How to find that 1% that drives over 50% of extra revenue

REVENUE STRESS TESTING

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INTRODUCTION

The third growth lever of our Cheat Sheet and Growth Challenge is revenue stress testing.

The key concept of a revenue stress test is to push the amount of revenue that your company can handle, and proactively remove all the bottlenecks that will block you reaching your goals.

The critical mindsets to embrace:

- Everything is a system, and you need to find the bottlenecks and remove them
- You can always get more out of what you're currently doing. Remove yourself as the bottleneck, follow up more and use time as a pressure cooker
- Build scalable processes
- Outsource and automate where possible

Keep working on your revenue stress testing capacities. Your growth will be easier, faster and with more impact.

Best,

Chris & Marlies

REVENUE STRESS TESTING

In 2019 Chris had a chat with Kees Koolen, the former CEO of booking.com. They spoke about growing companies at an extremely high speed. Kees is now an investor, and he said something exciting when they talked about his criteria for investing in a company:

“Before I invest in a company, I want to see an exact rolling forward profit & loss statement for the next five years that shows how they’re going to at least 10X that company. At Booking, I updated this sheet every night based on the actual numbers of that day, so I knew what I had to do and where my plan was off. If they don’t have this in place, I don’t invest in them.”

Let’s deconstruct this quote and make it applicable to your situation.

A profit- and loss statement (P&L) is an accounting statement that shows how much a company made in profits at the end of the year. Profit = revenue - expenses.

Rolling forward means that after every period that passed, you add that timeframe to your forecast. So a monthly rolling forecast from 09-2020 to 09-2025 will become 10-2020 tot 10-2025 when it’s October 2020.

So what Kees is challenging his potential investment companies to do is show how strong their understanding is about the relationship between their revenue, expenses, and profit.

But also, how they are going to create systems to drive revenue growth. And how much growth their systems would be able to handle.

REVENUE STRESS TESTING

Systems are a key component in managing extreme revenue growth.

Victor Cheng about this in his book Extreme Revenue Growth: “The key to managing rapid growth is to standardize your operations and design internal procedures that are scalable. Scalable operational procedures can handle significant increases in volume without re-design.”**

But every system will eventually break when you increase the input. That’s where your bottleneck is. So if you want to grow more it’s important that you focus proactively on removing those bottlenecks.

We call this, stress testing your revenue.

- how much revenue can your organization handle before it breaks?
- where is currently your biggest bottleneck?
- how can we increase the throughput of your organization?

Let's explain how this works in a business situation:

A company wants to grow its revenue from 2 million to 4 million within one year.

After a stress test of 5 minutes we can already conclude that this revenue goal is not achievable.

They can only handle a revenue of 3.2M within their organizational setup. Why?

REVENUE STRESS TESTING

In this case, customer success seems to be the bottleneck.

With every new client that comes in, a customer success manager has to spend four hours to onboard the client. They have two customer success managers who have in total 2,400 hours available yearly to onboard new clients.

So what this team can onboard is: available hours / hours onboarding per client = 2.400 / 4 = 600 clients.

So only 600 new clients can be onboarded.

If a new client brings in €2,000 in that first year, the team can onboard this amount of revenue:

= onboard availability x revenue per client
= 600 x €2,000 = €1.2 million.

If we put this into numbers:

Revenue Goal: €4 million
Current revenue: €2 million
Onboard capacity: €1.2 million
Gap: €0.8 million

We can do all the marketing and sales to get €4 million in business, but it won't work.

Customer success would break at 3.2 million.

REVENUE STRESS TESTING

What can they do? How can they solve this gap?

There are a few potential solutions:

- Reduce the time spend per customer
  - Process re-design
  - Automate specific steps with, for example, video tutorials
- Hire more customer success managers
- Outsource customer success management to outside organizations that can quickly scale-up

Victor Cheng stretches this even further. He has developed the ten times test, consisting of the following thinking exercise:

What if they would go from €2 million to €20 million in 1 year, what would break?

This question really triggers you to think about scalability and how you proactively manage those bottlenecks away.

One of the greatest writers about this topic is Eliyahu M. Goldratt, who created the Theory of constraints. His approach is as follows.

Theory of constraints (TOC) by Eliyahu M. Goldratt

1. Identify the system's constraints.
2. Decide how to exploit the system’s constraints.
3. Subordinate everything else to the above decision.

REVENUE STRESS TESTING

4. Elevate the system's constraints.
5. If a constraint has been broken in the previous steps, go back to step one, but do not allow inertia to cause a system constraint.

With his approach, you continuously increase the throughput of a system. In other words;

You continuously test and increase what the system can handle or produce.

Read more about his approach in **his book.**

You will see that there are also a lot of constraints in what a marketing and sales department can produce.

You can use this way of thinking in that context to connect inputs with outputs and remove constraints.

So we try to challenge the marketing and sales team what the bottlenecks are to increase their output. What is breaking, and is it a good business case to proactively fix this bottleneck?

Why is this lever?
A 5 minute thinking exercise can unlock millions of extra revenue. It's all about being proactive.

WHAT'S SLOWING YOU DOWN?

If you've finished your previous exercises, you've got your time back and you know where to go. Now we need to make sure that you're not standing in the way.

Two very important reasons businesses stop growing are:

The owner hasn't removed himself as the bottleneck
People within the organization block the throughput of revenue

As we discussed in our growth lever cheat sheet during the revenue stress test, it's important that you maximize the amount of revenue that a company can generate. But people will slow this down.

Be true to yourself: did you ever slow things down in your organization, just so you could take credit for fixing it later? Or did you deliberately let other people depend on your input, while this was not entirely necessary?

