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SMALL BUSINESS BANKER SERIES:

# Financial literacy for small business

Six financial literacy topics small businesses need to pay attention to. How they can improve their financial performance and what financial institutions can do to help their customers survive and grow.

By Glen Senior, CEO, The Small Business Company  
[glen@tsbc.com](mailto:glen@tsbc.com), [thesmallbusinesscompany.com](https://thesmallbusinesscompany.com)  
[linkedin.com/in/glenseniior](https://linkedin.com/in/glenseniior)

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Financial literacy series

## Margin Literacy

Margin is the difference between what a business pays for a product and what they sell it for, or for services it's the difference between selling hours and costs. You may want to provide your customer information on:

- How to calculate margins and markups and what happens if they discount
- Industry averages and benchmarking
- Case studies of customers demonstrating how they price.

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Businesses that have the highest margins tend to be the most profitable.

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### BE SURE EVERYTHING HAS A NET MARGIN

Often there are hidden costs that could be affecting margin such as a dedicated salesperson or office and floor space.

### CHARGE WHAT THE MARKET WILL BEAR

It's useful to continually adjust and amend prices throughout the year to charge a fair price and push prices up until you hit a hard barrier.

### STOP DISCOUNTING

It's tempting to offer discounts to customers except the bottom line suffers. Discount if you are running a short-term promotion to gain new customers, want to clear old stock or have bought product at a discount and can pass on the saving.

### FOCUS ON HIGHER MARGINS

Concentrate on promoting and selling the products and services with the largest margins and phase out anything with a low margin.



## Questions you could ask customers:

- Have you looked at increasing prices?
- Can you make increases small enough not to impact on demand?
- Can you reduce your cost of goods sold (COGS) by using lower cost materials or different components where possible, without affecting quality?
- Is importing or buying from another supplier an option if there is a significant cost saving for the same quality and no impact on customer perception?
- Have you researched lower cost providers or asked current suppliers to reassess their pricing (especially if you have an excellent long-term relationship)?

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### Average Revenue per Customer Literacy

Revenue per customer can be improved by increasing the number of things customers buy. It can be products, hours, services, warranties, or insurance; anything where a customer is encouraged to buy two or more things rather than one.

Use sales data to identify what the best customers are buying, then promote, bundle and profile these to everyone else.

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Focusing on these 'gold' customers who are responsible for high, profitable sales with the most potential, will help you develop an effective promotional plan.

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#### **MAKE USE OF ACCOUNTING SOFTWARE**

Use Point of Sale and accounting software data to identify and benchmark any improvements that are made to the average number of items that are being sold to each customer.

#### **UPSELL AND CROSS SELL**

Help staff up-sell and cross-sell the best products and consider tempting customers to spend just a bit more in return for a reward (bundle items together).

#### **IMPROVE CHURN**

Keeping customers for longer directly improves Average Revenue per Customer. It's easier to keep an existing customer than to find new ones so look for ways to improve customer loyalty.



### Questions you could ask customers:

- Can you use the data from accounting software or sales systems to identify trends and plan promotions?
- Look at what your best customers are buying, can you think of other products or services that could be sold with them, and tailor special offers to bring these customers in more often?
- Do you have a plan to up-sell and cross-sell?
- Have you considered minimum order offers such as free shipping or 'buy one get one free' on orders of a certain amount?
- Can you bundle products and services together?

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### Revenue Growth Literacy

Steady, predictable revenue growth is the sign of a healthy company and the two easiest tactics are to sell more to existing customers, than find new.

If you have existing customers that would buy again from you, or inactive customers waiting to be contacted, then you may be able to grow by simply focusing on what is right in front of you.

Your existing customers already know and trust your business, so you don't have to convince them again to buy from you. Also they probably would rather buy from a known supplier than go through the process of shopping around.

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Consider developing new products or services for your existing customers. Talk to your customers to find out if there's anything they'd like to see you offer.

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**IT DOESN'T TAKE AS MUCH EFFORT TO SELL TO EXISTING CUSTOMERS EITHER. HERE'S SOME IDEAS FOR YOUR CUSTOMERS TO TRY:**

- Find out what people have bought, contact them with a complementary product or service they're likely to need.
- Determine when customers need to re-order from you and contact them. Identify any buying cycles or when budgets get renewed to time your approach.
- Find new ways for customers to buy from you, such as online ordering, sending a text, or some other way (until mind reading becomes popular).
- List your top customers and contact them. They may say yes to buying something else if you're polite enough and you've thought about what they might need.
- Invite customers to a special event, workshop, webinar or product launch. Make your existing customers feel important. Get their attention with unique offers.



### Questions you could ask customers:

- Do you use in-bound CRM software to predict who is more likely to buy and set up lead generator tools or content (download our [whitepaper](#)), to gather interested prospects to follow up?
- Can you develop new products or services for existing customers?
- Do you have a marketing plan to identify, locate and sell to new customers?
- Can you look for new distribution channels to expand your customer base, such as third-party selling (Amazon, e-bay, iTunes etc.) and your website?
- Is exporting a valid way to find new customers?
- Could you franchise your business?
- Do you use marketing software to help track leads and be more efficient in gaining new customers?

