The Magic Number
That Maximizes Your Profits

By the time you're done reading this, you'll know what the most important number is to creating maximum profits from your business– you'll also know exactly how to calculate it for your business.

You could call this "The Magic Number" because once you know this number, you'll know exactly what you need to do to grow your business. You'll know what you need to do to bring in new customers. You'll know what you need to do to maximize sales. And once you know that, you'll also see clearly in your business where you can maximize profits.

Sound fun? You bet.

Except for one big thing. This is all about math. Though don't worry too much. It's simple math. Add, subtract, multiply, divide. And once you understand this math, it's easy to do over and over again.

And here's a little secret. You don't grow a strong, highly-profitable business without this math. If you focus on everything else in your business but avoid this math, you're leaving money on the table. But once you know this math, everything else you do to grow your business becomes far more clear – and more effective.

Okay, let's dig in.

First this, then The Magic Number…

The Magic Number for your business doesn't appear out of thin air. There are some critical steps you have to take to get there:

1. The Customer Lifecycle
2. The Math of Getting and Keeping Customers
3. The Magic Number

Alright, let's look at these, step-by-step.

The Customer Lifecycle

When you think of getting a customer, how do you think of that customer?

Do you think of that as a person who visits your business once – either "virtually" online, or in-person at your brick-and-mortar store – and may or may not come back again?

Or do you think of every customer and potential customer as a relationship to be built and nurtured?

I'll give you a hint about building a highly-profitable business. You should think of them in the second way, not the first.

A trite stat, that is still interesting: It takes 6X as much time, money, and effort to convert a new customer as to sell again to a previous customer. Maximum profits don't come from one sale per customer. Maximum profits come when you maximize your ongoing relationship with your customers.

So let's look at some defining points in an average customer's lifecycle.

New Lead.

This is the point at which a customer raises their hand and says, "I'm interested in what it is that you're doing."

This is where a customer gives you permission to follow up with them with additional information about what it is your business can do for them.

Though – ignoring some important exceptions I don't have room to go into here – the customer does not give you money at this point. It is simply the customer giving you permission to contact them further.

First Sale.

This is the first time the customer gives your business money in exchange for products or services. For many businesses, there is one or more defined "first step" products – entry-level products that deliver a core value to the customer at an affordable price.

The hardest sale to make is the first sale to a new customer – it often consumes the largest part of your marketing budget, though it is often minimally profitable if it is profitable at all. Some smart marketers – once they understand The Magic Number – actually strive to make their first sale at a loss, considering it an investment in getting a new customer. They know their investment will be paid back in a set amount of time (we'll get to that soon).

Cross-sell /Up-sell.

This is often the next step in a customer lifecycle. Once they know of your business – and have had a quality experience in making their first purchase with you – they want more.

This can be a cross-sell, meaning they purchase comparable products to the first one they bought – that is, similarly-priced, similarly-delivered products.

Or it can be an up-sell, meaning they purchase a higher-priced, higher-value product that represents a step up in their relationship with you and your business.

In the information marketing and publishing businesses – where most of my clients operate – a cross-sell can be, for example, purchasing one $49 special report after purchasing another $49 special report. An up-sell might be purchasing a $499 big kit of information, including multiple special reports, CDs, DVDs, and more.

In retail, a cross-sell might involve a customer coming in for a second pair of jeans after they've bought one pair of jeans from you. An up-sell could involve the customer coming in and purchasing one or more complete outfits.

Continuity/Membership.

The next big step up in the customer lifecycle is when they decide to engage with your business on an ongoing basis. This means joining your membership program, VIP club, frequent buyer program, or any other program you may have that:

1. Delivers the client or customer regular, recurring value – usually on a monthly or more-frequently scheduled basis.
2. Allows you to charge the customer on an ongoing, continuity basis – in most cases you want this to be "until-forbid," meaning you continue to bill or charge them until they ask you to stop.

In the information marketing and publishing business, the content delivered via continuity and memberships includes newsletters, teleseminars, webinars, tele-coaching

(1-on-1 or group), masterminds, membership websites, and – most often – a combination of these.

Don't rule this out for retail, either. I've gotten my hair cut at a barbershop with membership at the core of its model – multiple levels of membership allowed for different services to be performed on a regular basis. Membership models can be used in restaurants, clothing retailers, car servicing centers, and just about any other business – with special discounts, promotions, members-only days, private parties, and so on available as an exclusive membership benefit.

Referral.

Many businesses – even if they think about all the other parts of the customer lifecycle listed already – don't think about referrals as part of the lifecycle. And yet, this is a huge contributor of customer value.

If a customer refers 5 others who spend as much with your business as the first customer did, that customer's true value to your business is not just what they spent, but what their friends spent as well.

This can have a huge multiplier effect in your business, and should be seen as an integral and incredibly important part of the customer lifecycle.

The Math of Getting and Keeping Customers

Okay, so now we've defined the different points in the customer lifecycle, let's look at the math of the customer lifecycle. Or, more tantalizingly, the math of getting and keeping customers.

