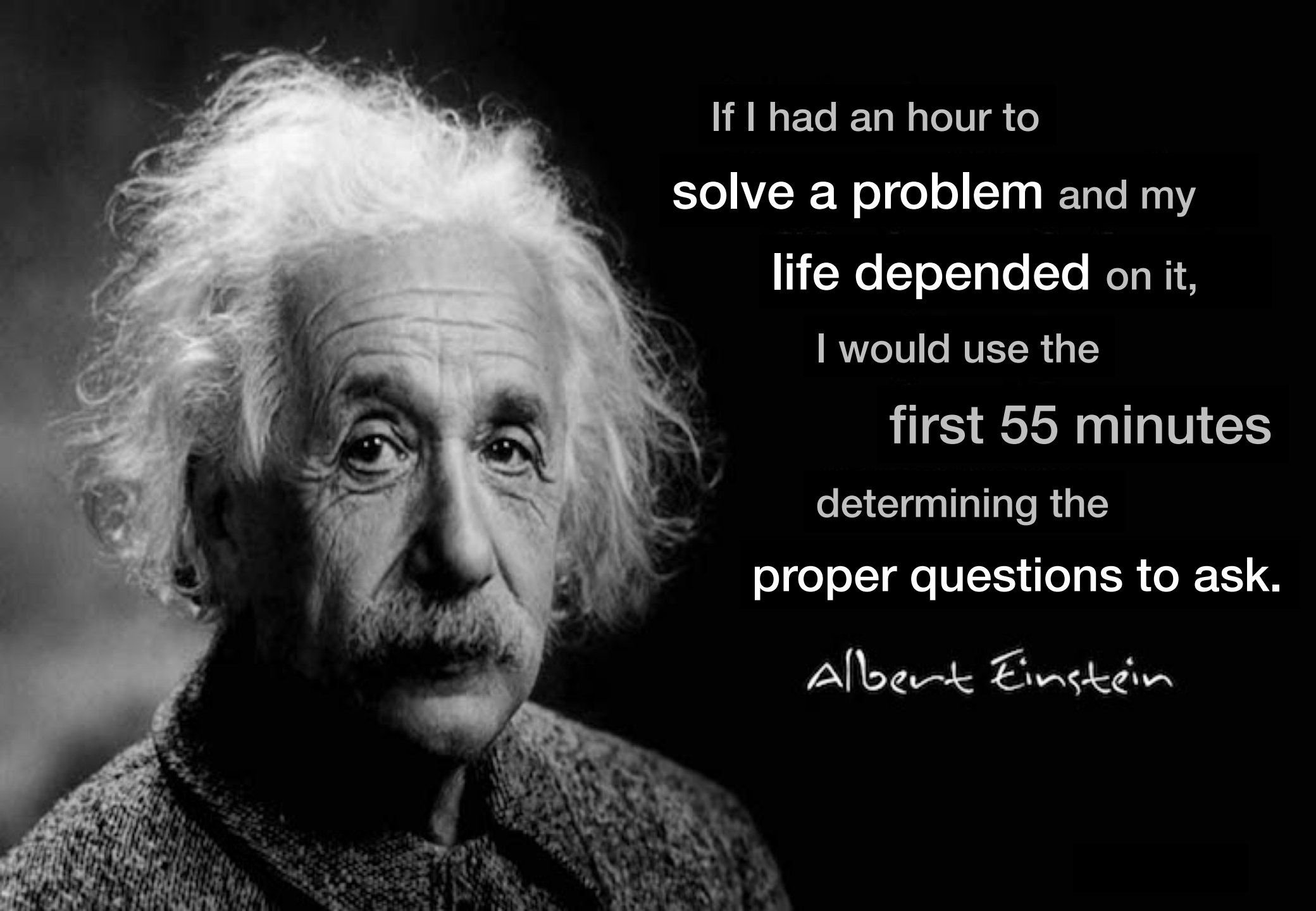
If I had an hour to
solve a problem and my
life depended on it,
I would use the
first 55 minutes
determining the
proper questions to ask.
Albert Einstein

"The most serious mistakes aren't being made as a result of wrong answers.

The true dangerous thing is asking the wrong question."

Peter Drucker

Unless you live in the La-La Land of Silicon Valley and it's so-called "unicorns" that grow like crazy but continually deliver enormous losses, you ideally want to own, run or work in a company that's growing and profitable. Because in the real world – which incidentally all those unicorns will eventually have to live and survive in, if you can't grow ***and*** make a profit, you die. Even that Silicon Valley pixie dust can take you only so far.

For as long as I can remember the number one - and often the only answer to the question, "How can we improve our profits?" has been, "…reduce costs. Cost reduction is also invariably the only option ever on the table for businesses that get into trouble and experience falling profits or worse - losses, and need to turn around fast.

Prudent cost management is one of the corner-stones of any sustainably profitable business. But it is no lever for driving growth, and as a means of arresting a downward slide in profits, aggressive cost reduction is blunt instrument that can inflict as much damage as the problem it's meant to fix.

There also happens to be a far better way to not only achieve more profitable growth but also to turn around downward spirals brought on by difficult markets and falling sales. One that's not only more effective, but far less risky and costly.

A broader perspective on profitable business growth

Let's say we wanted to double our profit. Our company already turns over $10M annually in sales, and produces $4M in gross profit and $1M of EBIT after overheads of $3M.

If cost reduction was to be our chosen strategy, we would need to shed 34% of our cost base; $1.09M in total. Most companies would struggle to reduce their cost bases by even half that amount without significantly affecting their ability to function at all. The risks associated with cost cuts at that scale make the whole concept not just counter-productive, but downright dangerous.

