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The Business Builders Secrets

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Introduction

Most people when they think of creating a business online, they think of creating a product, selling the product, and hope to make enough capital to finance their next product idea. This kind of thinking is short-term, and doesn't lend itself well to a long-term business venture.

When you stop and think about a longer-term business model, whether online, off-line, or a mix of the two, you really need to think about the bigger picture.

What's really needed is a method to capture leads, convert those leads into smalltime customers, and gradually build them towards customers that spend more with you in terms of three factors: frequency, monetary value, and recency.

In terms of frequency, I think it is self evident that we want them to spend more money with our business on a more regular basis. In terms of monetary value we would like each transaction to be bigger, and have them spend more per transaction.

When it comes down to recency, ideally it would be better if they purchased last week rather than five years ago. This makes them a fresher customer that's more likely to purchase again soon, promoting the other two qualities I just mentioned.

There's also a fourth quality that's rarely discussed. We don't necessarily care how they buy from us, just that they do buy from us.

However some channels of distribution are significantly cheaper than others. Ideally then, media, or the method you used to bring in the sale, becomes increasingly important. So how do you turn a single product to product mentality into a thriving long-term business? Well, to begin with, you need to have a viable business model. And part of that business model absolutely must include the "marketing funnel." This is where it comes into play.

The Marketing Funnel Explained

The marketing funnel is not a complicated process. It's a tool, or a process, to separate your prospects and customers into different buckets.

For example we want to know the difference between our leads, customers that spend less than $10 a year with us, customers that spend more than $10,000 a year with us on a regular basis, and everything in between.

This allows us to concentrate our efforts on the smallest group of customers that spend the most amount of money with us. In other words, we're trying to maximize our return on investment.

In a moment we're going to take a closer look at the marketing funnel in detail to see how it works, plus what you probably are familiar with as the "80/20 rule."

Because that's going to drive our return on investment returns of those customers and spend the most of my money with us, those customers that spend the least, and the freebie seekers and tire-kickers.

Most marketers are missing at least one or two of these crucial steps that are causing them to leave wads of money on the table that could otherwise be in their pockets.

The REAL Business-Builder’s Way Of Obtaining Maximum Profits

A typical business model might focus on three areas for each transaction: Recency, frequency, and monetary value.

For example, let's take a typical fast food joint and use it as an example. There are primarily three ways to grow a business.

1. You can acquire more customers, which is which most businesses try to do.

2. You can get them to spend more with you per each transaction (monetary value).

3. And you can get them to buy from you more often (frequency).

There are other ways, dealing with investments and such, but for the sake of this discussion, will keep it simple and referred to growing your business as building a strong customer base.

So the goal, then, becomes calling how do we do any of those three things? Ideally, we would like to do all three.

That's where your business plan should come into play.

When you think in terms of a product, you're talking about a single instance of something that can be leveraged into greater assets over the long run through the use of this rather simple model.

But back to the fast food model.

When we talk about a cross-sell, that's similar to when you order a sandwich and they ask you, "Do you want fries with that?"

When we use the term, "upsell," it's similar to that fast food joint asking you, “Do you want to supersize that?”

Now you may already know this information. But we have to start with a frame of reference.

The real money to be made is on what we call the "back end."

For example, if you order something from a catalog, perhaps even a small "impulse buy" item, and they later send you information in the mail to get you to purchase a more expensive item, that's what we call "selling on the back-end."

It's where the business is truly grown.

Many times a company will actually lose money on the front-end sale, so that they can recoup that profit on the back end. We call that a "loss leader."

It's what separates the one-off small-time single product companies from the big boys that are in it for the long haul.

And if you have any long-term ambitions for your business, that's the line of thinking you need to be taking.

Single one-off sales rarely sustain a business for very long. Not only that, the profits they produce are minuscule in comparison with those companies that have a larger vision.

Let's take a closer look at why these methods are so successful, and the type of customer you really want to focus on to drive your business into the stratosphere.

