You Can't Sell Your Way Out of Operational Business Problems

6 min read

Key Takeaways

- Only by focusing on the profitability of all your projects, customers and your jobs are you able to understand your most lucrative industries and businesses. To bring in clients that add value to your business, spend time studying and understanding the services you offer that are most profitable.
- Taking educated and calculated risks are the way to go, and you can take those risks if you track valuable KPIs over the course of the year as well as have access to pertinent financial reports.
- You can't and shouldn't try to sell your way out of business problems. Operational issues need to be addressed at the source and increasing sales will likely only exacerbate them.

Many CEOs have the mistaken belief that they can sell their way out of operational or cash flow problems. We all love sales, but you want to be sure you are selling to the 'right' clients for long-term growth, and that you are reaching your gross profit margins to improve cash flow.

Cash flow issues can lead to bad decision-making like accepting any client, even 'bad' ones, just to simply secure a sale, or pricing decisions by lowering prices to get the demanding client. If you are experiencing operational problems, sales won't fix what is causing that either, so it is important to look at your leading indicators.

You can only sell your way to success and solve your problems IF you are selling good business and if you understand your KPI's to profitability.

Good Money Clients Versus Bad Money Clients

Clients that help your business achieve your target margin fall in the "Good Money Client" category. They have a good relationship with you and feel like they're paying for a service and results they wouldn't have been able to achieve on their own. You're happy and so are they!

On the other hand, you have clients that are perpetually unhappy no matter what you offer them. They drag your business down, and it's not easy to get out of what soon becomes a downward spiral including decreasing margins. The amount of energy and resources you need to put into a bad fit client is seldom worth the effort. If you have cash flow issues, you can be tempted to close a less than optimal business, but this will almost always come back to bite you. Margins, productivity, profits, and cash flow can be impacted in many ways, not to mention keeping your most valuable assets - your employees - happy.

Focus on "Selling" – Selling to the "Right" Client

Only by focusing on the profitability of all your projects, customers and your jobs are you able to understand your most lucrative industries and businesses. To bring in clients that add value to your business, spend time studying and understanding the services you offer that are most profitable. But hold that thought! *Do not make the mistake of confusing the largest client you have with the one that is most profitable.*

Business owners always know the largest clients on their books but when asked who their most profitable clients are, the answer almost always is "I don't really know" or "How do I go about finding that?" This is because they are not tracking the true cost of resources and materials required to do a job and are unable to see the true profitability of a customer.

This translates back to them not knowing *that sometimes their bigger clients could actually be their **lowest margin clients**.*

Strategic Value Sales

Unless there is a strategic value to having a big-name client, who probably doesn't pay in the time frame your business requires, selling more of those will only push you deeper into a cash flow hole. Whereas, if you knew which of your smaller clients generated more profits versus just revenue, you are in a better position to make decisions, which involve directing your Salesforce to target a particular industry, service and thereby adding the most value to the right target market.

Businesses that see growth are the ones that focus on selling to good clients. They have an ideal client profile they sell against - targeting industries, company size, company lifecycle stage, and buyer and user demographics and psychographics. They put their sales focus on finding more of these ideal fit clients.

Businesses should continually analyze their client base and should let go of low-margin clients and replace them with high margin clients where possible. This helps maximize profits and get the most out of your people.

Problems and Decisions

In our blog, [How Cash Flow Problems Cause Business Owners to Make Bad Decisions], we discussed these three critical **decision areas** in more detail:

1. **Pricing**

Having **decision-ready** financial reports at your fingertips provides you with access to profitability by customer and by job (or by the way you want to see it). If you bill by person, look at the profitability by person. If you bill by team, then make that the focus.

2. **Hiring/Firing**

Hiring a new employee is adding a fixed cost to your business. The fastest way to increase your profitability is to let your lowest profitable client(s) go and replace them with new high-margin clients. *This way you are getting a higher amount of revenue from the same number of people.*

3. **Spending**

Taking educated and calculated risks are the way to go and you can take those risks if you track valuable KPIs over the course of the year as well as have access to pertinent financial reports.

Real-Life Examples

Chief Outsiders uses their management reports to help them understand their profitability by partner/CMO, by city, by state, by region, and by the company. Each individual CMO can now see their profitability and what they're contributing to the company. Each City Manager can view which CMO's are the most profitable. The Regional Managers then not only get to compare all the profitable cities in their region, but they also get to isolate the ones that are least profitable.

The insights from their management reports are immensely valuable to the CEO on the Executive team who can look across the country and compare the Coasts as well as the Central regions.

Liberty Pipeline needed to see the hidden costs, time, and (out-of-scope) leakage associated with each job in their management reports. For example, Project Managers that are in the corporate office, working on planning, scheduling, and staffing the job– this cost needs to be a part of your bid since it is the cost of *doing the job*. It could also be employees performing *quality control* in which case you need to ensure that their time is being billed. If travel is involved to the customers and jobs, recover those costs by *including travel* time in your bid. Keep in mind that you may not get full value for these, but it is essential that they not be left out when you're pricing your jobs.

Find the True Costs - Look to the Past

First making sure you have studied past jobs, especially ones that had lower margins, and that your pricing includes all the costs you will incur on a job. It’s important to understand the reasons behind the lower margins. Did you include the right estimate details for the job? Was the estimate for a certain job 10 hours but in reality, it took 15 hours? This information is necessary before you work on the next job since you will need to include the additional hours in your next proposal.

You can’t and shouldn't try to sell your way out of business problems. Operational issues need to be addressed at the source and increasing sales will likely only exacerbate them. Cash flow issues may seem more likely to be eased by increasing sales - but only if you are selling “good business” to opportunities that fit your ideal client profile and who are likely to turn into high-profit margin clients.