



Unlocking Potential | Creating Wealth | Delivering Freedom

## Case Study – Contract Business



### WOW Electrical

Delivering the WOW Factor

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Case Study – Contracting Business – WOW Electrical

## WOW Electrical

This case study is a typical example of a contract type business that offers manufactured and contract products and services, with a procurement or purchase cost associated with most, if not all, sales. The majority of the operating costs for this business lie within the cost of sales, which is an entirely different model to that described in Case Studies 1 & 2 and shows how the FREEDOM Dashboard can be used in different business model scenarios. This example demonstrates how the principles of the FREEDOM Dashboard may be applied to similarly structured businesses, some of which may be:

- Building Civil Engineering Contractors
- Sub Contractors
- Manufacturing

*WOW Electrical* is a small business with a few income streams. However, for ease of book keeping, they group the income streams together and put a single entry of “Sales Turnover” into their Profit and Loss Account.

The Profit & Loss Account for the business is shown below:

P&L Account		
Sales	£900,000	
Cost of Sale	£630,000	
Gross	£270,000	30%
Overheads	£220,000	
Net Profit	£50,000	5.5%

The existing net profit after all costs is £50,000; this represents 5.5% of sales.

The directors have been looking at the performance of similar businesses and want to improve profitability to 15% as many of their more profitable competitors are achieving this level.

Achieving this will improve the profit on the existing turnover to £135,000.

The directors are not sure how to achieve this increased profit and ideally would like to reach a profit level in excess of £200,000.

To enable a thorough diagnostic assessment of the business and its marketing and sales functions the following information was extracted from the accounting system.

Departments	Total Annual Sales	Total No. Invoices	No. of Clients invoices were sent to	Conversion Ratio
Total Sales Turnover	£900,000	180	30	33%

From this data we are able to calculate the remaining business drivers of:

- Average Sales Value
- Frequency of Sales
- Number Opportunities to create the sales

**Average sales = Total sales / Number of invoices**

Departments	Total Annual Sales	Total No. Invoices	Average Sales
Turnover	£900,000	180	£5,000

**Frequency of Sales = Number of invoices / Number of customers the invoices are sent to**

Departments	Total No. Invoices	Total No. Clients	Frequency of Sales
Turnover	180	30	6

**Number of Opportunities required = Revenue / Gross Margin / Av. Sales / Frequency / Conversion Rate**

Departments	Revenue	Gross Margin	Av. Sales Value	Frequency	Conversion	No. of Opportunities
Turnover	£270,000	30%	£5,000	6	33%	90

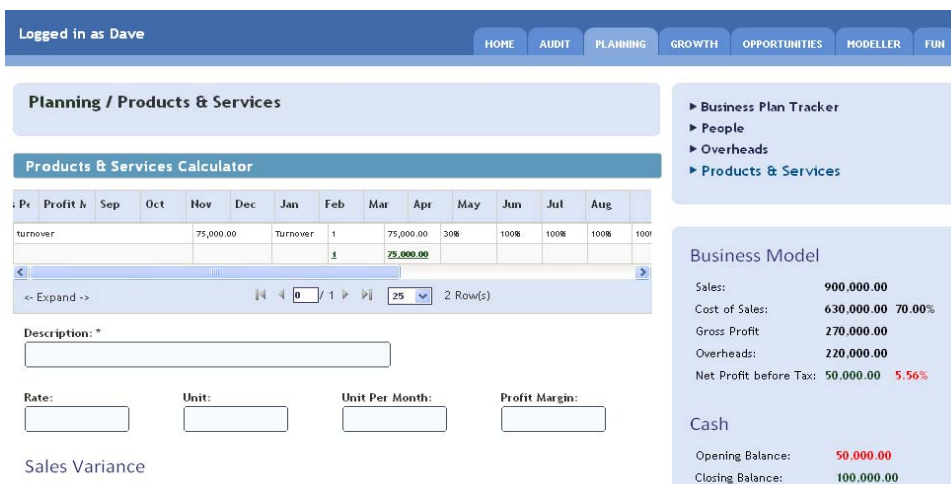
We now have all the information we need to develop business and marketing strategies for the business.