Product Pitcher Versus A Real Business Builder

What separates the “product pitchers” from the business-builders?

A product pitcher thinks about what's hot for the next few months, and concentrates on selling a product to fill that hot, but limited need.

A business-builder thinks in longer terms and sells products and services that can be leveraged in the future as the situation arises.

A business-builder thinks in terms of what will increase their wealth over a longer period of time. That is, how to build their business in the long run, regardless of what's currently hot at the moment.

That's not to say that a business-builder will disregard what's considered hot at the moment. Rather it means they capitalize on that trend, but also think about how it will morph into something else that they can be prepared to provide.

A product pitcher has to constantly reinvent itself to stay on top of current trend. Not only that, the challenges get greater as time goes on, and the amount of work needed to sustain a real business becomes practically impossible to maintain over the long haul.

Also, once the initial fuss over the product pitcher's product has died down, he'll see a severe decline in profits until eventually the web traffic, and his sales will eventually slow to a trickle.

On the other hand, a true business-builder will always see a constant flow of sales, and will look for ways to maximize revenue continuously. He's not out for the short term buck. He's in it for the long haul.

Are you starting to see a pattern here?

The real business-builder is in the business of creating and growing a long-term company that will survive good times and bad.

The product pitcher, on the other hand, will chase one hot trend after another until all ideas are exhausted.

Over time, which category would you like to be in?

For me, the answer is obvious.

I'd rather build a solid business foundation that'll stand the test of times, even though it may be less "sexy" then the short term one-hit wonders that a product pitcher will produce.

Now I'll be frank here.

It is certainly possible to do both. That is, you can be a product pitcher under several pen names, while at the same time maintain a solid business separately under your own name (or even another pen name).

It really comes down to what your goals are.

But think about this: if you were to become a product pitcher, it's going to require a constant pulse on your market(s), a lot more work than you think it might be, but the upside is you may occasionally obtain short-term, but sometimes huge, paydays.

A true business-building model, on the other hand, allows you the freedom to run your business as you see fit, producing true constant income streams, and it doesn't always require you to think of that next best hottest thing.

I'm not telling you to go one way or the other. It really comes down to what your goals are, as well as your own personality and what you enjoy doing.

The 80/20 Rule

In 1895, Italian economist Vilfredo Pareto wrote about a mathematical formula he discovered modeling the distribution of wealth in his country and every other country he studied. Pareto observed that twenty percent of the population owned eighty percent of the land. Eventually others found similar distributions that applied to their own situations. Dr. Joseph Juran, a quality management expert working in the US in the 1930s and 40s recognized a universal principle he dubbed the "vital few and trivial many."

As a result, Juran's observation that 20 percent of something is responsible for 80 percent of the results became known as Pareto's Principle, or the 80/20 Rule.

The 80/20 Rule simply means that in any situation, a few (20 percent) are vital and many (80 percent) are trivial. Put another way, the 80/20 rule states that the relationship between input and output is rarely, if ever, balanced. In Pareto's case it meant 20 percent of the people owned 80 percent of the wealth. In Juran's case he discovered that 20 percent of manufacturing defects were causing 80 percent of all problems. You can apply the 80/20 Rule to almost anything.

In fact, 20 percent of your staff and colleagues probably give you 80 percent of all the support you need. Don't take them for granted, because true advocates like them are rare. You probably read trade journals and books, and I'll bet 20 percent of them supply 80 percent of your knowledge in those subjects.

And what about those jobs around the house that you've been meaning to get around to doing? The 80/20 Rule means that that if you have a list of ten items to do, two of those items will turn out to be worth as much or more than the other eight items put together.

The 80/20 Rule can be harnessed in many ways for your business. And when I say 80/20, that's really an approximation. Sometimes it might be 70/30, sometimes 85/15, you get the idea. The crux of the concept is that a small amount of something is responsible for the vast majority of results.

Even how you spend your time is subject to the 80/20 Rule. Ever notice that 20 percent of your efforts is responsible for 80 percent of your success? And the reverse is also true: 80 percent of your efforts is only responsible for 20 percent of your success.

