

The Only 2 Ways to Grow Your Business

More Money In, Less Money Out

There are two, and only two, ways to make your business more profitable. You either need more money coming in or less money going out, period. If financial growth is your objective, then the entire organization must be focused around one of these two attack plans.

More Money In - Top Line Growth

How do you get more money coming in the door? You sell and deliver more things. When you break it down further you find there are only 3 ways to get more money coming in:

1. Increase the number of customers
2. Increase the average value of each sale
3. Increase the frequency of sales

Each one of these is a big topic in itself and will be covered in more detail individually in upcoming sections. For our purposes at the moment we need to be aware that these are the only three ways to grow the top-line (income) of the business.

Less Money Out - Cost Control

How do you keep more money in the business? You spend less. This is otherwise known as cost control. There are 2 basic types of costs that need to be controlled.

1. Variable Costs – these are the costs directly related to whatever product or service you provide. If you sell more, these costs go up, if you sell less these costs go down. The main variable costs are typically labor and raw materials.
2. Fixed Costs – this is overhead. It doesn't matter how little or how much you sell, you still have to pay these bills. Examples of fixed costs are rent, and management and administrative salaries.

Like top-line growth, cost control is a big topic, and will be covered in more detail later. For now, just understand that there are 2 large categories of costs in every business: the raw materials, time and labor required to deliver something to a customer (variable costs), and the things you pay for even if you don't sell anything (fixed costs).

What Should You Focus On?

Most business managers will tell you that you need to balance between top-line growth initiatives and cost control measures. While that is a very true statement, it is also true that every successful business is generally focused much more on one than the other at any given period of development.

The typical small business scenario is generally challenged with top-line

growth. Generating leads and converting them to sales is the main goal of the Entrepreneur. When a business is small, controlling costs is relatively easy as everyone has a personal investment in the success of the company, and the impact of expenditures on the bottom line (profit, or cash in your pocket) is easy to see.

As a business grows the infrastructure grows along with it and the company begins to acquire more equipment and employees. This is generally acknowledged as an indication that the business is doing well, and growth is healthy.

As long as the growth is outpacing the new costs there's no problem right? Wrong! There are two things that can turn growing costs this into a big problem.

First of all you generally have to pay for your supplies before you collect payment from your customers. So taking a huge order can actually hurt your business if you don't have adequate plans for financing the supplies needed to do the job until you can collect from your customers. If you don't have enough funds to cover your weekly pay checks or pay your suppliers, it doesn't matter how much money the customer promises to give you 2 months after the work is done. People can't wait that long to be paid. More than one big company with a healthy balance sheet has gone bankrupt because they didn't plan this right.

The other side effect of growth is that people become less and less conscious of the impact of costs. People start to see

that new double sided laser printer as a necessity instead of a luxury. What's a thousand dollars to a company that's making hundreds of thousands? After all, the business is doing well right? They start to feel less guilty about taking home a pack of staples, or using the photocopier to make 100 copies for their children's school. None of this seems like a big deal until you realize that there are also more employees than there used to be. When every employee at the local corner store takes home a pen, the store might lose 5 or 10 dollars; when every employee at Wal-Mart takes home a pen it's a very different story. Cost control measures become increasingly important as a business grows.

Generally, healthy companies start out focused on getting more money in. When they notice that costs have gotten out of control (because they were not focused on that) they slowly switch focus from getting more money in the door, to letting less money out the door (I.E. controlling costs). Once costs are under control, they need to switch focus back to getting more money in the door. This balance of focus swings back and forth continuously as long as the company is healthy and smart. Every business needs to decide for itself whether to focus on top-line growth or cost control at any given point in time.

Summary

There are only 2 ways to financially grow a business. If you want your bottom line to grow your business focus must address these two things. The primary area of focus depends on how your particular business is doing at the moment, and changes over time.

There are only 3 ways to bring more money in the door:

1. Increase the number of customers
2. Increase the average value of each sale
3. Increase the frequency of sales

There are only 2 types of costs to be controlled:

1. Variable Costs
2. Fixed Costs

Your Homework

Answer these questions.

1. What do you hear about more in your business, top-line growth initiatives or cost control?

2. List 2 ways to increase the value of a sale in your business.

3. List 2 ways to increase the frequency of sales to one customer in your business.

4. What is your business's biggest variable cost?

5. What is your business's biggest fixed cost?

Take a look around until you understand where your biggest single opportunity is. Then jump on it.