



MY BUSINESS MY FAMILY

## The Business Growth Model Explained

*“We are a mission driven company. To do this, we must build a great team, and in order to do that, you need people to know they can make a bunch of money. So, we need a business model to make a lot of money” – Mark Zuckerberg*

Any business that trades under a business structure has a lot of moving parts. In its simplest form it buys a commodity ‘a’ for \$1 and resells to another person who needs it for \$2, converting \$1 into \$2 and making a 100% margin.

Great concept, simple process, what could possibly go wrong?

Let us consider some of the variables that may disrupt the process, there are three major contributors to the business growth model, and one results or product of the equation, they comprise of:

1. Clients (people) which is a product of marketing,
2. Average Transaction (\$) which is a product of your offer,
3. Frequency of purchase (how often do they buy from you) which is related to your products or services offered,
4. Sales, the total amount of money received in all transactions.

Contributor overview:

There is an endless relationship between each contributor and your business, the purpose of this overview is to set up basic critical thinking on how each contributor relates to your current business.

- 1. People:** are individuals possessing a unique perspective on life (thoughts are created from the sum of personal experiences). This suggests that we can only ever roughly agree with someone else’s ideas or agree in principle with them. When we feel an urge to totally agree with another person’s perspective, it is usually from an emotional angle (it is impossible from a rational perspective). From this feeling of agreement, our subconscious mind makes the concept fit to our way of thinking. People are different and unpredictable, irrational creatures of unknown

habit.

- a. **Marketing:** there are 6,500,000,000 people on this planet give or take. That means there are potentially 6,500,000,000 clients and alternate ways of looking at things. There is also a staggering range of psychological perspectives to address should we wish to attract someone's attention, let alone instil curiosity or need. The primary way humans base their needs has been slightly skewed by technology and security for many in the modern world. If we wish to sell a product or service, first and foremost we must find the person who needs that product or service. Then and only then can the process of value take place. There is a sliding scale of value in everything that is sold, not everyone sees the same benefit in a product. A fridge for sale in north Africa will certainly have more desire than the same fridge for sale in Antarctica. Therefore, marketers have this and 6,500,000,000 issues to contend with to sell a commodity. Therefore, every business should have a specific target market and an appropriate speciality to differentiate themselves within that market. Marketing is another business growth lead measure.
2. **Offer:** What you offer for sale inevitably varies from business to business, no two businesses offer the same thing, it may be similar, but it can never be the same thing. All businesses should attempt to maximise their point of sale benefit from their client, this should include upselling of appropriate goods or services that will both benefit the customer and increase the sale value for the business.
3. **Products:** Products determine the transaction value of an individual sale and the frequency a client buys from you. It goes without saying that the product must resolve a significant failure in a process or system that currently exists in a business or will exist soon (business products). The bigger the problem the greater the reward. Solutions do not necessarily

have a pay once solution. Software with regular updates or licensed may be a subscription styled solution (printer cartridges, etc). Products being a function of the frequency of purchases is why it is a business growth lead measure item.

- 4. Sales:** Sales will ultimately determine the prosperity of a business, and sales are one of the three major business growth lead measures that business can manipulate and target for growth. Sales profitability is generally associated with a social psychological need (food from the finest ingredients on call, water preferably sparkling or fine wines, shelter with as many functions as possibility including relaxation and entertainment in a very comfortable environment purpose built, desire and fulfilment, a need to accumulate excess to demonstrate self-worth and total excess, asset rich to be revered as great) . The first world psychological need is now a product of wealth and its association with security of pleasure, whereas, in the third world Maslow's hierarchy of needs is a journey for survival (food basics such as grains, water preferably clean, shelter from extreme weather , love and relationships, self-worth and providing, self-actualisation) and is still by far the predominant psychological association, and paradoxically, more third world people will reach self-actualisation than the first world. The diversity and psychology of value and need is also a fundamental reason for target marketing and specialisation.

#### How do we know what are we looking for?

Businesses define 2 measurements in the what (what has happened within our business over the last period)? And how do we improve it? The term for historical evidence of what happened is Lag measurement, our accounts department give us the numbers and we can decide if they are good or bad. No matter what the numbers are, we always look for ways to improve them (the primary function of the CEO, business owner or entrepreneur), this is achieved by making changes to our processes or systems and services. Any change to

these inputs will have a direct and correlated change to the numbers at the end of the next period. These inputs are known as lead measures.

### **Lead and Lag measures:**

what are they and what do they tell us?

Business processes and systems are structured to report certain milestones along with business findings that we convert to business knowledge or intelligence.

Our business statements (profit & loss, balance sheet, and cash flow) are all lag measures, they tell us what we have achieved (or happened) over a period. They are historical documents and do not change anything about the business or its future. However, business owners can use this information to create strategies for change (things they might try to improve the business outcomes), lead measures such as activities that create the route for an organisational outcome, are mainly derived from the Business Growth Formula.

It is better we look at the whole business process to truly understand what is happening and why we have chosen to do what we do.

### **The business growth formula:**

**Number of clients X Average transaction value X Frequency of purchase = Sales**

If we break this down even further, we start to understand the reasoning behind the function of each area, and why successful businesses work hard to improve each area or function. We could rewrite the equation as follows:

**Marketing X (Product price + Upsell) X (Product utility + Back office upselling) = Sales**

**Entrepreneurs, business owner and CEO's** look at their business from this equation perspective, this is where all their effort gets put. Hopefully, we now understand what people mean when they say that, you are working in your business not on your business.

Note:

Review this equation and reflect on how it impacts on the understanding of your business, write down all the areas you feel require addressing.