

DAY 5
VIDEO TRANSCRIPT



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Hey there Change Makers!

Yesterday we created a high-pitch concept that will stick in the minds of your potential customers, we defined your revenue streams, and we found the places where your customers hang out.

Today, we're going to define your key metrics, determine your cost structure, and outline your unfair advantage.

First, you'll need to define your key metrics.

Key metrics are how you'll measure success. Like blood pressure and resting heart rate are a couple of indicators of a person's health, key metrics are numbers that will tell you the health of your business.

Having a business is chaotic, but at the end of the day, there are only a few numbers that matter.

And, while there are many things you could track, for now, we encourage you to identify two key metrics:

#1 - The Key Action, or the primary activity you would use to measure your value proposition.

For example, for Twitter, someone posting a tweet would be a key metric.

For a health and fitness business, a key action might be referring a friend or a family member to your services.

After all, if someone sends someone they love your way, chances are very high that you helped them achieve the goals that mattered to them.

#2 - Success metric or how you will know if you've been successful.

What would you need to achieve to make this business worthwhile?

If it's a revenue goal, what is it and how many clients will you need to acquire to make it a reality?

The success metric you choose can also be more personal. For example, it might be a way of measuring what impact you have on the world.

Next, you'll determine your cost structure.

If you don't have a clear idea of the cost of doing business, you might hustle for hours, weeks, months, or even years without making enough money to live.

So, the next thing that should keep you up at night is how you'll create enough runway to ensure your business continues to operate, even through the challenging times, to keep you and your family fed.

While there are many numbers you'll want to calculate, we recommend starting with four:

- 1. Your fixed costs,*
- 2. Your variable costs,*
- 3. Your breakeven point, and*
- 4. The number of customers you'll need to meet your success metric.*

Let's start off with your fixed costs.

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Fixed costs are costs that stay stable no matter how many clients you work with. They don't change, whether you increase or decrease the amount of client packages you sell.

Some examples of fixed costs might include:

Salaries

Lease or mortgage payments and

Gym equipment

A special note about your salary:

While it might be tempting to pay yourself a lot out of the gates, we recommend sticking with a reasonable number that will get your needs met (to start).

Similarly, you might be tempted to not include your salary in your business costs at the beginning, however, this is an equally terrible mistake.

Even if you can't pay yourself a fair wage (yet), it's important to include a salary in your costs so you can see if you have the potential to build a sustainable business (or not).

To take emotion out of the picture, we recommend doing some research and looking up comparable wages in the market of someone doing your job.

This is especially crucial if you plan on selling your company one day or moving out of your role.

The potential buyer isn't going to care about how much you think you're worth, they are going to care about how much it will cost to replace you.

Additionally, while you might be tempted to take a larger salary as soon as you scale, we recommend taking more of a consistent salary (and setting some extra funds aside) so you have some runway in case the market changes or your health/ability to work changes.

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As an example, let's say you run an online coaching business that includes guest speakers. Your fixed annual costs might include:

Salaries of core team members
Professional fees, like legal and accounting
Design + Marketing
Paying guest speakers
Training Software
Office Supplies
Social Media Scheduling Software
Bookkeeping Software and
Hosting your website

After adding all of this up, you see that your total fixed costs are just shy of \$122,000

Next, let's talk about your Variable costs

Unlike fixed costs, variable costs change in proportion to how much you sell. So, if you sell more products and services, these costs go up; if you sell less, they go down.

Examples of variable costs include things like:

Raw materials and packaging
Transaction fees
Commissions
Direct labor
Marketing costs (if you hand out samples, give free trials (that still cost you your time) etc.)

Following the online coaching business above, perhaps your only variable costs include transaction fees which equal 2.9% + \$0.30 per transaction.

Assuming you sold a 3-month high-end coaching package for \$735, your total variable costs would equal \$21.62 USD.

Next, let's calculate your break-even point.

Calculating your break-even point will help you figure out how many clients you need to serve, or how many products you need to sell, to cover all of your expenses.

You can also use your break-even point as a quick litmus test to see what the actual impact of changing your pricing strategy can have on your profit margins.

Plus, when you – or your team – reaches your breakeven point in terms of sales, you can celebrate. Because every product or service you sell beyond that point is profitable.

Here's how to calculate your break-even point:

Your breakeven point is simply your fixed costs, divided by your price per unit, less your variable costs.

Following the example above, and assuming you sell a high-end 3 month training package for executive women at \$735 USD, the break-even point for the online training business would be 171 training packages.

$$\begin{aligned} \text{Break-even} &= \$121,920 / (\$735 - \$21.62) \\ &= 170.9* \\ &= 171 \text{ training packages} \end{aligned}$$

*Note: For break-even, we like to round up to the nearest whole number because you can't typically sell a portion of a product or training package. And, if you were to round down, you wouldn't meet your target.

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Lastly, let's figure out how many customers you'd have to serve to meet your success metric.

If, for example, you and your team decided that you'd like to grow a business that generated \$200,000 USD/year in revenue and you sold 3-month training packages for \$735, you'd have to serve 273 clients to reach your goal.

*Similar to break-even, we like to round up here as it's nearly impossible to sell 0.1 of a training package, or to serve 0.1 of a person.

Getting an honest inventory of your costs will help ensure that you have a problem worth solving.

If your idea won't fund your lifestyle, and you require money to live, discovering this early will free you up to pursue something else.

Next, outline your unfair advantage or barriers for entry

Whether you're looking for investment or looking to describe why you're the best person to help your clients reach their health and fitness goals, your unfair advantage will give you the language (and strategy) you need to stand out from the crowd.

While many people think they have to be first to market to gain an advantage, this isn't always the case.

As proof, companies like Facebook and Toyota weren't the first companies in their chosen industry; they were fast followers who learned from the companies before them to deliver high-quality offerings.

Similarly, in the health and fitness industry, it doesn't necessarily matter that there are other professionals in the field. In fact, there are very low odds that you're going to be the first one to offer a service like yours.

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Plus, with lifestyle diseases and obesity at all-time highs — and more people desiring to work with a coach — the health and fitness industry is far from saturated.

That being said, it is still important to consider things that set you apart that can't be easily copied or bought.

After all, you can't use your unfair advantage until you can name it.

Some examples of unfair advantages include:

Insider information

Personal authority

Having a dream team

Building a bulletproof reputation, or having an

Existing pool of raving fans/customers

If you're struggling to see what your special sauce is, we recommend gathering feedback from others to see what your unique superpowers are.

Or the things that:

You are, or have the potential to be, world-class at.

You really enjoy doing, and

You can make a big difference with, if you use them.

To find out how to uncover yours, check out this article, which is linked in your workbook: *“How To Uncover Your Unique Abilities And Use Them To Serve Your Purpose.”*

You might not have an unfair advantage that applies to you today, or feels powerful enough. That's okay to start out with and it's to be expected if you're early on in your career.

Seeing this gap on your lean canvas will show you that this is something you need to fill over time and it can inspire innovative growth and thinking.

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Plus, when you start to test your products and services in the real world, your unfair advantage might be revealed over time.

Now, while all the boxes in your business plan are filled out, it isn't "done."

You can do all the secondary research in the world and that will still not guarantee your success.

Rather than view your business plan as something you've completed, we recommend that you view it as a constant working draft.

Something that you review, test, and update over time.

We hope this 5-day course has helped you gain some clarity around your offering, and that it gives you the confidence to test out your assumptions in the real world.

Good luck, and see you in the marketplace, Change Maker!