And don't worry – I haven't forgotten about The Magic Number. That comes next. This is the math we have to do to find The Magic Number for your business.

Let's follow the numbers through the customer lifecycle... And I'll use some pretty basic numbers here just to keep it easy. Putting together a spreadsheet to identify all of these numbers will make it much easier on you when the numbers get more complex.

Cost Per Lead.

Let's say you run an advertisement or conduct a marketing campaign that costs $1,000 and generates 100 leads. Divide that $1,000 by 100 and you have a cost per lead – simply to put another new lead into the front-end of your sales funnel – of $10 per lead.

This is a critical number to know, although of limited use because the customer has not spent any money with you yet. However, once you know the value of each lead, this gives you a better measuring stick to compare advertising media and marketing campaigns against each other.

Cost Per First Sale.

Let's say once you have those 100 leads, you spend another $10 per lead – $2,000 total invested, or $20 per lead – to convert 10 of the leads into paying customers. Divide the $2,000 total investment by the 10 paying customers, and you have a cost per first sale of $200.

First Sale Revenue.

Continuing our example, let's say that for your first sale, you're selling your customer a $299 box-of-stuff – a box of information delivered on CDs, DVDs, in special reports, in binders, and so on.

So every first sale gives you $299 in revenue.

Fulfillment Cost Per Order.

Many different businesses have different fulfillment costs. If you're offering information for download delivery, the per-order fulfillment cost is low enough to be negligible. If you're offering a physical product at retail, often the price is a 2X markup of the cost of goods – so your fulfillment costs per order will be approximately 50% of your transaction size.

For our example, let's say that your total cost of duplication and fulfillment is $49.

Profit/Loss On First Sale.

I mentioned previously that many smart marketers attempt to make their first sale at a loss, knowing they'll recoup that loss on future sales.

Though calculating this out in our example, we get a $50 profit on the first sale: $299 in revenue, minus the cost per first sale of $200, minus the fulfillment cost per order of $49. Congratulations on acquiring a new customer at a profit!

30-, 60-, 90-Day Value.

Okay, so we have a new customer. It's not time to rest on our laurels. In fact, now is the best opportunity we'll ever have to maximize the customer's value to our business – and our value to that customer. Because a new customer is most likely to do business with you again within the first 90 days of the relationship. It's when their need for your products and services is highest, when they have the most affinity for you and your business, and when they're most willing to buy more from you.

So let's say that you take that new customer that you've acquired at a $50 profit, and you're able to, within the first 90 days, sell them an additional $299 worth of products or services. That should be pretty easy. They just spent $299 with you, proving they're willing to spend that much. Getting them to spend an equal amount with you again should be as easy as providing them as compelling an offer as your first one. Actually, easier, because your first sale established trust. Making the next sale will be far easier.

In fact, some customers who've just spent $299 with you may be willing to immediately spend $2,999. And a fraction may be willing to spend much more – say, $29,999. Putting an opportunity to do so in front of them is the only way to find out.

There are a number of additional calculations that go into customer value – including cost of delivery, cost of additional marketing and selling efforts, and so on. While you shouldn't skip these when you actually go through the effort of calculating these numbers for your business, for the sake of brevity I will.

Let's just say that within the first 90 days of your customer relationship, that customer that brought in a $50 profit in the first sale is worth an additional $200 in profit. That means the 90-day value of a new customer is $250.

Some marketers calculate this on different time periods – 30-days, 60-days, 90-days, and so on. If you're making that first sale at a loss, this becomes more important, because you want to know when you'll break even. Will it be within the first 30-days? 90-days? 6-months? Understanding this will help you understand how much you can invest in getting a new customer today – and how fast that will come back to you. (This is actually a big hint toward The Magic Number, but I don't want to get too far ahead of myself.)

IMPORTANT NOTE: If you're not systematically communicating with your new customers in the first 90 days with the express purpose of maximizing both the value you deliver to them and the money they spend with you... It's time to start. While most customers are predisposed to buy from you during this period, only a few will do it on their own. Most have to be pushed and prodded into it – or at least given compelling offers. Building a system for this is one of the highest payback marketing and selling opportunities in your business. Do it!

First-Year Value.

Along with 90-day value, it's smart to understand what a new customer will be worth to your business within the first year. There's not a lot more to this, because the calculations are the same as other value metrics. Only the time period is different. Though once you understand the first-year value of a new customer, you can create a much better picture of where you business will be 12 months from today based on how many customers you can bring in today.

Continuing our example. If a customer is worth, on average, $250 in profits within the first 90 days, a well-systematized business could easily double that within the first year. So let's just say the first-year value of our new customer is $500.

Lifetime Value.

The lifetime value of a new customer is perhaps the second-most valuable number you can understand in your business, behind The Magic Number. You can find the lifetime value of a customer in your business by taking your total revenue minus marketing and fulfillment costs – over the entire history of your business – and dividing it by the total number of customers you've had.

