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From Potential to Profits

A newsletter from
Corporate Training Partners, Inc.

3444 5th Ave. N.
Saint Petersburg,
Florida 33713

Volume 1, Number 1

October 2002

*"We help companies
transform potential
into profits."*

Opportunity Assessment: How to take the first step to making sound decisions

By Peter Sprague

"Transforming Potential Into Profit." Sounds snappy, but is this really a process? A method that delivers results to the bottom line? Count on it.

Welcome to your opening edition of "From Potential to Profits" newsletter. What better way to start your journey than by analyzing our title?

Step #1 in the "Transforming Potential Into Profit" process is Opportunity Assessment. Let's dissect this step by answering three questions:

- What is Opportunity Assessment?
- Why is it essential?
- How can you do it?

Opportunity Assessment is determining the specific value to your organization if some type of performance is improved. Let's get right to an example. Assume you are the branch manager for a securities firm. You oversee 25 Financial Advisors (or Investment Counselors or Account Executives or whatever you want to call these folks!) that provide advice and direction for their clients. Your firm also maintains the accounts in which the clients' investments are held. For all of these services, clients pay commissions and fees to your firm. Revenue.

As the branch manager, you think, "we could be doing more." Ah...the seeds of Opportunity Assessment. Let's get specific. More what? More commissions? More fees? More assets under management? More accounts? Higher assets per account? More revenue per account? More revenue per Financial Advisor (let's abbreviate...FA)? Rather than just thinking, "we could do more. We could be doing better," Opportunity Assessment means to assign some specific value to "more" or "better."

Let's say your current total revenues of your branch are \$8 million. Does "more" mean an

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increase to \$10 million? If so, what's your profit margin on this incremental \$2 million? If your margin is 7%, that means that the additional \$2 million in revenues will create \$140,000 in net profits. Now we have something to work with!

You can use the \$140,000 as you evaluate possible solutions to your performance improvement problem. Assume you have a high level of confidence that a technology investment of \$25,000, will result in the increased revenues of \$2 million (and increased profits of \$140,000). Your decision is getting more straightforward. Which question is easier to answer:

- “Should I invest \$25,000 to make \$140,000?”
- “Should I spend \$25,000 on technology to generate more revenues?”

Opportunity Assessment is essential because it lets you make investment decisions, not spending decisions. It lets you manage your business, not just your expenses. It gives you a rational basis for evaluating possible solutions.

(Just a note...we didn't even take into consideration any increase in sales over multiple years. Don't sweat it, just consider that gravy.)

How do you do an Opportunity Assessment? It begins with the fundamentals. There's two ways to improve profits:

1. Increase revenues
2. Decrease expenses

Which means any Opportunity must be translated into one of these terms. Here's some possibilities:

- You want to “Improve Customer Service.” Yep, sounds noble. Mom, apple pie, improved service...who can be against that. Well, ask a simple question: if we improve customer service, what can result from this? You can get increased customer satisfaction. So what? Does increased customer satisfaction result in increased customer retention? Does increased customer retention mean higher sales? In other words, by improving customer service, are we hoping to increase sales to existing customers? Yes! We've connected the dots between “Improve Service” and “Increase Revenues.” You're off to a great start. Now take the next step and determine how much you can increase revenues.
- You are considering an increase in employee benefits. Perhaps it's insurance, maybe an improvement in your 401k plan or profit sharing. Regardless, it will cost you money. What do you expect to get from it? “Increased employee retention.” Yes, yes, we all know that's a good thing. But why? How does this impact our bottom line? If you've increase employee retention, you will (hopefully) reduce time and money spent finding, hiring and training new employees. You'll have less down-time

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- in your operation due to unfilled job openings. So what? All this means you should have a more productive workforce. How can you measure productivity? Start with one of these two formulas:

Total revenues \div # of employees (Good means this is going up. Which should result in a higher profit margin)

Total expenses \div # of employees (Good means this is going down. Again, you should see a higher profit margin)

Again, the key is to connect “Increased employee retention” with “increased revenues” or “decreased expenses.” Either one will take you another step closer to making better decisions.

These are just two examples. Each Opportunity Assessment depends on your unique situation. It can be done simply, as a conversation and a “back of the envelope” analysis. Or you can invest time and talent to more thoroughly analyze your Opportunity. However you approach Opportunity Assessment, remember that the key point is to take the time to work through this step. It’s the first step in the process to Transform Potential Into Profits and you’ll be glad you invested your time to complete it!