

# The 16 Parts of Your Business: A Guide to Financial Success

This guide, "The 16 Parts of Your Business", outlines the key components needed to transform your business into a money-making machine. It covers 16 essential parts that drive revenue, profit, and cash flow, providing a comprehensive approach to achieving financial success in your business.

 by Cheryl Tocci

# Introduction to The 16 Parts of Your Business

Hey there fellow business owner!

I'm thrilled that you have this copy of "The 16 Parts of Your Business". As you may recall from my presentation, to have a growing and successful business (and one that doesn't fail!) you need to transform your business into a money-making machine.

Your business is a machine and like all machines, it has a purpose. And the purpose of your 'machine' is to make money.

If you can do this, you'll have a financially successful business that you own instead of you owning a high-demanding and low-paying job.

To make money, you need to improve 16-parts in your business. Each part helps drive revenue, profit and cash flow.

Revenue is what you sell.

Profit is what you sell less your expenses.

And cash flow is what you keep.

You've got to get all 16-parts working at peak performance to have a financially successful business.

In this guide, I'll reveal the 16-parts and then give you a simple explanation for each.

If you have any questions, please do not hesitate to contact me at [cheryl@ygbks.com](mailto:cheryl@ygbks.com) or call me at (978) 212-9798.

Cheryl Tocci

# Overview of the 16 Parts

- ① **Parts 1-5: Driving Revenue**  
1. Leads, 2. Conversion Rate, 3. Purchase Frequency Rate, 4. Retention Rate, 5. Average Transaction Value
- ② **Parts 6-10: Driving Profit**  
6. Cost of Goods, 7. Marketing Expenses, 8. Payroll Expenses, 9. Overhead Expenses, 10. Other income/expense
- ③ **Parts 11-16: Driving Cash Flow**  
11. Days Sales Outstanding, 12. Days Inventory Outstanding, 13. Sale of Assets, 14. Days Payable Outstanding, 15. Using debt, 16. Owner investments

# Parts Driving Revenue (1-5)

1

## 1. Leads

Leads are the number of ideal customers that have been made aware of you through your marketing efforts. This 'part' drives revenue because more leads, ideally, will result in more paying customers which will improve revenue. For example, if you have a HVAC business and you post an ad online (e.g., Google Ads) for HVAC services and a potential customer sees your ad and calls your office then that is considered a lead. You improve leads by optimizing your marketing. Any money you spend on marketing should have a direct impact on leads received.

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## 2. Conversion Rate

This is the percentage of leads that become paying customers. Whereas leads measure your marketing effectiveness, conversion rate measures your sales effectiveness. This 'part' drives revenue because if you can convert more of your leads to paying customers it will improve revenue. Let's say that your HVAC business had 10 leads last week. If you were able to convert 2 of those 10 leads into a paying customer than you have a 20% conversion rate.  $2 \text{ customers} / 10 \text{ leads} = 20\% \text{ conversion rate}$

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## 3. Purchase Frequency Rate

This is the number of times a customer purchases from you in a year. This 'part' drives revenue because the more times you can get a customer to purchase from you, the more your revenue will increase. You can dramatically improve profit by getting existing customers to buy again. Not only will you be earning more from each customer, you wouldn't have to spend additional marketing dollars. In your HVAC business, if the only thing you did was get additional customers to buy again, you will increase your revenue without having to get new customers.

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## 4. Retention Rate

This is the percentage of customers who come back each year. This 'part' drives revenue because if you can get existing customers to purchase again, it will improve revenue. Let's say that you had 1,000 customers who purchased prior to December 31st of last year. If you were able to get just 5% of those customers to come back and purchase this year you would have 50 customers that already know, like and trust you that will spend money with you this year. Now, imagine that you were able to increase both Purchase Frequency Rate and Retention Rate? You will see a major increase in revenue.

5

## 5. Average Transaction Value

This is the average value of every purchase a customer makes. This 'part' drives revenue because the more you can get a customer to spend, the more revenue will increase. Let's say that in your HVAC business, the average value is \$500. By improving the average transaction value, to say, \$600 you will see an increase to revenue without having to get new customers.

# The Revenue Formula

Parts 1 through 5 drive Revenue.

Why is that? Because they all add up to Revenue using this formula (the parts are in blue):

Leads x Conversion Rate = New Customers That Purchase This Year Existing Customers x Retention Rate = Existing Customers That Purchase This Year New Customers That Purchase This Year + Existing Customers That Purchase This Year = Total Customers That Purchase This Year Total Customers That Purchase This Year x Purchase Frequency Rate = Total Sales Transactions Total Sales Transactions x Average Transaction Value = Revenue

As you can see, by improving one or more of the 'parts', you will improve revenue. Imagine if you improved all five parts that drive revenue? You'll see a dramatic increase in revenue!