Look familiar?

You're in the 80 percent (the less desirable) segment of your efforts if…

- You're working on tasks that aren't in your area of expertise.

- You're spending time on tasks other people want you to do, but you get little or nothing in return.

- You’re doing a lot of prep work that’s setting you up for the “real” work.

- Tasks are taking much longer than you thought they would.

- You're frequently putting out fires and working on “urgent” tasks.

- You’re not happy, you’re complaining, or you don’t feel a sense of accomplishment upon completion of your tasks.

However, you're in the 20 percent (the more desirable) segment of your efforts if…

- You're outsourcing or hiring people to do the tasks outside your area of expertise or ones you prefer not to do.

- You're engaged in activities that help to advance your purpose and achieve your goals.

- You’re knocking out tasks quickly, especially the “core” work that needs to be done.

- You're doing things you enjoy and feel good about.

- You may be working on tasks you don't like, but you're doing them knowing they contribute to the bigger picture.

- You’re happy, smiling, and you feel a deep sense of accomplishment upon completion of your tasks.

So how does the 80/20 Rule apply to the marketing funnel? And what is this funnel anyway?

First, the 80/20 Rule. You’re probably aware that 80 percent of your income is determined by 20 percent of your customers. If that’s not the case, then you are likely missing out on a *lot* of profitable opportunities. Let me explain.

If your customers contribute to your profits on a one-to-one ratio (1:1), then that means your business model is set up so that once a customer buys from you, you never sell to them again. One opportunity. One sale. End of the line. Time to move on to the next customer…

But if you continue to sell to them again and again, you’ll ultimately discover that there are certain customers who will buy more often and spend more money with you over the long haul than others. Some will still buy once, and you’ll never hear from them again. That’s fine. It’s going to happen no matter what system you have in place.

But your system will play a major role in determining what those top “20 percenters” will ultimately spend with you. And whether you have a top 20 percent to begin with.

These folks are your “A” clients, your “A” customers. They’re the ones you want to treat like royalty. Just like the 20 percent of your staff and colleagues who are true advocates for you, your “A” customers are true advocates for your company. And they show their loyalty by purchasing from you, and by referring your business to others.

Let me give you an example that illustrates just how powerful referrals can be.

I recently started a referral program for my copywriting business. In the first *two weeks alone*, I had over $23,000 in new business sent my way. All by referrals. And that doesn’t even count the joint venture partnerships in the works, where I expect the real business to come from.

So the system you want to employ should have a built-in bias towards encouraging your customers to:

- **Make bigger purchases with cross-sells and up-sells.**
- **Purchase more often.**
- **Graduate towards making bigger ticket purchases, those that give you greater and greater profits.**
- **Become an advocate for your business and refer others to you.**

The system should also provide a strong incentive, an “ethical bribe” if you will, for the people in your target market (i.e. your prospects) to raise their hands and become your leads. Willingly and voluntarily.

What Is The Marketing Funnel?

Large corporations often use what's called the "open house," or brand-building, model of advertising, which is expensive, time-consuming, and requires a lot of brand equity and trust over time before people make decisions to buy from them.

With the "marketing funnel" model, a person makes a small purchase (yes, supplying an email or physical mailing address is considered a payment of sorts), and over time you "funnel" your customers towards more and more high-end products and services, step by step, by selling them to the next level.

The two are entirely different business models, and they both work in their own ways. For most entrepreneurs, however, the brand-building model is too cost-prohibitive and time-consuming to use by itself, involving many resources that simply aren't practical. That doesn't mean you shouldn't use it within your means. In fact, you'll soon see how to incorporate both the open house *and* marketing funnel models in your system (for starters…we're just getting warmed up!).

So by "funneling" (others call it "backending" or "up-selling"—Dan Kennedy calls it "gathering the herd") your prospects into paying customers, you're setting the stage to provide tremendous value to them. So much value, in fact, that your customers begin to look forward to receiving content from you. And with that value comes the opportunity to take your customer to the next level, where you can sell higher-end goods to them.

