The Irresistible Episode—Now with Financial Modeling!

Leading Learning Podcast Transcript for Episode 284

Jeff Cobb (00:00):

Do the hard work to really lay out the financials for this. Look at the revenue, look at the cost, look at the factors that are going to make this sell or not sell in the marketplace, and map out that financial story to see if they've actually got a viable product or not. Even if it's irresistible, you still got to sell enough of it to actually make ends meet at the end of the day.

Jeff Cobb (00:25):

I'm Jeff Cobb.

Celisa Steele (00:26):

I'm Celisa Steele, and this is the Leading Learning Podcast.

Jeff Cobb (00:34):

Welcome to episode 284, the next to last installment in our seven-part series on the learning business MBA.

Celisa Steele (00:42):

We're coming off three guest lectures, and in each of those episodes, as well as the two episodes that kicked off the series, two bits of advice kept popping up. Time and again, we heard that for a learning business to be successful and thrive, you have to (1) know your market and audience, and (2) you have to get product development right so that you don't build it and then they don't come.

Jeff Cobb (01:07):

We're going to add a component to (1) and (2) that too often does not get added—or doesn't get added with enough discipline and consistency—and that's financial modeling, doing the financial projections to establish that your right audience and right product add up to a financially viable offering.

Celisa Steele (01:28):

To be able to do good financial modeling, you need to be clear on your offer, and, ideally, you need to have an irresistible offer.

Jeff Cobb (01:37):

And you may have heard about the concept of an irresistible offer before. It's a somewhat common idea, and it's kind of hard to trace to its origins, but we've recently been reminded of

the irresistible offer by our colleague Danny Iny, and Danny is the CEO of Mirasee, which is a company that focuses on working with edupreneurial, entrepreneurial course creators to create and launch and sell their online courses.

Jeff Cobb (02:06):

Danny is somebody we've actually had on the podcast before, so we'll be sure to link to that, but he definitely emphasizes and is a great person for explaining that irresistible offer idea.

Celisa Steele (02:18):

To come up with an irresistible offer, you have to be clear on the target audience. And I want to be clear in our terminology because there's a distinction, an important one, between *market* and *audience*. The target market is the whole group of people or organizations that your learning business wants to sell to. The target audience is narrower. It's a subset of the target market. It's the group of individuals or organizations that your learning business expects to buy a particular learning product.

Celisa Steele (02:52):

If we take the example of an association, the target audience will not be, should not be everyone who works in the field or industry that the association serves. The target audience won't even be all the association's members. The target audience is going to be a subset of membership in that broader field or industry. It's going to be the subset that can truly benefit from the offer.

Jeff Cobb (03:17):

To be clear on the target audience, you're going to want to document the target audience, and this might take the form of basic demographics—things like age range, socioeconomic status, educational attainment, or you might even get into personas or customer avatars.

Jeff Cobb (03:35):

Now that said, a simple text description that helps you and everyone on your team be clear about your target audience is way more important than doing slick personas with fake photos or cutesy bios and made-up names.

Celisa Steele (03:48):

In addition to being clear on your target audience, you have to be clear on your offer. And, again, this can take the simple form of text that describes what it is you're offering. Maybe it's a deep dive multi-month online workshop, or it's a day-long place-based seminar with access to an expert, or it's a subscription to a catalog of self-paced e-learning, a cohort-based course. You get the idea—we can go on and on. You have to be clear on what it is, how it works, and what it costs.

Jeff Cobb (04:24):

And when thinking about what it is, think about the competitive factors that we discussed back in "The Strategy and Marketing Episode," when we talked about blue ocean strategy and the strategy canvas. Know the competitive factors in your market, the factors on which organizations tend to compete in order to win customers—things like price, reputation of the presenters or instructors, location and amenities like food in the case of face-to-face events, availability of credit, access to the instructor or another expert for help, interaction with other learners, all of these types of things. Address the relevant factors in your offer. And, in keeping

with blue ocean strategy, maybe do some zigging where others zag, or add in some factors that others may not be considering.

Celisa Steele (05:11):

And, again, simple is good and fine. You don't need a fancy prototype or detailed content outline initially. It's okay and even best to start with just a text description. That makes it easy to update and change. It's easy to get input from a wide variety of stakeholders if you're dealing with just text. So we recommend, start there.

