

**HOW TO MANAGE YOUR
ROMANCE BUSINESS BY THE
NUMBERS**



PRESENTED BY GEOFF MILLAR

- CO-OWNER ULTIMATE ALL-INCLUSIVE TRAVEL INC.
- PHOENIX ARIZONA
- MULTI-MILLION DOLLAR HOME BASED AGENCY
- SPECIALIZING IN ALL INCLUSIVE RESORTS AND HAWAII
- STARTED IN 2003

SESSION WILL FOCUS ON

- WHAT NUMBERS YOUR BUSINESS GENERATES
- HOW TO UTILIZE THESE NUMBER TO CREATE A MORE PROFITABLE AND MORE MANAGABLE BUSINESS
- AREAS OF FOCUS WILL BE:
 - MARKETING & LEAD GERNERATION
 - COMMISSIONS
 - SUPPLIER ANALYSIS AND NEGOTIATION
 - PRODUCT MIX AND ANALYSIS
 - YEAR TO YEAR BUSINESS PLANNING AND GROWTH PROJECTION
 - EXPENSES
 - PROFITABILITY

REVENUE

- Revenue is made up of:
 - Commissions
 - Bonuses
 - Overrides
 - Fees
- At a minimum you need to know your monthly average revenue
- Revenue should be tracked on a monthly basis
- A simple way to track revenue is a spreadsheet

EXPENSES

- Expenses are the simple
- They fall into 3 categories
- Compensation
- Marketing and advertising
- General expenses or overhead
- At a minimum, you need to know what your average monthly expenses are
- A very simple way of tracking your expenses is a monthly spreadsheet

MARKETING & LEAD GENERATION

- Do you know how much a lead and a sale actually costs you and where that lead comes from?
- The least expensive way to grow your business is with repeat business and referrals.
- No matter how much repeat business you get you need to bring in a certain level of new business.
- With new business you need to calculate what a lead costs you and what sale costs you.
- With referrals there is still a cost involved but it is more with time than with actual dollars.

MARKETING AND LEAD GENERATION CONTINUED

- Let's look at paid lead generation and how to calculate the cost of a lead.
- Formula would be cost for advertising divided by the number of legitimate leads you generate.
- You pay \$2,000 a month in advertising and you generate 25 legitimate leads. Your advertising cost, not including any other expenses would be \$80 per lead.
- This would count for any type of paid lead generation, pay-per-click on social media or search engine, fees for shows, flat monthly cost for advertising.

MARKETING AND LEAD GENERATION CONTINUED

- Now let's look at the cost to generate a sale.
- We will use a generous close rate of 40%. This will say that of the 25 legitimate leads you generated you will close 10 of them.
- \$2,000 divided by 10 sales equals \$200 cost to generate a sale or acquire a new client
- Where would you use this \$200 cost to manage your business?
- This figure should help you decide what products you sell and who you sell to. It tells you that each sale you make must generate a minimum of \$200 commission to cover your advertising or marketing cost per sale.

COMMISSIONS

- Do you know what your net commission rate is?
- Most tour companies do not pay commission on taxes for land but none that I know of pay commission on air taxes.
- Air in a package is never paid at your negotiated commission level. It is usually paid at 0%, 3%, 5%, could be higher if using a consolidator
- We are at 16% with the tour companies we use but our average net commission on a total sale is 9.8%
- Take the amount of the commission you made on monthly sales and divide it by the total amount of the sales
- Total commission \$500 divided by the total sale \$5,500 equals a net commission rate of 9%
- Tour operators and host agencies use net sales amount to determine commission levels and splits

COMMISSIONS CONTINUED

- When calculating your monthly income (commissions), make sure you count those commissions in the month they are paid.
- Total sales may be counted as gross income or total commission, bonuses, overrides or fees may be counted as gross income. Some accountants use total sales as gross income and then call the difference between total sales and total commission, "cost of goods."
- What is left will be your commissions overrides bonuses and fees called your net income.

SUPPLIER ANALYSIS AND NEGOTIATION

- Suppliers and host agencies negotiate commission levels and splits based on production. The more you book with them, the higher the commission level or commission split.
- Commission levels and splits are negotiable
- Need to keep track of sales achieved with each supplier you use
- TIP: Use only a very small group of preferred suppliers. We do right at \$5,000,000 a year and we have 3 preferred suppliers
- Supplier numbers used for commission level negotiations are calculated using net sales

PRODUCT MIX AND SALES ANALYSIS

Sales analysis

- This is where we use our costs to generate a lead and costs to generate a sale.
- Based on those costs determine a minimum commission you need to make on each sale to cover your advertising costs
- Example: Where we calculated that each lead costs \$200 to make, this tells me I have to generate at least \$200 commission on each sale to cover my marketing and advertising costs. This does not take into account any other costs or expenses related to that sale or to running my business.