But how many businesses could even think in the first place about reducing their cost bases by 34%? There aren't many organizations today carrying 10% of "fat", let alone 30 plus percent.

So cost cutting won't double our profit.

The second lever we have at our disposal is to increase our sales price(s). If we can sell what we make for more without increasing our costs our profit will improve.

Doubling profit would require our sales price(s) to increase by 25%. Like most companies, we don't exist in a vacuum, and our competitors would have a ball at our expense were we to try something like that. In 2019 the practical reality for many organizations is that they are already hanging on to sales and market share through some degree of discounting. Lifting our sales prices isn't an option either – certainly not to the tune of 25% .

We could of course employ a hybrid strategy combining some cost reduction and some price increases. Doubling profit would still require a 14 -15% reduction in overheads and a similar level increase in sales prices. In the hyper-competitive world of 2019, are either of those serious options? The cold reality is that both these strategies carry significant risks that can easily harm rather than help the business. And neither is sustainable; we couldn't do either or both for two years running.

Alternative views to cost reduction

The average corporate revenue pipeline in March 2019 converts 1.92% of leads into sales. The reasons and history behind that surprisingly poor statistic are discussed in more detail on www.rpmgi.com.

Roughly one third of marketing leads convert into sales opportunities. One third of those opportunities convert into offers of some kind being made to a prospective customer, and one fifth of those offers are accepted. As a business

process - arguably the most important one of all, the process of producing revenue is, quite frankly, pretty awful. One third (34.2%) times one third (33.0%) times one fifth (17.0%), equals 1.92%.

But thanks to the power of compound interest and something we've called Marginal Gain Theory™, that dreadful statistic hides within it the secret of how to drive significant increases in profitability without the need to consider risky options like sales prices or costs.

Marginal Gain Theory™ and the transformative power of incremental improvements

All that is required to double profit in an organisation whose pipeline is operating at the two percent global benchmark, is a 0.5% improvement in that conversion rate. One half of one percent. To see a case study demonstrating this surprising but frequently overlooked phenomenon, click here.

A one half of one percent improvement in revenue pipeline conversion can deliver the same ultimate financial impact as a 34% reduction in costs or a 25% increase in sales prices. At one versus one-half percent, the conversion improvement is the equivalent of both done simultaneously.

The real beauty of this powerful "new" pipeline equation however isn't in its blistering simplicity or its ability to easily match and surpass the impacts of the cost and price alternatives at a fraction of the risk and cost. It's true potency and power comes from its ***sustainability.*** As mentioned previously costs can only be removed once. In a process that fails 98.08% of the time, ask yourself how many 0.5% improvements might be possible and over how many years?

Marginal gains and compound interest applied to pipeline conversion

The power of compound interest isn't a new phenomenon. Anyone who's ever borrowed money from a bank understands the concept and why Einstein said what he did.

The more interesting question however, and the reason for the title of this thought piece, is why so few people have thought about its wider business applications? Specifically its ability to transform corporate revenue productivity, profitability and valuation.

"An improvement of 0.5% in the rate of conversion of the revenue pipeline is enough by itself to double profitability – and valuation.

No changes are required to costs or prices."

Particularly when the currently anemic rates of pipeline conversion only serve to amplify the overall financial impacts.

A company whose revenue pipeline is converting at the two percent global bench-mark need only convert 2% more leads into opportunities, 2% more of those opportunit- ies into offers, and 2% more of the offers into sales to increase their end-to-end conversion by 0.5% and their profit by 100%. Even though their productivity will still only be 2.4%, still failing 97.6% of the time. That's after one year. Think for a minute about year 2, 3, 4 ….. and so on?

This is the power of compound interest coupled with Marginal Gain Theory.™ A few incremental percentage improvements at key points in the process allowed to compound on each other and then year over year.

Sustainable revenue, profit and business growth

For any decision, there is basically no discernible difference in outcome between making a choice that is one percent better versus one that is one percent worse. Either way, we won't notice much today. Or even tomorrow. But as time goes on, the small improvements – deteriorations, compound until one day we realise we have a very big gap between where we are and where we thought we should be. In fact there's a huge difference over time between

Albert Einstein was once asked what he thought was the greatest invention in human history.

He simply replied, "Compound interest!"

slightly better or slightly worse decisions. Small choices don't make much difference at the time, but they don't take too long to add up.

When things start slipping, even by only small amounts, they frequently go unnoticed because the immediate impacts are often so small they're next to invisible. But it's the compounding effect of keeping on going with those poor decisions, of never realising and taking action to get back on track that causes the biggest problems.

The idea of aggregating marginal gains has already proved to be enormously powerful in the world of marketing and selling. Most people love to talk about their successes as individual events. We talk about running a great campaign, closing a big sale or building a successful business as if they are events. But the truth is that the truly significant things in revenue creation and business building aren't stand-alone events at all, but rather the sum of all the often unspectacular, seemingly insignificant things we can choose to do one percent better or one percent worse. aggregating these marginal gains can make an immense difference.

Options for doubling profitability

LEVER OPTION	CHANGE REQUIRED	ASSOCIATED RISKS
COSTS	34% ⬇	• LASTING / PERMANENT HARM TO THE BUSINESS • COSTLY AND RISKY TO IMPLEMENT • UNSUSTAINABLE BEYOND ONE YEAR
PRICES	25% ⬆	• RISKS MARKET SHARE AND SALES • UNSUSTAINABLE
PIPELINE	0.5% ⬆	• VIRTUALLY RISK FREE • LITTLE TO NO INCREASE IN OVERHEADS • SUSTAINABLE FOR MULTIPLE YEARS

About RPMGi

RPMGi has been helping organisations around the world find and aggregate those small percentage revenue conversion gains into substantial sales and profit gains since 2005.

Learn more at www.rpmgi.com.