Jeff Cobb (05:35):

To make your offer appealing—or better yet, irresistible—it needs to be perceived as delivering more value than it costs, and, to create appeal and irresistibility, you're going to want to draw on relevance, credibility, and urgency. And relevance is one of those great terms that crosses the lines between business and adult learning, adult education, because we know how important relevance is to that adult learner. They need to know that what you're offering applies to them, that they're going to be able to apply it in their life and in their work and get some sort of return off of it. That has to be part and parcel of the education experience, and that makes it part and parcel of the overall offer.

Celisa Steele (06:21):

And then that's relevance. Next, let's talk about credibility. And this is really about describing why that learner should learn from you. There are probably others that offer learning options on the same or very similar subjects, so you need to think about what makes yours better. Maybe you have a lot of experience and a long history in the field or industry—that can help make you credible.

Celisa Steele (06:46):

You can also draw on results that you've achieved, maybe the kinds of results and returns that past learners have gotten from engaging with you. That can also help establish your credibility. It might be the approach you use. Maybe you've got this perfect blend of on-demand content and community discussions, and that gives you credibility.

Celisa Steele (07:07):

So you need to think through—and these are all just examples; you might have other ideas—but really think about why the learner should learn from you.

Jeff Cobb (07:17):

So that's relevance and credibility, and then that third factor is urgency. And I know I myself can think of so many things that would be relevant for me to learn, that I would like to learn, that I desire to learn, and that I have credible sources for, but I'm not doing it, and it's because I don't feel the urgency around doing it. There's nothing right now that's driving me to make that move, to learn, even if there is a relevant, credible offer out there. So how do you create that sense of urgency?

Jeff Cobb (07:49):

Some of it's the classic stuff—like early bird specials—that's going to go away. The special price is going to go away if you don't go ahead and make that purchase. There might be some tiered

pricing that drives urgency around it. You might tie it to something that's going on in the average learner's life.

Jeff Cobb (08:06):

The end-of-year credit renewal window is a huge one in the continuing education world. You hit December, and there's a lot of urgency all of a sudden around getting learning experiences, getting learning products. Or it doesn't have to be end of year. It might be that new regulations are coming into play. You can probably think about when GDPR—the regulations in Europe around protecting people's information, primarily on the Web or especially on the Web—when that came about, there was a lot of urgency for people who had to deal with that kind of stuff to get the kind of learning and education that they needed. When COVID hit, same sort of thing, a lot of urgency. Virtual events all of a sudden went through the roof, and people were attending virtual events. There was also a lot of need to learn more about how to actually do virtual events.

Jeff Cobb (08:52):

So make sure as you're wrestling with that irresistible offer that you really are looking at relevancy. What's truly, truly going to make this relevant to your target learners? You're really establishing that credibility for your organization, for the subject matter experts, the presenters, the facilitators who are going to be involved. And then add that urgency. Why now? Why for this person? Why are they going to click that Buy button?

Celisa Steele (09:26):

So you do this work. You're clear on your target audience. You're clear on your offer. The offer is relevant, credible, and urgent, but even that's not enough. You need to now do the financial modeling to know whether there's a sufficient return on investment in pursuing this irresistible offer.

Jeff Cobb (09:46):

Yeah. And we so often don't see this happen. It's hard enough to do the work and do it really well to get to the irresistible offer. And a lot of organizations that…well, a lot of them don't even get that far, but, even if they do that, they then often don't take the step after that and do the hard work to really lay out the financials for this. Look at the revenue, look at the costs, look at the factors that are going to make this sell or not sell in the marketplace, and map out that financial story to see if they've actually got a viable product or not. Even if it's irresistible, you still got to sell enough of it to actually make ends meet at the end of the day.

Celisa Steele (10:27):

And to go back to the first episode in the series, we gave credit to Josh Goldman—he's now director of consulting at Tagoras. We credited him for the term "the learning business MBA." And, Jeff, when you, Josh, and I talked about the skills and knowledge needed for learning businesses to succeed, I remember you mentioned to him that you've often seen organizations not be really clear about their margins and their costs for their learning portfolio. And then, one step more, you've rarely seen organizations be clear at the product level. So your not just overall portfolio but at the product level, a particular course, what does that actually cost to produce and maintain?