## Business Planning Tool

Before we begin to develop growth strategies, it makes sense to create the existing business model. We have used the FREEDOM Dashboard to do this, entering the People related costs then other Overhead costs giving us the total cost of running the business (this is sometimes known as breakeven).

As WOW Electrical don't break down their income streams, we are limited in the information we can input to the Planning Tool; if more information is available it can be entered giving a more detailed perspective of the business:

### The Product/Services input screen showing the income streams



Logged in as Dave

HOME AUDIT **PLANNING** GROWTH OPPORTUNITIES MODELLER FUN

Planning / Products & Services

Business Plan Tracker  
People  
Overheads  
Products & Services

Products & Services Calculator

Pr	Profit %	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
turnover				75,000.00			Turnover	1	75,000.00	30%	100%	100%	100%
									25,000.00				

25 2 Row(s)

Description: \*

Rate:  Unit:  Unit Per Month:  Profit Margin:

Sales Variance

**Business Model**

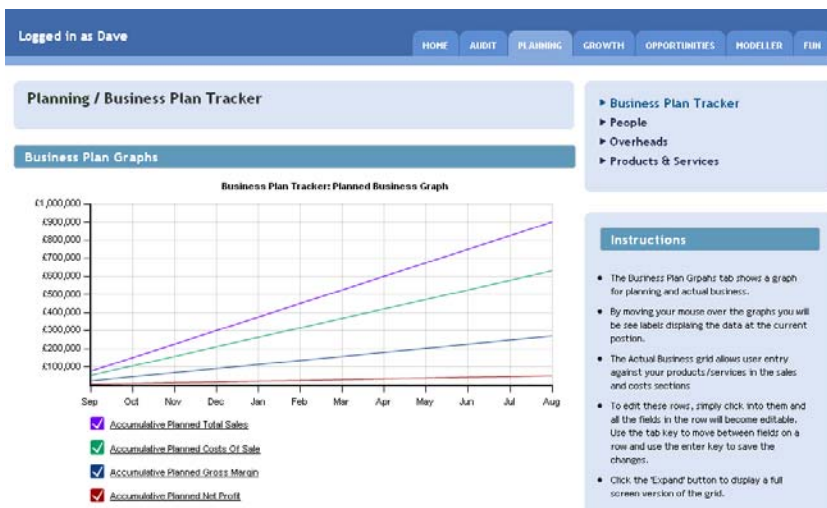
Sales: 900,000.00  
 Cost of Sales: 630,000.00 70.00%  
 Gross Profit: 270,000.00  
 Overheads: 220,000.00  
 Net Profit before Tax: 50,000.00 5.56%

**Cash**

Opening Balance: 50,000.00  
 Closing Balance: 100,000.00

By doing this we can instantly see a graph representing the profitability of the business. Visuals are a great way to drive a business forward!

### Business Model Graph showing a small net profit



Logged in as Dave

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Planning / Business Plan Tracker

Business Plan Tracker  
People  
Overheads  
Products & Services

Business Plan Graphs

Business Plan Tracker: Planned Business Graph

£1,000,000  
 £900,000  
 £800,000  
 £700,000  
 £600,000  
 £500,000  
 £400,000  
 £300,000  
 £200,000  
 £100,000

Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug

Accumulative Planned Total Sales  
 Accumulative Planned Costs Of Sale  
 Accumulative Planned Gross Margin  
 Accumulative Planned Net Profit

**Instructions**

- The Business Plan Graphs tab shows a graph for planning and actual business.
- By moving your mouse over the graphs you will see label displaying the data at the current position.
- The Actual Business grid allows user entry against your products/services in the sales and costs sections.
- To edit these rows, simply click into them and all the fields in the row will become editable. Use the tab key to move between fields on a row and use the enter key to save the changes.
- Click the 'Expand' button to display a full screen version of the grid.

