

The Intoxicating Feeling of Being Busy

If your business is slowing down or you feel you've plateaued, be mindful that the natural tendency is to obsess over sales. After all, you need more billable time! You need to hit the streets, offer special deals, sweeten the pot, and bring money in the door fast.

But before you start down that path, consider this scenario:

A therapist finds herself increasingly anxious after experiencing two months of slowly declining business. She's lost some long-term clients and is now at 85% capacity with the potential to be down to 75% within the next few weeks. She begins to wonder if she's missing out on a much larger client base because her fees are too high. Not surprisingly, she asks herself, "how much more business could I get if I simply charged less."

In my experience, she's wondering about the wrong thing. Instead of thinking in terms of "less" she should be thinking "more". A better question to ask as she works on her strategy would be, "How much less would my earnings be if I charged more?" The reason why this is a good question has to do with the fact that it is gross margin, not sales, that matters when you're looking at the overall viability of your business.

Gross margin is the percentage of money left over after you take into account the direct cost of whatever it is you're selling. It offers you a true look at the value of the work you're providing versus the fools gold mentality that can play itself out when you're only thinking about increasing sales. A lower gross margin means you have to work that much harder to turn a profit. What might your costs be for delivering a service? If you're a mental health professional, there are plenty to consider. The cost of doing business might include the time each session takes out of your day, the preparations you make for your sessions, the cost of assessment tools, the percentage taken by insurance companies, and so on.

Let's return, once again, to the example of the therapist with the declining client base. My guess is she'd be much happier earning \$20,000 in gross profit that comes from \$50,000 worth of sessions versus delivering \$100,000 worth of psychotherapy sessions and earning the same \$20,000 in gross profit. If she achieved the former, it would mean less headaches, less rat race, and more time to focus her efforts on new service offerings that would grow her business even further.

Understanding gross margins/gross profits within your business will also help you avoid being shocked when you've worked 70 hours a week only to find, after costs and expenses, that you've actually lost money!

Ultimately, you may need to reduce your fees to address a business growth problem, but look for ways to increase your margins first rather than acting on your impulse to immediately reduce them.

And remind yourself that sales don't necessarily equate to profit. Just because your busy and in demand doesn't mean your earning a profit. Have a specific business goal in mind, understand the impact your pricing decisions have on your margins, be disciplined in your approach, and you'll improve the viability and success of your business.