# Parts Driving Profit (6-10)

## 6. Cost of Goods (as a % of revenue)

This is how much it costs you to provide the 'goods' to each sales transaction and is measured as a percentage of revenue. The Cost of Goods should include all of the direct cost needed to deliver the end product or service to your customer. This 'part' drives profit because the lower you can get your Cost of Goods (as a percentage of revenue) down, the higher the profit.

## 7. Marketing Expenses (as a % of revenue)

This is the total cost of marketing measured as a percentage of revenue. This 'part' drives profit because every dollar you spend on marketing should have a direct correlation to an increase in revenue. If that happens, you'll maintain a low Marketing Expense (as a percentage of revenue) and a high revenue, thus, improving profit.

## 8. Payroll Expenses

This is the total amount of payroll not already included in Cost of Goods. This 'part' drives profit because every dollar you spend on payroll should have a direct correlation to an increase in profit. In other words, every employee on your team should either assist in improving revenue or reducing expenses (or both), thus improving profit.

9. Overhead Expenses: This is all of the operational expenses that are incurred that are not already included in Cost of Goods, Marketing Expenses and Payroll Expense. This 'part' drives profit because every expense spent in your business should provide a 'return on investment'. If an expense does not provide a return, then you should not spend the money on the expense. Examples of operational expenses are rent, insurance, and office supplies.

10. Other Income/Expense: This is the total of all income and expenses that your business incurs that are unrelated to your business' core business. An example of an "Other Income" could be money received from an insurance payout from a vehicle accident that one of your employees were involved in where they were not at fault. An example of an "Other Expense" could be the "writing off" of obsolete inventory that you cannot sell.

# Parts Driving Cash Flow (11-16)

1

## 11. Days Sales Outstanding

This is the number of days it takes to collect from customers. This 'part' drives cash flow in that the longer it takes for you to collect from your customers, the longer you are without cash flow.

2

## 12. Days Inventory Outstanding

This is the number of days it takes for you to sell through your inventory, on average. This 'part' drives cash flow in that the longer it takes for you to sell through your inventory, the longer you are without cash flow.

3

## 13. Sale or Purchase of Assets

An asset is something that your business owns, such as a truck or a machine. When you sell it, you receive cash. Conversely, when you purchase an asset, it will decrease cash flow (unless you use debt). This 'part' drives cash flow in when you sell an asset, your cash flow will increase.

4

## 14. Days Payable Outstanding

This is the number of days it takes for you to pay your suppliers. This 'part' drives cash flow in that the longer it takes for you to pay your suppliers, the more you get to hold on to your cash.

5

## 15. Using or Paying Down Debt

Debt is the idea of borrowing money to fund your business. This 'part' drives cash flow in that when you buy things using debt you are not having to use cash, which improves cash flow. Of course, paying down debt will reduce cash flow as you are using cash to pay back the lender.

6

## 16. Owner Investments or Distributions

Owner investments are the amount of money that any owners of a business invest, from their personal funds, into the business. Owner Distributions are the amount of money that any owners of a business take out of their business for personal use. This 'part' drives cash flow in that the more investments into the business the more cash flow will improve.

# Your Next Step

To have a growing and successful business, you must turn it into a money-making machine using the 16 parts presented in this guide.

However, although making money is the point of your business...it's not easy to do.

It's not easy because most business owners are not necessarily numbers people. And...money, cash flow, and the 16 parts of a business are all numbers.

Most business owners understand they need to know their numbers, but they're not exactly excited about pouring over data to understand their parts and determine which ones need improving.

But...I am.

I own Blue Granite Bookkeeping and CFO Services. I am a financial professional who works exclusively with small-to-medium sized business owners just like you.

I do one thing well: I transform businesses into money-making machines.

And, I'm passionate about this.

If you could use help on transforming your business into a money-making machine, let's get on a 'Right Fit' call.

We'll get on a 20-minute Zoom call and learn more about each other and ensure that I'm right for you and you're right for me. If so, I'll then share with you exactly what I'll do for you, how I'll do it, and my fee.

Then, you decide if this is right for you.

To schedule a Right Fit call, go to: [www.BlueGraniteBookkeeping.com](http://www.BlueGraniteBookkeeping.com)

Thank you for reading,

*Cheryl Tocci- Owner/CFO Advisor*