Celisa Steele (11:09):

And you asked Josh if that's something he's encountered in the market as well.

Josh Goldman (11:14):

I have encountered that both in my own work, moving into new organizations and then also in my role with Tagoras consulting now, the lack of product-level P&Ls. And I find that really important for business decision-making and supporting business decisions. If you don't have an accurate representation of both potentially the gross revenue but also then the net profit, so to speak, how are you making decisions about which programs to invest, reinvest, or divest from if you can't get that view?

Josh Goldman (11:42):

And I know that there are some technological hurdles in some of these management systems that we're utilizing, to be able to get an accurate and a good picture of that net profitability without a significant amount of manual work. So I do understand the challenges and issues there because I have been in the seats of those people that are listening to this podcast.

Josh Goldman (12:01):

So I think there's the balance between how do you get enough value out of the manual time spent in adding some of those data points to your analysis versus not having access to that information and trying to make judgment calls on to what degree of accuracy do you need to have in the financial portfolio review. Does it need to be a scalpel, or could you get away with a steak knife, so to speak, analogy?

Jeff Cobb (12:27):

I think that last point Josh makes is a really important one. We're saying do your financial modeling, but we'd say don't necessarily worry about scalpel-like precision. You just need to get a good sense of what's possible and what's probable. And to help you do that, let's dive into the basis of financial projections, and think of this as kind of a "finance for non-financial folks" sort of segment here.

Jeff Cobb (12:54):

Important stuff for professionals working in and running learning businesses but certainly not the level of detail and precision that, say, an accountant or a true finance person might require.

Celisa Steele (13:04):

So when working on financial projections for a learning product or service, one of the considerations is the time horizon. Usually three to five years is going to be a nice time horizon when you're looking at getting a new learning product off the ground because that takes time to get it developed and off the ground, to get it adopted. That takes time, and costs are usually higher in the first year or years, and then margins—and we're going to talk more about margins in a bit—margins tend to ratchet up over time.

Celisa Steele (13:39):

You want to give it the right length of time horizon, where you can look far enough out to get a fairly clear picture of what the return might really be but not so far out that the projections begin to lose their value because, of course, you're trying to see into the future with this.

Celisa Steele (13:56):

Your time horizon may vary depending on what you're building, what kind of product you're talking about, and its delivery timeline, it's development timeline, all of that. But, in general, we tend to see three to five years as a good time horizon to consider.

Jeff Cobb (14:15):

And then across that time horizon, whatever you settle on, you're going to need to look at three things: projected revenue, cost of sales, and expenses. And once you have those, you can subtract the cost of sales and other expenses from the projected revenue to arrive at projected net, or profit.

Celisa Steele (14:34):

Now, a quick note on terms. Sometimes you'll hear different terms, and sometimes the different terms matter more than others. In the "it matters" camp, gross versus net is a big difference, as is revenue versus profit. The goal with projections is to get your learning business a clear idea of net revenue, or profit, because that's the bottom line. Literally.

Jeff Cobb (15:00):

There are a few key variables you'll need to be able to project revenue related to learning products. One is, of course, the number of enrollments or items sold. This requires you to understand your audience for this product—not your whole market, again, but your audience—and making an educated guess about what percent of that audience you'll be able to get—something that's usually referred to as the penetration rate, how much of your audience you're going to be able to penetrate and convert into enrollments or sales.

Celisa Steele (15:30):

And don't forget that business-to-business sales are an option as well as direct-to-consumer. If your learning business tends to sell one by one to single users, this is a place where you can consider what moving to an organizational-level sale might look like and what that might do to the profitability of a learning product.

Celisa Steele (15:55):

If you've developed similar products to the one you're doing these financial projections for, you may have some past data that you can draw on to make your numbers here more educated. If you're launching a product that's fundamentally different than what you've offered in the past or if you're targeting a different audience than you have in the past, then your numbers here may be more guesswork.

Jeff Cobb (16:19):

Another key variable for projecting revenue, of course, is the price for the product. And then a third and the final variable we'll mention is annual growth rate. Now, assuming you're looking three to five years out, you'll want to think about how quickly you're going to be able to penetrate your target audience.