## Strategy Development

We then went into the Growth Tool to model the growth capability of the business (with discrete functions this can be done for each to gain real focus).

Using the current performance figures we input the data into the “*Existing Model*” column and then start to develop a strategy by entering %improvement figures and observing the impact on the “*Planned Model*”.

The strategy that appealed most to the directors was to leave the number of **Opportunities**, **Frequency** of Sale and **Gross** Margin the same and improve the remaining two business drivers of **Conversion** of existing opportunities and **Average Sale**. The result can be seen in the following screen-shot:

## Business Growth Model

Growth / Business Growth Tool				
Business Growth Tool				
Variables	Existing Model	% Improvement	Planned Model	Difference
<b>Referrals/Opportunities</b> <small>The number of referrals/opportunities you get per year</small>	90	0 %	90	0
<b>Conversion</b> <small>The % of referrals/opportunities you convert into business in one year</small>	33.33333 %	50 %	49.999999 %	16.666666 %
<b>Frequency</b> <small>The number of times you repeat the business with the same contact in one year</small>	6	0 %	6	0
<b>Average Sale</b> <small>The average value of each referral or sale</small>	£ 5000	50 %	£ 7500	£ 2500
<b>Gross Margin</b> <small>The gross profit made on referrals or sales in one year</small>	30 %	0 %	30 %	0 %
<b>Revenue</b> <small>The profit you make on the business in one year before overheads</small>	£ 270000.0		£ 607500.00	£ 337500.00

▶ [Business Growth Tool](#)

▶ [More Referrals](#)

▶ [Improve Your Conversion](#)

▶ [Improve Your Frequency](#)

▶ [Improve Your Sales Value](#)

▶ [Improve Your Gross Margin](#)

**Instructions**

- To use 'Business Growth Tool' simply enter your data into the fields and the tool will automatically save your changes as you tab out of the fields.
- Click the links above for tips on how to improve certain business criteria.

A key benefit of the Planning tool is that it allows a large number of strategies to be developed and tested for best fit. Each business has different strengths, weakness, opportunities and threats and these must be explored fully to determine the most appropriate for each business and situation. The actual strategy for your business will depend on this form of further analysis.

The strategy created in the above table is based on a “*get more from what you already have*” approach; the marketing tactics will mostly be internal but there will be some external ones relating to customer relations.

The action plan required to make this a success can be developed through reviewing the strategies available in the links within the Growth Tool.

The overall effects these strategies have on the business are as follows:

## Business Modelling

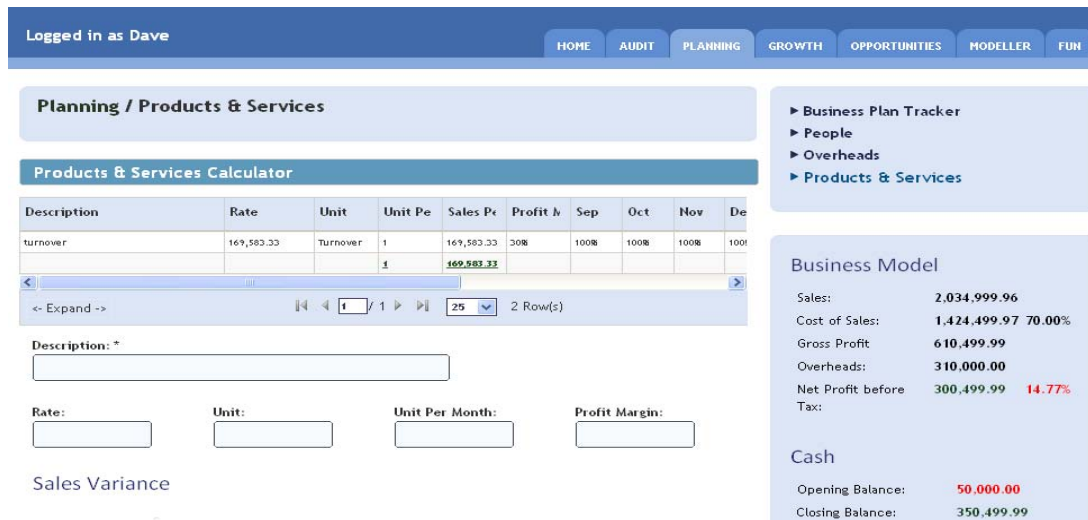
	Total Annual Sales	No. of Invoices	No. of Clients	Gross Margin	Av. Sales Value	Frequency	Conversion
Existing	£270,000	180	30	30%	£5,000	6	33.3%
Proposed	£607,500	270	30	30%	£7,500	6	50%
Difference	£337,500	90	-	-	£2,500	-	16.6%

