

# THE BROKEN BUSINESS MODEL

An ex-corporate professional service provider had decided to go into business for themselves. They had a premium service that was going to be offered into an undeveloped market which effectively means it was a blue ocean and if done correctly meant both market control & dominance.

In order to penetrate the market quickly and attract as many new clients as possible the service was offered extremely cheaply. This resulted in the business owner attracting the wrong market. Instead of servicing medium to large businesses with substantial turnovers the business had attracted start up business who struggled to pay the nominal monthly fee charged.

As a result the business owner was working extremely long hours and was earning very little in the way of remuneration for their efforts. Attempts to grow the business resulted in a multiplication of the existing business model problems which is an all too common occurrence in today's business environment.



# The root cause of the cash flow problem

<b>1</b> The service was priced to cheaply	<b>2</b> The service was marketed in places that attracted attention from the wrong market
<b>3</b> There was no qualification criteria	<b>4</b> A large corporate salary needed to be replaced and the economics of the business model didn't work
<b>5</b> Asked the wrong people the wrong questions & received poor, generalised, one size fits all advise	<b>6</b> Not enough market development was done before the product was launched

## The Fix



The product needed to be priced based on expense coverage and expected market demand. As a result the total of all budget expenses including a reasonable profit margin was divided by a budgeted total annual service amount. This provided the business owner with the required client volumes to make the model work. The total annual fee was then divided into 12 to provide a new monthly service fee. Note that the existing clients were not abandoned and were continued to be serviced while the new business model was implemented.



The new pricing structure meant that the businesses profit margins expanded significantly enough to more than cover the opportunity cost of the foregone corporate salary required to support the business owners private life.



The client continued to market through the same channels however vital changes were made to the marketing messages so that they were noticed by larger and more sophisticated solution seekers. The service was also marketed to areas where much larger volumes of ideal customers frequented and the scope of the market was no longer restricted by domestic boundaries.



In order to ensure the right market was being targeted the client introduced a qualification criteria which would see prospective clients answer key questions that saw them justifying their suitability for the service being offered before any further communication was facilitated.



This business was steered off course because the business was seeking advice and was attracted by an unqualified service provider that was offering technological tools as a solution to business problems. These tools were mass marketed and prescribed to a general business population regardless of the individual business circumstances. When these solutions were applied to businesses they were mostly ineffective because the root cause of a problem was never identified which prevented a satisfactory approach to solving the problem from being implemented. Fortunately, this client found sound advice from a provider that specialise in both financial and strategic business management, had a track record and was qualified and insured to provide effective advice.



Due to the infancy of the service being offered the marketed required a detailed understanding of its functionality, effects and potential results before trust could be established and the market adapted. This was achieved by making information easily accessible and distributed through existing markets already serviced by trading partners.

## The Outcome

The changes made to this clients business and financial model resulted in:

- A revenue increase of 500%
- The owner drawing a six figure salary
- A 40% net profit margin
- The client now takes two full weekdays off per week to spend with their young family

### NOTE

We respect our client's right privacy and therefore omit any personal details from our case studies.

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