Jeff Cobb (16:37):

Year one might be relatively low as you do the work to make prospective customers aware of your product, and then you might ramp up more in years two and three, and then you might settle into a more modest rate of growth after that.

Celisa Steele (16:50):

An “annual growth rate,” as a term, sounds like it’s all about getting more and more learners to buy, and it is. That’s a great goal to have in mind, but you also need to make sure that your annual growth rate takes into account learners that you might lose each year. And that could be because of churn or because, given the nature of your learning product, it’s not something they’re going to buy every year.

Celisa Steele (17:13):

It might be something they’re more likely to take only once or every other year or whatever makes sense given your product and given your audience.

Jeff Cobb (17:24):

And that gets back to knowing your audience and, of course, getting the product right.

Celisa Steele (17:28):

Indeed. And I’ll also highlight that we called these aspects of revenue—the number of enrollments, the price, and the annual growth rate—we called them variables, and they can vary. And they’re usually educated guesses, which means there’s likely a range of reasonable numbers to insert for any of these values.

Jeff Cobb (17:50):

So be sure to make all of these variables actually variable when you put them into a spreadsheet. In other words, it should be possible to change them and have those changes be automatically reflected across your projections. This gives you the ability to see immediately how changing the price point may impact your gross and net revenues and how much difference higher or lower penetration rates or annual growth rates can make.

Celisa Steele (18:17):

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Jeff Cobb (19:09):

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Celisa Steele (19:17):

We've talked about the revenue side of financial modeling. Now let's talk about the cost of sales. Cost of sales are expenses that can be attributed directly to creating, delivering, and maintaining the learning product. Some of those costs are one-time—for example, paying for development in Storyline of a self-paced course. Some of these costs of sales are recurring—for example, annual license fees for a learning management system or a Zoom license.

Celisa Steele (19:50):

And I'll note that, assuming you have more than one learning product, you might figure out a reasonable percentage of your LMS or Zoom or other software costs to allocate to each of your products. So, if you had 10 products, each might absorb 10 percent of those shared software costs.

Celisa Steele (20:08):

And then some of those costs of sales also happen every time a learning product is offered—if, for example, you pay an instructor to show up for a day-long workshop every time you offer it. Cost of sales might also include royalties to subject matter experts or other sources if your learning product is based on licensing content that someone else created.

Jeff Cobb (20:31):

So those are cost of sales. Expenses cover indirect cost related to creating, delivering, and maintaining the product. And these include staff costs—so not the staff ID working on the course (that's a cost of sales) but your time overseeing that ID, for example. Expenses critically also include marketing and sales. Marketing and sales are really a big part here, and it's one key reason to separate out cost of sales from expenses.

Jeff Cobb (20:58):

If you end up with high cost of sales and thus low gross margins, that's going to cut directly into what you can afford to spend from a sales and marketing standpoint. And most organizations in our experience do end up underspending in the sales and marketing area.

Celisa Steele (21:15):

I'll add two things here. One is that there's some gray in everything that we're talking about. What gets classified as a cost of sales versus an expense may vary a bit from organization to organization. In our opinion, though, the main thing is make sure you account for the direct and indirect costs of creating, delivering, and maintaining a learning product.

Celisa Steele (21:38):

That's the first thing. The second thing is, Jeff, you just mentioned margin. So let's go ahead and explain that a bit more now.

Jeff Cobb (21:45):

Right. So once you have your revenue numbers and your cost of sales and expenses, you'll be able to see your gross margin for the product. Gross margin is a profitability ratio that speaks to

the financial wellbeing of a product. Gross profit margin is computed by simply dividing net sales less cost of goods sold by net sales.

Jeff Cobb (22:06):

We'll also put that equation in the show notes because it's probably hard to absorb just hearing it being spoken out like that.

Celisa Steele (22:12):

For the sake of some easy math, let's do an example here. Let's say that you do the work that we've been describing, and you figure out that a new learning product is going to bring in a $100,000 in revenue in a year. And then again you've done the work we've been describing to figure out your cost of sales and your other expenses. And let's say those add up to $40,000.

Celisa Steele (22:34):

And so then, as you said, Jeff, gross profit margin is computed by dividing net sales—so a $100,000 here—less cost of goods sold—$40,000—by net sales—$100,000. So that's a $100,000 minus $40,000, and that's $60,000. $60,000 divided by $100,000 gives us a gross margin of 60 percent.

