics Case Study, Display leads increase 10% while cost per lead remains flat thanks to Data-Driven Attribution, 2013

About Maximizer

Maximizer CRM is fueling the growth of businesses around the world.

Our CRM solutions come fully loaded with the core Sales, Marketing and Service functionality companies need to optimize sales productivity, accelerate marketing and improve customer service. With flexible on-premise, our cloud and your cloud deployment options, tailored-to-fit flexibility, state-of-the art security infrastructure, industry-specific editions and anywhere/anytime mobile access, Maximizer is the affordable CRM solution of choice.

From offices in North America, Europe, Middle East, Africa and AsiaPac, and a worldwide network of certified business partners, Maximizer has shipped over one million licenses to more than 120,000 customers worldwide.

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