And this isn't a one-sided benefit. Both you and your customer benefit by this relationship. Your customer benefits when he gets even more value…something he really wants. You're helping him in that regard. And of course you benefit as well by slowly graduating your customer to your "A" list, where you can provide even more value.

I once knew a salesman from a large workforce management company. This company sold expensive computer systems that helped call centers forecast their incoming call volume, determine how many customer service people they needed to handle those calls, and even generate the most efficient schedules for those reps in order to maintain a desired level of service.

This guy was an old pro when it came to managing his leads. When a potential client company would issue a request for proposal to him (basically an opportunity for his company to provide a quote based on the issuing company's needs), he would keep track of all the people involved in the decision-making process, plus any supporting personnel. Basically anyone's info he could get his hands on.

Now when he learned that a key person moved from one company to another (which was fairly common), and that new company was in the market for his product, he would personally contact his "lead" from the old company (now working for the new one) and continue his funneling efforts there, while still maintaining the funnel at the old company.

Now imagine he was doing this for all of his leads, wherever they ended up. He had funnels in place everywhere. Do you think he had skinny kids?

Personally I think every sale he made was well earned. Anyone who can keep track of all those funnels and people hopping companies deserves to earn a profit.

Figures 2-1 and 2-2 show the typical marketing funnel. Figure 2-1 shows an offline version of the funnel model, and figure 2-2 shows the online equivalent. Note that the only differences are at the top of the funnel, signifying the manner in which you obtain your leads. Online they visit your website before they supply their information and become a lead. In the offline world, they would receive your offer in some other manner.

A truer representation might represent your target market as *suspects*, who become prospects only after raising their hands (i.e. they become your prospects when they become your leads), but however you view them, the goal is to obtain leads, where you will then attempt to convert them into paying customers.

Notice how the width of the funnel gets smaller towards the bottom? The width represents the number of customers at that height, or stage, of the funnel. However, the smaller the width, the more money they are spending with you. In fact, the amount of money they spend with you can be thought of as being inversely proportionate to the width of the funnel (more or less). So the 20 percent responsible for 80 percent of your profits are at the bottom of the funnel. The other 80 percent that give you 20 percent of your profits are towards the top. This distribution is a general observation and not a mathematical absolute. As I mentioned earlier, it might be 70/30 or 90/10 or somewhere in between.

This is no accident. Your “A” customers, your biggest advocates, are in the smallest segment of your customer base…the bottom of the funnel (but the top in terms of the value you deliver to them).