Jeff Cobb (22:56):

And that 60 percent is something to remember because, if you're like me, you probably can't follow numbers all that well when they're being spoken out. But, again, we'll have this in the show notes for you to look at, and 60 percent is a good margin range around learning products, and then e-learning products can get higher than that. They can get up in the 80-, 85-percent range.

Jeff Cobb (23:14):

And, again, those higher gross margins tend to mean much more ability to invest in sales and marketing—or just simply to increase net margin. The net margin further removes the values of interest and taxes, operating expenses—so think of things like building rent—from net revenue to arrive at a more conservative figure.

Jeff Cobb (23:36):

And also, digital offerings, as we were just saying, generally have significantly higher gross margins. And that's mostly because you aren't investing in things like facilities and things like travel for speakers. That doesn't necessarily mean you're going to have higher net profit because you may decide to invest a lot more in sales and marketing to get the enrollment levels you need for these products.

Jeff Cobb (23:59):

But you're starting out with usually that much higher gross margin level to work with, which gives you some latitude in really investing in getting those products into the market.

Celisa Steele (24:15):

We've covered the basics of financial modeling, and now we want to share a few examples of how financial modeling can be used.

Jeff Cobb (24:22):

And this is definitely not theoretical. We've worked with many organizations over the years in our consulting work to help them come up with financials, to help them make informed decisions.

Celisa Steele (24:33):

And, broadly speaking, the ways that this type of financial modeling can be helpful is in three areas—deciding whether to invest, reinvest, or divest, and that's language that Josh used earlier in that quote that we shared from our conversation with him.

Celisa Steele (24:51):

We've focused so far mostly on financial projections—the financial modeling done to help a learning business understand what might be involved to launch a new product and make it profitable.

Jeff Cobb (25:04):

And that's a clear use case, one where we frankly don't see enough organizations do the work to really understand what creating and maintaining a new product might involve. And that may be because they just think there's no way to do that, but if you're working with the types of projections that we've talked about here, you've got your variables that you're laying out there. You can really create a picture of what it's going to look like in year one, two, three, four, five, whatever time horizon you choose, to (a) invest in that product, start generating revenue from that product, and look at how the cost of sales and the expenses work out over time.

Jeff Cobb (25:43):

And, even if it's a brand-new product, you're not going to be starting from scratch. We worked with a health-related organization, for example; they've been doing things like seminars and, of course, the meetings that so many organizations have for years. So they've got products out there, they have products out there that they've been charging for, and they had some idea of what they could charge for those products.

Jeff Cobb (26:04):

And then using a tool like the Value Ramp—which we've mentioned in many instances, where you kind of look at the logic of your portfolio and how things are priced—they were able to take a stab at, "Okay, we think it should be priced at this level, just given what we're charging for other types of products and the value that they offer. And we think that this portion of our membership is really who we're going to be able to connect to with this."

Jeff Cobb (26:27):

We actually ran a few scenarios, and, even though we could change the variable from sheet to sheet, we went ahead and made up different sheets for a more conservative and a more aggressive scenario. And you could look at it and immediately see, okay, if we're very conservative in the growth rate and our penetration rates and how we're going to price it, this is what it looks like over five years. And in that case, we were losing some money the first two to three years, but then it starts to net out and it starts to make money. And overall, the product made money over a five-year projection.

Jeff Cobb (26:57):

And then, in the more aggressive scenario, if we happen to hit that, it was going to start making money pretty much right away and make about double the amount over a five-year range. And we had our assumptions, notes on all of the columns where we're projecting these things—so we say what we're assuming or have thought through and been logical about why this is going to play out the way it's going to play out or not. But it gave a very clear, cohesive vision of what was going to probably happen or potentially happen with these products, and that, of course, becomes a communication tool for staff, for boards (if you're dealing with a board) to be able to say, "Here's why we think this is a good idea. Basically, we've got the right offer. We know the audience for it, and here's what it looks like financially."

Celisa Steele (27:37):

As you've just explained, Jeff, these kinds of financial projections can be used to inform those kind of go/no-go decisions. And they can also be used to help make the decision to divest, to stop a product.