$$\begin{aligned} \text{The new Sales Turnover} &= \text{Revenue} / \text{Gross Margin} \\ &= £607,500 / 30\% = £2,035,000 \end{aligned}$$

The above table shows the considerable difference this exercise has made to Annual Sales.

For the proposed strategy to work, WOW Electrical will have to increase staff; the FREEDOM Dashboard provides a ready means to run a new financial model.

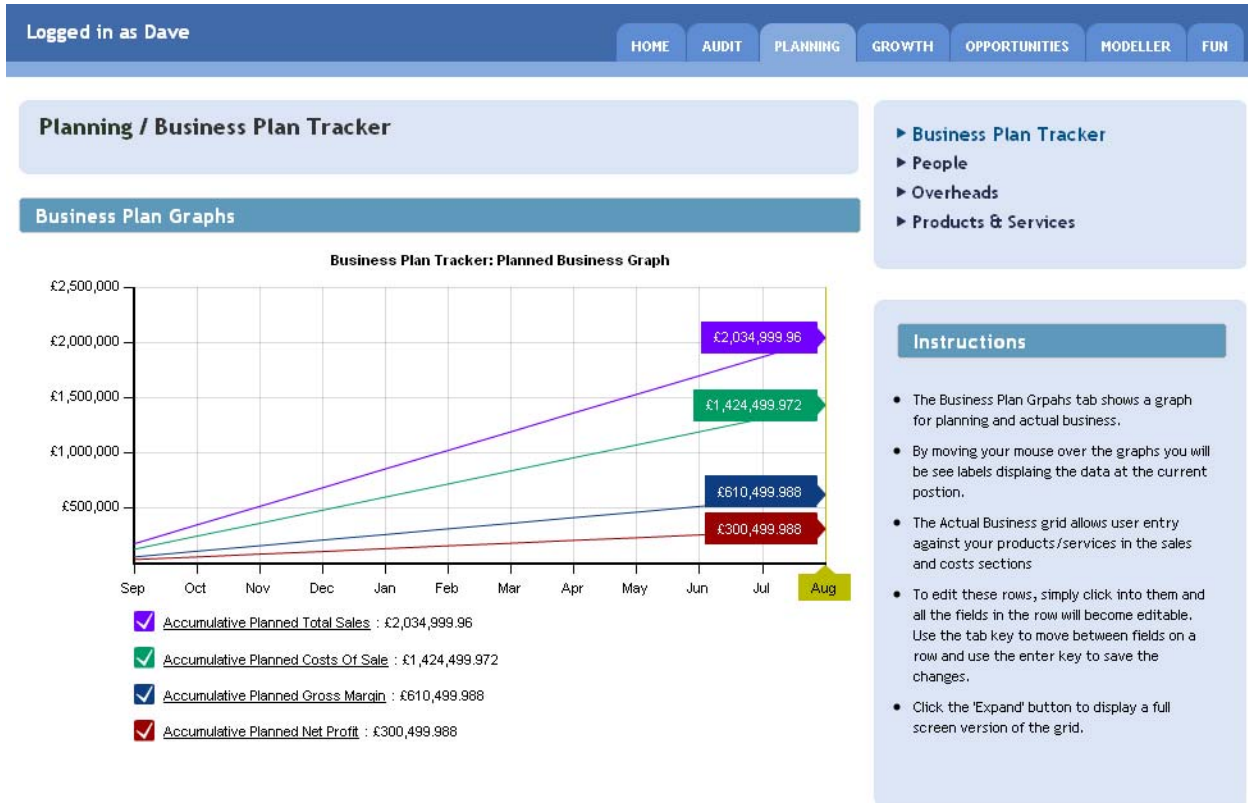
We added the proposed additional staff to the People section and could immediately see the impact on the Overhead section. Turnover was then adjusted to meet the projected increase in sales. The overall effect of this increased number of invoices on the overall sales can be seen in the table below:



