

What happens if you target 10% growth?

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Do you set yourself targets for the growth of your business? Or are you just a small business survivor? When people ask you how's business, do you say "Okay, not too bad" or do you say "We are aiming at 10% growth this year and so far we're on target". Would you agree that, if your business is reasonably stable and you're keeping your head above water, that you can manage to reach 10% growth? To use the jargon, do you have the capacity for 10% growth?

I want to show you what happens if you decide to grow your client base by 10% and get your clients to spend 10% more on average. We're not looking at how to do this here; we're just going to do some sums. The result may get you really motivated!

I learned this formula at a Nedbank small business networking seminar (watch out for them in the press, they are free) from a dynamic speaker, Bill Gibson from Knowledge Brokers International (KBI). He has an excellent website - www.kbitraining.com. His sales tools are top of the industry and his sales blogs are a must read.

This is the scenario:

You sell a great software product and your clients have to pay an annual licence fee to use the programme. The fee is R449 and you have a database of 3,000 prospects of whom 80% are steady customers. Your turnover is R1,077,600 a year. Your gross margin on that is 45% (your production costs are 55% of turnover) so after you've paid for production, you are left with R484,920. Your fixed expenses are 15% of turnover, so after you've deducted that cost, you are left with an annual profit of R323,280.

Now let's look at what happens when you achieve 10% growth in three areas: 1. your client base (prospects), 2. your conversion rate (the percentage of prospects that actually buy your product) and 3. your average spend per customer.

If you grow your client base by 10% you'll end up with 3,300 prospects. So does that mean 300 more customers? Not if you also increase your conversion rate by 10% (from 80 to 88%) - then you'll end up with 540 more customers. Now increase your average spend per customer by 10% from R449 to R494 - that's an extra R45 per customer. Work it all out - your turnover will go up by almost R357,000. In this scenario, after deducting fixed expenses and gross margin, the additional profit is R107,094, i.e. 33% growth in profit.

Now if you apply the same 10% growth targets the following year, you'll see your turnover grow by another 32%, and your profits grow by ... well, that's for you to work out. Then work out how long it will take you to double the size of your company. If this is the kind of bottom line growth you are looking for, then start now on the strategies that will give you the 10% growth in those three key areas.

The point of this article is that here we have a formula that can be applied to any business and any growth target. It should be a "must do" part of your planning process.