Jeff Cobb (27:52):

Absolutely, and that's something that, so many organizations wrestle with this, but you often get to the point where you realize something in your portfolio is not working as well as you would have hoped it would work, but you know there's a need there. Maybe you don't quite have the right product aligned with the right audience. So you rethink it, and you say, "Okay, well, we're going to try out this new product or a reconfiguration of our approach to this topic or this area that we've been teaching, and we need to see what that looks like."

Jeff Cobb (28:18):

Now, in that case, it's great because you've got the historical data on whatever is being sunset. So, hopefully, you've got the financials on that. So you can line up these new financials for what you're planning against it and look at how that projects out. And you've got that sort of extra benchmark against reality there because you know those past numbers. Certainly, you're going to be thinking, "We're going to at least do that well, and hopefully we're going to do a good bit better going forward.

Jeff Cobb (28:44):

In terms of penetration and growth rate and those sorts of things." But then you could see them, line over line, here's what the old product looks like, and, as we sunset it, here's that revenue going down—and you decrease the growth rate for that, you have it taper off over time—and here's what the new product looks like coming up.

Jeff Cobb (29:01):

And then you've got a really solid vision of what a probable future looks like for you as you're sunsetting one set of products and bringing in another set of products. And, again, just a fantastic communication tool, helps everybody's sanity a lot, to be able to see that and then have that as something you can calibrate against over time as reality plays out because, obviously, we're just dealing with projections here. We're modeling something out. We don't know it's real until it happens, but we're able to check ourselves against that.

Celisa Steele (29:31):

Well, financial modeling can also help beyond just this assessing individual products, which we've been talking about a lot. It can also help with assessing new revenue models or new

business models. For example, you could compare a business-to-business versus business-to-consumer type approach for a product.

Celisa Steele (29:52):

You could look at what does it take to sell to 500 individual users versus if we could find 10 organizations that would foot the bill for a 100 individual learners. Suddenly that might give you insight that says, "Yeah, we should really sort of focus on who are these organizations that we could sell to," for example.

Celisa Steele (30:12):

Another way we've seen financial modeling used is we know one organization that did the financial modeling to understand what moving to a subscription model might mean versus continuing to sell single products to individual learners. So rather than every year saying, "Jeff, would you like this course? Jeff, would you like this course?," say, "Jeff, for X amount for the entire year, you get access to essentially all of our courses, and it will cost you this."

Celisa Steele (30:38):

They were able to look at that and compare and figure that actually that would deliver more value to the organization in terms of revenue coming in—and then clearly also deliver more value to the learner because they were able to avail themselves of so much more content.

Jeff Cobb (30:54):

Yeah. And we see that scenario more and more now. Of course, in those sort of subscription models, your fear is that, "Okay, we're going to let them have everything, and they're just going to come use everything, and we're not going to make the money that we could have made if we were selling it one by one."

Jeff Cobb (31:06):

But if you back up and you do those assumptions and really think through the scenarios, you're going to figure out that, no, that's really not going to…usually you're going to figure out, no, that's not going to be the case. And we've seen organizations—this one would be more in the association world—where they've actually revamped their whole membership model to fold continuing education into the membership. It used to be you're a member, but then you buy your continuing education products one by one or maybe in bundles, separate from the membership.

Jeff Cobb (31:36):

They said, "No, going forward, when you become a member of the organization, you automatically get access to all of the CE that you need" to maintain the credential in their particular field. And they did a lot of modeling on this to make sure that they were not doing something crazy in doing this. And they did end up raising the membership level substantially to make that happen. So the annual membership fee is much higher, but the CEO is just very tuned into the financials of it and into the irresistible offer side of this and making this into something that, "Yes, we're paying more for membership, but, boy, there's just so much value in this. It's so worth paying that amount."

Jeff Cobb (32:15):

And so they revamped their entire business model, not just for the learning products but for membership, for everything they were doing and went forward with an entirely different model. And that was driven by having the confidence in doing the financial modeling to pull the trigger on that decision.

Celisa Steele (32:31):

It's a really interesting example and begins to give listeners, hopefully, an idea of how broad the implications of doing your financial homework can be and how much impact it can have on your overall learning business. Throughout the episode, we focused mostly on product-level financials, but, of course, once you have those financial projections, those financial models for individual products, it allows you to compare products in your portfolio, and that can give you ideas.