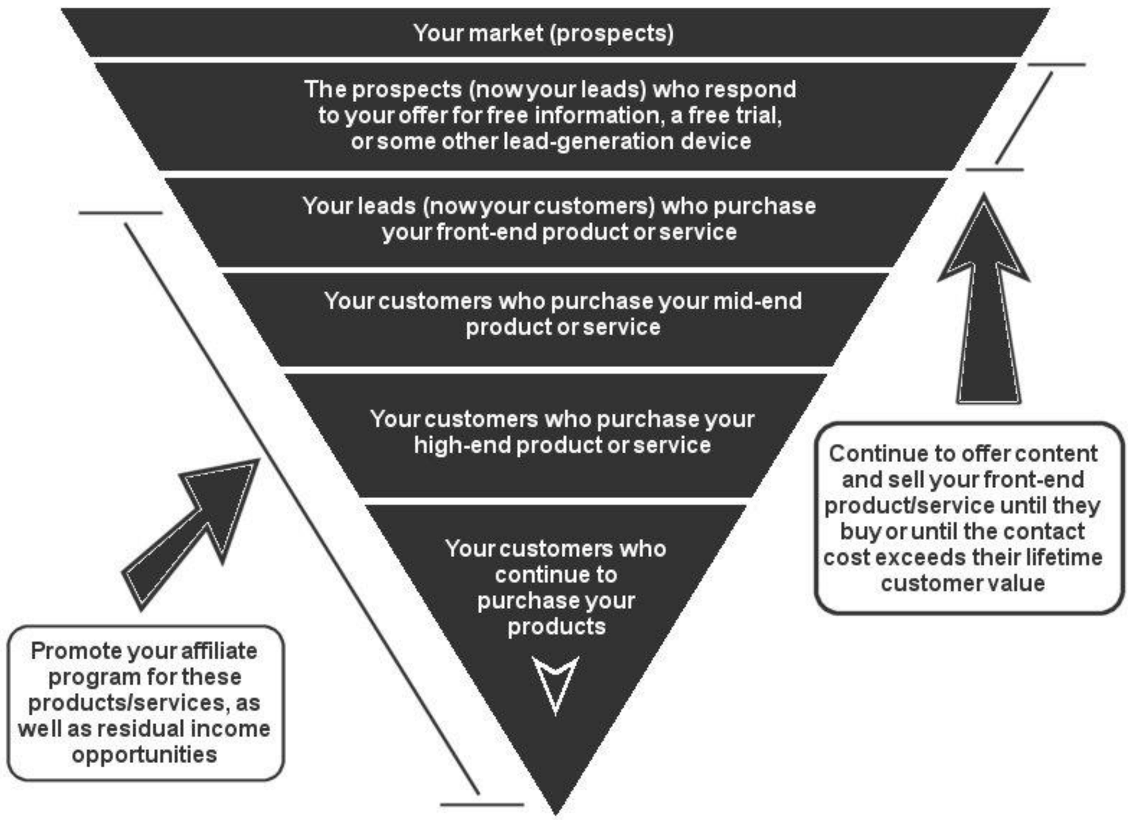

Figure 2-1
The Marketing Funnel (Offline)

