10-Step Sales System for Growth: Step 2

Value Drivers are critical to both the performance of your business today and its value tomorrow.

The reason? Value drivers encapsulate what potential buyers look for in acquisition targets and help maximize business value for your future exit. It's your job as the owner to create value within your business.

One of the value drivers that business owners find most difficult to improve is revenue growth. Unless your products and services are obsolete or not competitive, revenue growth is achievable. But it requires a well-thought out plan, discipline, and hard work. This series of articles is based on the value drivers and provides a step-by-step approach to grow your revenue and perhaps even surpass your sales goals.

Step 2: Build Your Economic Model for Revenue Growth

From the simple to the most complex, all companies need an economic model to be able understand the factors that drive sales, and how tweaking each leverage point changes sales results.

You may need to create several economic models depending on the complexities of your business, such as product and service mix, new versus current customers, the potential loss or gain of a large client, capital factors, personnel, etc. Whatever the case, create the model that got you to where you are today. Plug in the facts, then look to the future.

Let's take a look at a small business that requires the conversion of inbound phone calls to sales appointments and eventually sales. They generated $1,000,000 in sales with an average cost of $30 per phone call, which is an average cost based on a 50/50 mix of new to current customers. Here's how the numbers look:

Marketing Cost, $30 Per Phone Call	# Inbound Phone Calls	Phone Call Conversion %	# Leads	Cancel %	# Sales Opportunities	Closing %	# Sales	Avg. Invoice	Annual Sales
$150,000	5,000	50%	2,500	10%	2,250	40%	900	$1,111	$1,000,000

Now play with the numbers. Here's what happens if you incrementally improve each leverage point by 10%:

Marketing Cost, $30 Per Phone Call	# Inbound Phone Calls	Phone Call Conversion %	# Leads	Cancel %	# Sales Opportunities	Closing %	# Sales	Avg. Invoice	Annual Sales
$165,000	5,500	55%	3,025	9%	2,753	44%	1,211	$1,222	$1,489,368

Imagine that. This company can (on paper anyway) increase its marketing spend by $15,000 and generate an additional $480,000 in sales!

This economic model is considered bottom up because it starts with a decision on marketing costs followed by decisions at each leverage point to drive the sales goal. There are other ways to create economic models, including the top down method. For example, you might just decide you want to grow by 15% and from there you and your team work backwards tweaking each leverage point as you go to arrive at 15%.

Once you have completed your economic model for last year and next year, create one for the following two years. This allows you to have a three-year roadmap. If it would be useful for you, however, you may want to create a five or 10 year plan incorporating some of these models.

If the economic model is new to you, keep it simple. Focus on the leverage point that you can impact the most. Then, update your plans monthly or quarterly. Even if you're on the advanced level, you still want to avoid too much complexity. At some point, though, you will want to have a financial model for all the areas in your company that generate revenue, including margins and overall profitability by month, quarter, and year.

For more information or to learn how L. Harris Partners can help you grow your business:

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