Operating costs have increased £734,400 to £922,560. This is due to employing another 8 staff at a cost of £188,160. A staffing plan was developed to show how the increase in staff, and associated additional staff costs, would be phased inline with increased workload.

Net profit has improved from £21,600 to £342,000 which is 27% of sales value, well above what the directors were looking for.

The revised Business Plan Tracker now shows a much healthier profit.



## Execution

Execution of the plan is critical. Implementing this strategy will work providing the Dashboard is used to monitor the overall turnover of the Business.

However, to optimise success and enable a better understanding of the profitability of each line of business, it is key for WOW Electrical to start managing them separately. This is easily done using the Dashboard by creating logical and measurable groups of revenue generating activity.

Profitable and less profitable activities can then easily be identified, enabling the entire business to become more streamlined.

Every opportunity identified can be entered into the Opportunity Register and allocated to the relevant line(s) of business, enabling better understanding of customer profiles and feeding the targeted marketing campaigns that can then be developed.

The FREEDOM Dashboard provides visibility and accountability and helps drive the strategies to achievement.

## Strategies

### Retention Strategy

The retention strategies included:

Introduce a quality customer service team, empowered to drive service and thereby increase sales from existing customers.

A communication strategy is required to ensure each customer gets the very best after sales service. The culture is to deliver services by ladies and gentlemen to ladies and gentlemen.

Introduce the following Quality standards:

*“WOW Electrical promises to deliver quality services that exceed customer expectations every time”*

*“Customers will experience the WOW factor every time they contact us”*

A calendar of PR events is necessary to keep in touch with customers who wish to participate.

### Profit Strategy

The profit strategy is to get more from less. The main push for this will be performance and solution based mentoring and coaching of senior staff.

Key focus will be given to:

- Time effectiveness and productivity
- Customer awareness
- Effective service delivery

The core strategies will be set within the organisation using the technique of balanced score cards.

Tactics for the following strategies can be found on the Freedom Dashboard. There are 280 ideas to pick from.

- Conversion Strategy
- Frequency of sale strategy
- Average sales value strategy



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## Looking For Help?

If this case study interests you and you would like to find out more you can either call Robyn on

**0845 602 2588**

Or you can try the Dashboard for yourself on your FREE 30 day trial. Just go to the FREEDOM website and follow the instructions. We are confident that the FREEDOM Dashboard will deliver great value.

You can use the FREEDOM Dashboard for just £23 + VAT per month.

**[www.freedombusinesscoaching.com](http://www.freedombusinesscoaching.com)**

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Home / Member Dashboard

► Upgrade to Freedom Plus

► Toggle Tolerances

**Instructions**

- The dials on the left represent an overview of your business data.
- Click the 'Toggle Tolerances' link above to change the percentage of tolerance against each dial.
- The 'Business Performance' dial displays a colour temperature ranging from green for positive to red for negative.