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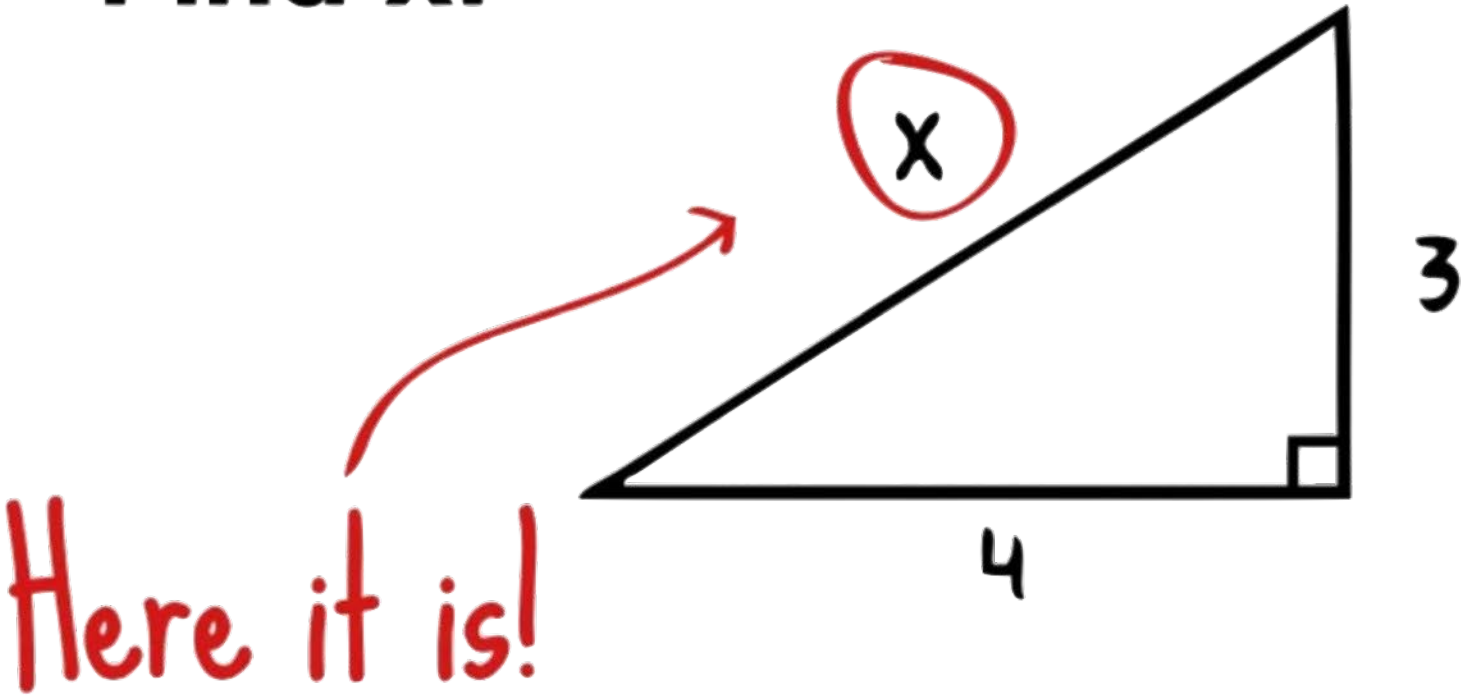

The answer you get often depends on the question you ask.

“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

When I was growing up my Dad was fond of saying, “Ask a stupid question, get a stupid answer.” And I’ve asked and given plenty in my time. Life isn’t nearly that simple though. American philosopher Thomas Kuhn once said, “The answers you get depend on the questions you ask.” Ask a good question, get a good, answer – hopefully at least. Ask a dumb one, and …..you get the idea. It’s not a hard concept to understand, and it’s especially topical – and compelling, for businesses in the age of the COVID19 pandemic.

To respond to the pandemic, most companies reached for the “cost” lever. And rightly so. When sales disappear as they did and cash is more precious than oxygen, costs have to go.

Prudent cost management is one of the cornerstones of any sustainably profitable business. But it is no lever for driving growth, and as a means of turning around a business in trouble – or recovering from a pandemic, aggressive cost reduction is a blunt instrument that can inflict as much damage as the problem it was meant to fix. Especially when the cuts slice not just fat, but muscle and bone.

There’s a far better, safer way not only of achieving more profitable growth but of turning around downward spirals brought on by difficult markets, falling sales – and global pandemics. One that’s not only more effective, but less risky and costly.

A broader perspective on profitable business growth

Let’s say we wanted to double our profit, just to pick a target. 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 approach, 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%? Businesses rarely carry 10% of “fat”, let alone 30 plus percent.

So cost cutting can’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. COVID pretty much took price increases out of play and the practical reality for many organizations in 2021 is that they are barely hanging on to sales and market share through some degree of discounting. Unless we’re Amazon, lifting our sales prices isn’t an option – and 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 post-COVID world of 2021, 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. Nor is either sustainable; we couldn’t do either or both for two years running.

Alternative views to cost reduction

The average corporate revenue pipeline pre-COVID converted 1.92% of leads into sales. Discussion of the reasons and history behind that surprisingly poor statistic can be found in more detail on [www.revenuetek.com/insights.](http://www.revenuetek.com/insights)

Roughly one third of marketing leads converted into sales opportunities. One third of those opportunities converted into offers of some kind being made to a prospective customer, and one fifth of those offers were accepted. That was pre-

COVID, which means it won't be any better now. As a business process - arguably the most important one of all, the process of producing revenue was and is, quite frankly, pretty dreadful. One third (34.2%) times one third (33.0%) times one fifth (17.0%), equals 1.92%. Which also incidentally, means a failure rate of 98.08%,

But thanks to Telemetry RT3, the power of compound interest and something we call Marginal Gain Theory, that dreadful statistic hides within it the secret of how to drive significant increases in profitability without the need to risk the entire farm on risky, brutal cost reductions.

Marginal Gain Theory and the transformative power of incremental improvements

To double profit, our case study organisation only needs to find a 0.5% improvement in that 1.92% conversion rate, assuming it's starting position is at the average global benchmark. *One half of one percent*. To see a real world case study of 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. Make that one percent instead of one-half of one percent, and the conversion improvement is the equivalent of both done simultaneously.

The real beauty of this powerful "new" pipeline equation however isn't 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, 0.5% improvements can go on for 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 quite frankly terrible rates of pipeline conversion we currently have thanks to COVID 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 opportunities 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 single 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 slightly

> **"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't – pays it."**
>
> **Albert Einstein**

better or slightly worse decisions. Small choices don't make much difference at the time, but they don't take 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 unspectacular, seemingly insignificant things we can choose to do one percent better or one percent worse. Aggregating these marginal gains make an immense difference.

Options for doubling profitability

LEVER / OPTION	QUANTUM REQ' TO X 2 PROFIT	ASSOCIATED RISKS
COSTS	34% ↓	• Lasting harm to the business • Costly and risky • Unsustainable beyond one year
PRICES	25% ↑	• Lost customers and sales • Unsustainable
PIPELINE	0.5% ↑	• Virtually none • Zero net cost • Repeatable over many years

About RevenueTEK

RevenueTEK has been using Telemetry RT3 and Marginal Gain Theory to help 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.revenuetek.com.