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### Revenue per Employee Literacy

Revenue per employee is a useful measure to see how productive your business is. If you have 10 employees and have sales of \$1m, then revenue per employee is \$100,000. If you double sales to \$2m but need 25 employees to manage the extra demand, each revenue per employee has dropped to \$80,000 (\$2m/25).

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Can you optimize incentives for employees regularly to find out what they want and make sure they act quickly on findings?

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**REVENUE PER EMPLOYEE CAN BE IMPROVED BY SEVERAL FACTORS. HERE'S SOME IDEAS FOR YOUR CUSTOMERS TO TRY:**

- Try finding ways to grow sales with fewer staff (online sales, contracting to other providers, using drop shipping).
- Think about whether you could introduce better systems and processes (upgrading to better software, faster delivery), and automation.
- Check that the equipment employees use is reliable and fit for purpose. If you're experiencing significant downtime due to breakages or maintenance issues, think about replacing or overhauling equipment.
- Invest in IT security. Businesses rely heavily on computer systems and data. Any security breach is a risk for the business, it's customers and productivity.
- Offer employee's incentives for production or sales targets achieved.



### Questions you could ask customers:

- Are you making sure staff have the equipment and training they need to do the job right and keep them informed about business performance and management decisions, especially those that affect them?
- Do you set goals for your employees?
- Can you optimize incentives for employees regularly to find out what they want and make sure they act quickly on findings?
- Do you use selling and CRM software to track who is selling what?

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## Financial literacy series

### Net Profit Percentage Literacy

Net profit is often the first measurement business owners look at to decide how healthy the business is. Note that the other four literacy factors (Margin, Average Revenue per Customer, Revenue Growth and Revenue per Employee) will drop down into this ratio.

The apparent tactics to increase your net profit percentage are reduce costs and increase price.

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Concentrate on selling the products and services with the largest margins.

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#### LOWERING COSTS

Reducing what you pay for any component of what you sell will improve your margin immediately. e.g., Negotiate lower prices, review your terms of trade or buy in bulk.

Identify efficiencies and ways to speed up what you're doing. e.g., Minimize waste, use lean production techniques, use better technology, ditch un-necessary tasks, reduce theft and fraud and tighten slippage from products being broken or returned.

#### INCREASING PRICE

The easiest tactic to increase your net profit percentage is to simply increase your price. Consider a small increase (e.g., 5%) across the board as this is small enough not to cause too much disruption but overall the volume could be enough to show a significant gain.

When you're increasing your prices, try to stagger them over time, instead of raising them all at once.



### Questions you could ask customers:

- Is it possible to get better deals on costs such as energy, internet, and telephones?
- If the location isn't mission-critical then could you move to pay lower rent?
- Have you reviewed your equipment needs?
- Can you incentivize staff to find ways to reduce costs?
- Have any of your costs gone up? If they have, then you should consider a price increase to maintain your margin.
- Is it possible to get a discount from suppliers if you pay early?
- Is it viable to outsource staff needs, such as administrative tasks like payroll, to companies that will charge a monthly fee instead of a salary?
- Do you make sure money is swiftly collected that's owed to you?
- Is it possible to reduce waste?

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## Financial literacy series

### Forecasting Literacy

Forecasting and monitoring a business's cash flow accurately so your business is able to plan for the good times and the bad isn't always straightforward.

If you're aware of an upcoming period when your business will hit a slow patch, you'll be able to plan ahead to arrange timely finance. Likewise, by knowing when you'll have a period of strong cash flow, you can plan to expand or set up cash reserves.

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Put some time and careful thought into getting the figures right because most cash flow forecasts contain some assumptions due to market fluctuations, seasonal sales cycles and other unknowns.

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#### BE ACCURATE

Whether you use an online tool, cash flow forecasting software, or a cash flow template, your forecast depends on the quality of your inputs. Do your best to be as accurate as possible when making assumptions, referring to past sales data, benchmarks, previous invoices and other supporting documents to help you determine the most accurate numbers.

Make notes on the assumptions you've made in your forecast to help anyone else reviewing it to understand how you calculated the numbers. Use market research as well as your sales history to make sales projections. If you haven't started your business yet, thoroughly research your target market to assess realistic future sales levels.

You should also consider peak seasonal periods; cash flow usually isn't consistent all year round.



### Questions you could ask customers:

- Have you considered seasonal issues when preparing your forecasts such as Christmas sales increases and winter sales slumps?
- Have you got plans for countering any reduction in income during slow periods?
- Do you have the capacity within your business to achieve the sales you are predicting?
- How can you justify the numbers you are forecasting?
- Do you need financing to assist you through the tougher periods?