Celisa Steele (33:02):

Maybe you have really high margins on certain products, and that might lead you to ask questions like, "Can I borrow approaches from some of those products and apply them to other products and bring up margins?" It can lead to questions like, "Should we consider sunsetting this product that has such low margins? Or what can we do to develop more of these high-margin type products that we already have in our portfolio?"

Jeff Cobb (33:26):

And, of course, you might have perfectly good reasons for having some lower-margin items in your portfolio, maybe even items that lose money at the individual level, but they serve some sort of broader purpose for you. But make sure that it is on purpose and not just because you haven't dug deeply enough into the financials.

Celisa Steele (33:44):

And you can also see what each product contributes to your overall revenue. And I remember again, Jeff, when we spoke with Josh, that he was talking about when he was with an association, he realized at some point—because he was digging into the financials—that about 30 percent of the organization's gross revenue was tied up in one product line that was reliant on a single subject matter expert. That was a huge insight, the whole proverbial "What happens if that person gets hit by a bus?"

Celisa Steele (34:15):

Suddenly 30 percent of your revenue goes away. And so, if you can have this type of insight into your overall portfolio, what each product is contributing, it can help you do some of that risk assessment like Josh was talking about and recognize that and then maybe begin to build some plans for how to replace some of that revenue over time so you're not so reliant on a single person.

Jeff Cobb (34:38):

Yeah. And definitely remember too that you need to track financial performance over time. So this isn't a one-and-done thing. It can sometimes feel very satisfying when you get a spreadsheet done, and it's all laid out there, and it's all pretty, and you're like, "Wow, isn't this great?" Well, that's great, but, assuming you do move ahead with developing and delivering a product, you need to check back against those projections, as I was referencing earlier, to see how it's panning out. And if it is panning out exactly as you projected, well, great. That hardly ever happens, but if it does, great, but it's probably not going to.

Jeff Cobb (35:14):

So then it becomes, those projections become a learning tool. If we're not hitting the numbers we thought we could, why not? Do we think it's the price? Is it the penetration? Are we actually reaching the right people with the product? Do we need to do some things to the product to make it more attractive to the audience?

Jeff Cobb (35:34):

And if you're blowing your projections out of the water, then fantastic. You know you've really done some things right, and you can adjust them and have some confidence that you've got a sunny future for whatever that product is.

Celisa Steele (35:45):

So just to emphasize what you're saying there, Jeff, you need to collect the data. You need to compare it to the projections that you had put in place. You need to look at the discrepancies and discuss them. It's a chance for course correction. It's a chance for potentially just pulling the plug. It's a chance for doubling down. Like you're saying Jeff, if you're just really blowing it out of the water, it's a chance to think about developing related or complementary products or expanding to adjacent audiences.

Celisa Steele (36:17):

So, in short, financial modeling really allows for data-driven decision-making, for informed decision-making.

Jeff Cobb (36:31):

We'll offer some reflection questions for you to ponder. How buttoned up are you about financials? Are there any products you need to update or see about sunsetting? Any new product ideas to test out?

Celisa Steele (36:44):

Be sure to check out the show notes at leadinglearning.com/episode 284 because we're going to include some screenshots there to help bring these numbers that we've been talking about into better focus.

Jeff Cobb (36:56):

And at leadinglearning.com/episode 284, you'll also find show notes and options for subscribing to the podcast. And, to make sure you don't miss the remaining episodes in this series, we encourage you to subscribe, and subscribing helps us to get some data on how the podcast is doing.

Celisa Steele (37:14):

We'd also be grateful if you'd take a minute to rate us on Apple Podcasts. Jeff and I personally appreciate it, and those reviews and ratings help the podcast show up when people search for content on leading a learning business. Go to leadinglearning.com/apple to leave a review and rating.

Jeff Cobb (37:31):

Lastly, please spread the word about Leading Learning. In the show notes at leadinglearning.com/episode 284, you'll find links to us on Twitter, LinkedIn, and Facebook.

Celisa Steele (37:42):

Thanks again, and see you next time on the Leading Learning Podcast.

[music for this episode by DanoSongs, www.danosongs.com]