PRODUCT MIX AND SALES ANALYSIS

- To calculate overhead and other fixed expenses per sale use a method called peanut buttering.
- Here is where we use the average monthly expenses we calculated. Use total expenses minus advertising costs then divide this number by the number of sales.
- \$1,500 total monthly operating expenses divided by 10 sales or \$150 per sale plus the \$200 cost to generate the sale is \$350 total cost to break even
- This tells me that there are certain product lines or products I probably do not want to focus on and there may be other product lines or products where I may want to increase my focus
- Need to analyze your sales to determine where you are making money and where you may be losing money.

PRODUCT MIX AND SALES ANALYSIS CONTINUED

- Product mix
- Keep track of your sales by product
- Product lines would be Packaged Land Travel, Cruises, FITs
- It could also be products within these product lines, which resorts do you sell the most of? Which Cruise-lines do you sell the most of, which countries do you sell the most of in your FIT sales?
- Areas this will help with are going to be your Marketing and Advertising costs, your education costs, your supplier negotiations, your product or product line focus

YEAR TO YEAR BUSINESS PLANNING AND GROWTH PROJECTION

- This is something you should do every year
- Need numbers or projections from the current year
- You will need, total sales, total sales value, and the average value per sale. This is calculated by taking the total value of your sales divided by the number of sales
- First step is to calculate what growth is going to occur in the new year
- Good growth for healthy established companies is anything in double digits
- Average growth for healthy established companies is 10% - 20%

EXAMPLE OF PLANNING

- From planning with one of our agents
- 2015 bookings: 168
- Total 2015 sales: \$785,581,53
- Commissions generated: \$81,067.00
- Average sale amount: \$4,676.08
- Average commission amount: \$482.54

- Goals for 2016 based on 2015 numbers
- Number of sales: 200
- Total sales amount: \$935,216.00

YEAR TO YEAR BUSINESS PLANNING AND GROWTH PROJECTIONS

- One way to calculate growth is to use a percentage of overall growth from the previous year
- Second way is to look at Each facet or product of your business and determine how much growth in each one is realistic
- Once you calculate this, use your average sale amount, for the current year, to determine how many sales that growth would convert to. You can then divide this number by 12 to get how many additional sales you have to make on a monthly basis to grow your business
- This will provide a blueprint for growing your business and it is also a test to make sure that the growth is realistic

PROFITABILITY

- Basic profitability is also very simple
- Net revenue minus your expenses equal your net profit before taxes
- As discussed in a previous slide you need to know your average monthly, weekly, or annual expenses
- This number is going to show you what your net revenue needs to be to break even or show a profit.
- When you are starting and even some established businesses have a few months where you may generate a loss
- This shows the need to have a business savings account
- A good rule of thumb is to maintain a cash reserve equal to **3 months expenses**

PROFITABILITY CONTINUED

- We will cover how to do a quick calculation to show you if your business is headed in the correct direction
- We are going to show how to calculate your profit margin
- This is important because your business may be generating a profit but may not be in good shape
- To calculate your profit margin you would divide your total expenses by your net revenue. This will give you a percentage which you will subtract from 100%
- Example. Expenses of \$264,000 divided by Net Revenue of \$450,000 equals a percentage of 59%. Subtract that from 100% gives you a profit margin of 41%. First year this will set your base profit margin

PROFITABILITY CONTINUED

- You need to do this every year to determine if your profit margin is increasing, staying the same, or decreasing
- Increasing or staying the same is OK but decreasing is bad
- If it is decreasing it will show that you have a problem with your business
- It won't tell you what is wrong but will alert you that something is wrong.

RECAP

- The major points we have covered today are
 - Use your numbers to calculate you lead generation costs, and your cost per sale.
 - Use numbers to calculate your net commission level
 - Use numbers to help determine which products to increase focus or decrease focus
 - Use numbers to negotiate commission levels, overrides, and backend contracts with suppliers
 - Use numbers for year to year growth projections
 - Use numbers to manage expenses
 - Use numbers to calculate your profit margin to assess the health of your business