For slightly better accuracy, you can calculate based on customers 12 months old or older. That is, remove any customers from the calculation – and the profits generated from those customers – that have come to your business within the last 12 months. Because there's a disproportionately high value created from the customer relationships within the first 12 months, you get a better picture by calculating the lifetime value from customers that are at least 12 months into their relationship with you.

In understanding lifetime value, there's another important calculation. And that's average customer lifetime. Calculate the average time period per customer between the first and the last sale. Combining this with the previous calculation, you can understand not only how much a new customer will be worth to you on average, but also over what time period.

In our example, let's say that the average new customer is worth an additional $500 – that is, $1,000 in total profits. And that's over a 5 year average customer lifespan.

So, based on pure averages, a customer you bring in today will bring you $1,000 in profits over the next 5 years.

Referral Value.

Let's not forget the value of referral customers. If your lifetime customer value is $1,000, yet they bring in an additional two customers each, your value per new customer acquired through advertising shoots up tremendously. Not only is each referral customer worth an additional $1,000 ($2,000 total), but there's also reduced marketing cost in acquiring these referral customers.

For example, rather than paying $200 in lead generation and additional marketing costs to get the new customer, your lead generation cost may drop to zero, making your cost of first sale $100 instead of $200. So your profits from each referral customer – their lifetime value – may be $1,100 instead of $1,000.

Let's say we're running our business like a finely-tuned machine, and we manage to get an average of two referrals out of every new customer acquired through marketing and advertising. That means the true value of that customer is not the $50 profit from the first sale, the $1,000 lifetime value, or anywhere in between… But rather the $3,200 total lifetime value of that customer plus their two referrals. And this ignores any referrals from the referrals.

So that original customer that we got to buy a $299 product for $50 in profits is ultimately worth at least $3,200 to us.

Which leads us right into the most important number in your business.

The Magic Number

Understanding these numbers in your business brings you to an even bigger question.

In our example, if we know that every new customer we bring in through advertising is ultimately worth $3,200 to us, what are we willing to spend to acquire that customer?

Even using the $1,000 lifetime value figure we get from direct transactions with that customer as a benchmark, how much are we willing to spend?

That already accounted for $200 in marketing and advertising costs. How many additional customers could we acquire if we simply bumped that up to $50 more per customer – so the first sale was at breakeven? How many additional media sources would we try? Are there other lists we could rent, even if the response rates were marginally lower? Other keywords we could buy on Google?

If we knew that each additional customer we acquired through these more expensive methods was worth another $200 in the first 90 days, $450 in the first year, and $950 over five years... But we couldn't get the additional sales without that additional $50 expense... How many times over would we be willing to spend $250 instead of $200 to make that first sale?

What if instead of making the first sale at breakeven, we made the first 90 days at breakeven? That would give us $450 to make that first sale. How many more customers could we get for $450 each, rather than $200 each? How many would we get – knowing we'd be at breakeven within 90 days? Knowing that within the first year we'd have $250 profit per customer, and within five years we'd have $750 in profits? And these calculations don't include the referral value.

Here's The Magic Number: it's your maximum cost per acquisition. It's how much you're willing to spend in marketing, advertising, and selling expenses to get that first sale from a new customer.

Once you understand the economics of the customer lifecycle – how much each new customer is worth to you – you understand that you can spend much more to get new customers. You can go into the red for the first sale... For the first few months... Even for the first full year. (Many of the best-of-the-best marketers have this down to a precise science.)

This allows you to reach further and wider with your marketing, to invest in positioning yourself as a leader in your industry, to show up everywhere your ideal customer looks... To be the type of business that can NOT be ignored.

The economics of understanding The Magic Number can put you on the top of your industry, fast. Simply because most businesses aren't willing to calculate this number in the first place... And then, once calculated, aren't willing to take the much tougher step of spending more, based on what the numbers say.

Though if you understand all these numbers in your business – and adjust The Magic Number for your business as high as your sanity lets you – you have perhaps THE best competitive advantage money can buy.

One more thought...

Every step of the customer lifecycle is an opportunity to increase your customer lifetime value. Increasing the number of compelling offers you put in front of customers – especially in the earliest days of their relationship with you – will almost always increase your customer lifetime value.

Make it a goal to put systems in place for strategically cross-selling and up-selling customers. Find a way to build continuity or membership into your business. Offer higher-priced options for customers who want to spend more in exchange for more value.

The more value you give to customers in the form of products and services – and the more value they give to you in the form or revenue in return – the higher you can push your customer lifetime value.

And the higher your lifetime value number, the higher you can push The Magic Number, the maximum amount you're willing to spend to get that first sale, to acquire the customer.

This is how you position yourself as the leader in your industry, take the lion's share of the market, do business with the most customers, and maximize the profits you get from your business.

Now the most important thing...

Do it!

Do this math in your business (or have someone do it for you), find The Magic Number that makes sense to you, and develop aggressive acquisition targets and campaigns based on what you've just learned.