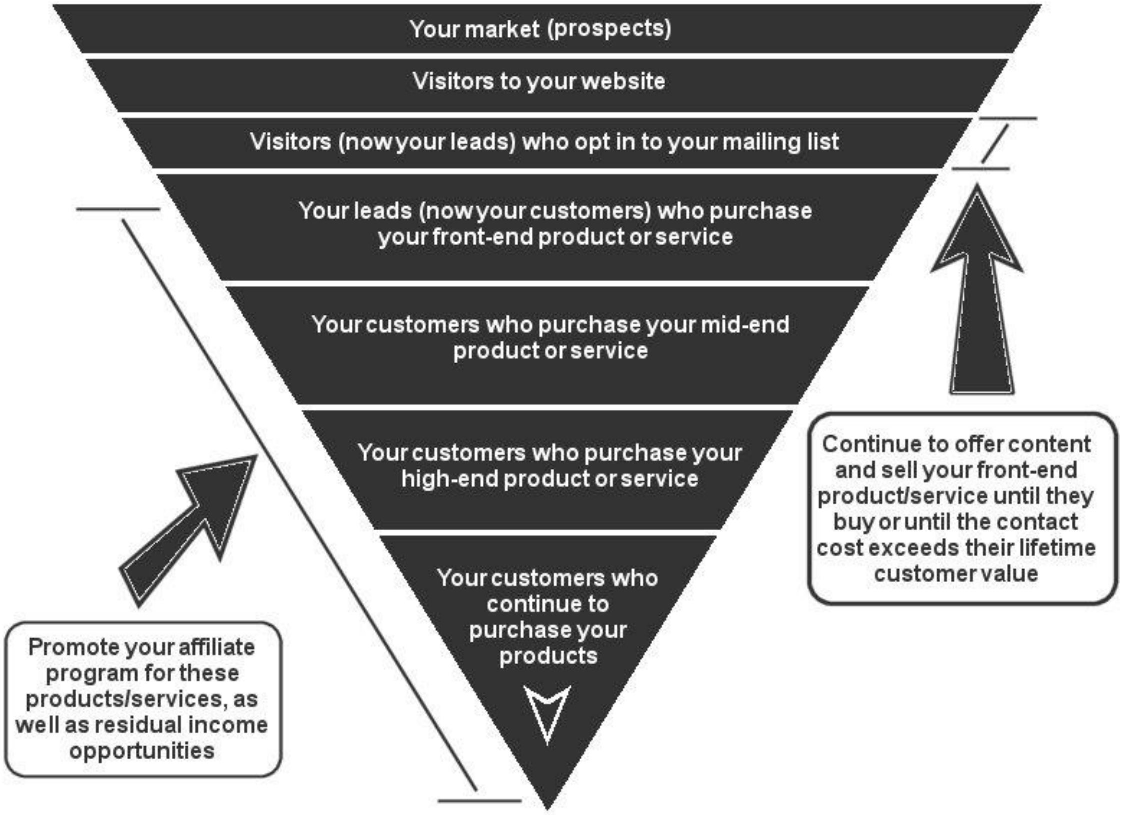

Figure 2-2
The Marketing Funnel (Online)

Let's walk through each step of the funnel to gain a clearer understanding of how the funnel works.

1. Your prospect enters the funnel by responding to your incentive or "ethical bribe" to raise their hand and give you their contact information. He is now a lead on your mailing list.

2. You continue to provide value to him, but you want him to make the transition from a non-paying lead to a paying customer. As a result, you give him a front-end, or entry-level, offer on a product or service directly related to the value he received when opting to join your list. You may make the offer at a breakeven or even an initial loss, because you know you will more than make up for it on back-end sales.

3. If he doesn't purchase your front-end product, you continue to sell him on the same offer or different front-end offers—ideally both, because he just may not be in the market for your initial offer at this time, but may be later.

4. When he purchases your front-end product, he is now a customer. You are now "warming him up" to doing further business with your company. Once he sees that you over deliver on your promise of value, he'll feel more comfortable buying from you again.

5. You want to graduate him to the next price level, so you make him an offer on a higher-end product or service related to the entry-level one he already bought. If he doesn't buy, you follow a similar approach as step 3 above. That is, you continue to make him offers, but this time on the mid-level product.

6. Once he purchases your mid-level product, you move onto the high-end product. He is now conditioned to buy from you with confidence and without worry, because he knows what an outstanding value you've been giving him. He's seen the results of your products first hand, so his buyer's resistance is reduced. He is now on his way to becoming one of your "A" clients, the 20 percent responsible for 80 percent of your profits.

7. You continue to sell him higher ticket items and provide even greater value to him.

The steps I have listed are a very simplified approach. You'll soon see that there is much more to it if you truly want to be successful in the long run, but it's not rocket science by a long shot.

After he buys, you'll want to ask him for referrals, a testimonial, and do everything in your power to make sure he is satisfied. You want him to be satisfied so he'll buy again of course, but you want also want to reduce your refund rate and gain his endorsement. You want him to tell all of his friends and colleagues about his positive experience with your company.

You probably know when someone has a bad experience with a company they're more likely to tell others about it than when they have a pleasant experience. You want to encourage them to tell all about their pleasant experience.

And then you'll want to develop some kind of residual income, where they pay you so much a month or year forever until they cancel. Not everyone will do that, of course, but your "A" customers probably will. And you can create different residual levels, just like you have different product levels, all at different price points.

Final Words

This report only illustrates the types of transactions you should be thinking about for your business. In the long run, you're going to need a plan that will sustain your business for a longer stretch of time, rather than a week-to-week, month-to-month approach.

That's the real secret to building a long-term business building success.

Exercises like asking yourself where you'd like to see your business two years from now or five years from now or 10 years from now can really make a difference in whether your business will be a short-term overnight success that will fizzle quickly, or whether it will sustain the test of time and provide a lifetime value for you and your family.

Ideally, you like to plan for the latter. And this report has barely scratched the surface.

But it does give you something to think about, because most entrepreneurs focus on the short term rather than looking at the bigger picture that will last them a lifetime.