

Magic Formula

Introduction

One of the most effective ways to sell against yellow pages is to show your client how much business their yellow pages expenditure would need to generate in order to justify the expense. In order to calculate this, you can use the magic formula, which requires

- the client's yellow pages expenditure and
- either the % net profit or advertising-to-sales ratio (ASR) for their product/service category.

The magic formula is:

$$\text{Advertising Expenditure} \div \% \text{ Net Profit} = \text{Business needed to justify expenditure}$$

or

$$\text{Advertising Expenditure} \div \text{ASR} = \text{Business needed to justify expenditure}$$

For example, if a client spends \$50,000/year (\$4,166.66/month) on yellow pages advertising and the client's net profit is 5%, then:

$$\$4,166.66 \div 5\% = \$83,333.33$$

This means that yellow pages advertising would need to generate \$83,333.33 per month in order to justify the expense.

Examples

The following table builds on the previous example (\$4,166/month expenditure) to show how much business would need to be generated at different net profits.

Net Profit	Business Needed
10%	\$41,666
8%	\$52,083
6%	69,444
4%	\$104,166
1%	\$416,666