Stanley 1913: Product Discoverability Must Translate Into Margin

THE SCALING EDGE • ISSUE 7 • Stanley 1913 — corporate strategy spotlight

Educational example | Financial figures are hypothetical unless otherwise noted.

The strategy: what the business owner should understand

A recognizable product story works best when the product information is accurate wherever customers discover it. For smaller retailers, the financial test is whether better discovery increases profitable orders without excessive inventory.

A boutique sells a specialty product through its website and social channels, but descriptions and availability are inconsistent.

How to apply the strategy

Standardize specifications, images, inventory status, shipping terms and return policy. Test one product listing and track qualified visits, conversion and returns.

Before acting, write down the baseline, the owner of the process, the cost of the change, and the evidence that would make you continue or stop.

Build the financial model before making the decision

Order conversion = orders ÷ qualified product visits. Gross margin = (net revenue − cost of goods sold) ÷ net revenue. Inventory turnover = cost of goods sold ÷ average inventory.

1,000 qualified visits × 2% = 20 orders. At 2.5%, 25 orders: five extra orders × $180 = $900 revenue. Product and fulfillment cost of $104/order adds $520 direct costs. Content upkeep adds $140. EBITDA rises $240/month.

Illustrative monthly income statement	Before	After
Sales revenue	$40,000	$40,900
Direct costs / cost of services	($24,000)	($24,520)

Gross profit	$16,000	$16,380
Operating expenses excluding D&A	($10,500)	($10,640)
EBITDA	$5,500	$5,740
Depreciation and amortization	($800)	($800)
Operating profit (EBIT)	$4,700	$4,940
Interest expense	($300)	($300)
Income taxes (illustrative)	($500)	($500)
Net income	$3,900	$4,140

EBITDA before = $5,500. EBITDA after = $5,740. Change = $240. EBITDA is not net income or operating cash flow; it excludes interest, income taxes, depreciation and amortization.

Read the financial ratios together

Ratio	Formula	Before	After
Gross margin	Gross profit ÷ revenue	40.00%	40.05%
EBITDA margin	EBITDA ÷ revenue	13.75%	14.03%
Operating margin	EBIT ÷ revenue	11.75%	12.08%
Net profit margin	Net income ÷ revenue	9.75%	10.12%
Operating expense ratio	Operating expenses excl. D&A ÷ revenue	26.25%	26.01%

A percentage-point change is the difference between two percentages. For example, moving from 10% to 12% is a two-percentage-point improvement. Do not call it a 2% revenue increase.

Where to find the evidence in your statements

Profit and loss (P&L)

Find revenue, cost of sales, operating expenses, depreciation, interest and taxes. Confirm that added costs and savings are coded to the same categories before comparing periods.

Balance sheet

Review cash, accounts receivable (A/R), inventory, accounts payable (A/P) and any new borrowing. Higher revenue can produce higher A/R before it produces cash.

Cash flow and bank activity

Separate actual payments from noncash entries. Depreciation reduces accounting profit but is not a current-period cash payment. Payroll, inventory and software payments may happen before customers pay.

Operational reports

Use the metric closest to the strategy: defects, access exceptions, follow-up rates, invoices processed, handoff errors, product conversions, status calls, pilot orders or completed jobs.

How one decision affects the rest of the business

A product can show higher sales while cash falls because replenishment happens before customers pay or stock sells.

Sales and marketing: check whether more demand requires more leads, follow-up time or customer support. Operations: verify capacity, quality and turnaround. Accounting: track revenue recognition, direct costs, overhead and receivables. Cash: forecast the timing of supplier payments, payroll and customer collections.

How the owner should decide

Verify conversion, unit contribution, return rate and inventory financing. If new demand requires $5,000 more inventory, examine cash before scaling ads.

Use a 30-day pilot when feasible. Define the expected change, measurement owner, cost ceiling, quality safeguards and stop condition before starting.

Your 30-day financial review worksheet

Question	Enter your business numbers
Monthly sales	_____
Direct costs	_____
Operating expenses excluding D&A	_____
Depreciation and amortization	_____
Interest expense	_____
Income taxes	_____
Current EBITDA	_____
Current EBITDA margin	_____
Operating metric and baseline	_____
Expected improvement	_____
Incremental direct costs	_____
Additional fixed expenses	_____
Expected EBITDA change	_____
Expected cash impact	_____
Owner and review date	_____

The lesson to take away

A corporate strategy becomes useful to a small business only when the owner can explain the problem, calculate the expected benefit, identify which other functions will be affected, and verify the result in both operational and financial records.

About this article: An Across the Table educational adaptation. Numerical business examples are illustrative unless expressly identified otherwise.

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