This phenomenon is very common and logical from a psychological perspective. Everybody wants to be the hero that saves the day in the end. But it's a major blocker for growth. So let's fix it!

A very quick way to find out where things are dependent on only your input is by doing the holiday exercise. This is a test to see if your company (via systems + team) can effectively run + grow without you being there. In other words; you have removed yourself as the bottleneck.

WHAT'S SLOWING YOU DOWN?

Exercise: 4-week vacation

- Assume you would go on a vacation of 4 weeks tomorrow without any handover or communication and search for bottlenecks or risky points in your business
  - What would break?
  - Where are unclarities at this moment?
  - Where is input fully dependent on you?
- Solve these bottlenecks by:
  - Creating a FAQ for your team or clients
  - Creating new processes or redesigning processes
  - Outsourcing or delegating tasks
  - Automating workflows
- Pro tip: Read the book **Clockwork:** Design your business to run itself by Mike Michalowicz

(SALES) FOLLOW-UP

Did you know that 80% of sales require 5 to 12 follow-up calls after the meeting?
However, we contact a prospect only once or twice on average before giving up as we don't want to come across pushy or annoying. This shows how many opportunities are going to waste and how much money we are leaving on the table.

But how do you follow-up without being annoying?

1. Check the preferred form of communication
Do you know what the best way is to follow-up with a prospect? Is it by phone, text, or email? You probably have some ideas, but you know who knows best? *Your prospect*.

Ask them what their preferred form of communication is moving forward. And while you're on it, check with them how you can stand out from all the other emails/ calls/ texts they get every day.

You can ask about the time of day that works best for them, or even what to put in the subject line so they will open up your email.

2. Always end with a clear next step
Another way to improve your follow-up is to end every conversation with a clear next step. If you’re sending a proposal, don’t let them get away with the old: ‘we’ll get back to you.’

(SALES) FOLLOW-UP

Instead, ask them when they want to schedule a next meeting to review it and send them an invite while you're still in front of them. You're probably gonna need more than 4 contact moments anyway, so always keep that next step in mind.

3. Add value to their world
Last but not least: be sure to come prepared and have a reason to contact your prospect. Never call to just 'catch up' or 'check-in' as this will become annoying.

Instead, do some research and see how you can add value to their world. A great tip to remind you to do this every time is to always start your conversation with the phrase: 'my reason for reaching out is...'

They say the money is in the follow-up, so let's find it!

(SALES) FOLLOW-UP

Exercise: Improving your follow up

- Look into your CRM and see where you contacted your prospects less than five times
- Make a list of all those prospects
- Before every outreach, do 5 minutes of research and think about how you can add value to your prospects world. Is there specific information that might interest them?
- Share your reason for reaching out again with them
- Ask about their preferred form of communication moving forward
- End the conversation with a next step and send a confirmation email right away
- Pro tip: Use the tool **Mix Max** that helps with automated follow up and improves customer experience. You can get a $25 gift card if you use **this link** or mention the code CHRISOUT at checkout.

If you're not working in sales, you can also apply these techniques to your follow up with partners, vendors, or colleagues to improve your communication and speed up processes.

FIXING BOTTLENECKS

As we want to grow your revenue, we need to fix the bottlenecks that are slowing you down. We've discussed these bottlenecks in the first chapter but let us briefly remind you.

What's a bottleneck?
You need to see your Marketing and Sales funnel as a production line at a factory. In every production line with dependent events, the weakest link defines the overall throughput.

This means that there's always one bottleneck that dictates how fast the entire line is moving. The only way to increase throughput is by optimizing the bottleneck and not by optimizing any other part of the system.

To increase the capacity of the system is to increase the capacity of the bottlenecks.

Documenting your processes
To do this, we will need to map our system and document all the processes that we have. You can now either spend an entire week to document every step you take, or you can do this the easy way!

Use **Loom** and screen record what you do. You've got your processes documented, and somebody else can follow them. If you want to take it a step further, you can send your recording to a VA and let them create a checklist based on your recording.

FIXING BOTTLENECKS

Identify your bottlenecks
You've mapped your processes, which will indicate where you're slow or not efficient. Now you've got two options.

Outsource these tasks to other people
Automate these tasks so they won't be so time-consuming

Outsourcing your tasks
Having somebody else do the tasks that are slowing you down enables you to focus on higher-value activities.

A great website to have in mind when you want to outsource specific tasks is Fiverr.com. You'll find copywriters, designers, VA's and many more freelancers here for every budget. Tip: always check their reviews and start with a pilot project before going all-in.

Calculate the opportunity cost of a task
So, how much should you spend on outsourcing? Start with calculating your hourly rate. Let's say this is 100 euro per hour. Calculate the amount of time you would spend on a task; for example, writing the copy for your site takes you 3 hours. The opportunity cost is 300 euros.

Our rule of thumb is that if you can outsource something for 25% or less of the opportunity cost, you should not even think about it. If it's higher than 25%, you should also consider your cash flow, profitability, and other work that you've got.

FIXING BOTTLENECKS

Automating your tasks
Automating repetitive tasks (such as emails, presentations, meeting notes, etc.) are a great start to free up valuable time.

Things you can do right now:

- Set up e-mail templates so you won't have to write emails from scratch every single time
- Use **Grammarly** to edit and proofread your documents automatically
- Work with **DocuSign** to automate your paperwork
- Create Trello Cards from new Evernote notes with **Zapier**

Zapier is an awesome tool to automate your daily work. Yes, it appears a little frightening at first, but we can assure you - it's not! It connects online tools and automates workflows by passing info between them. So when you're working with a lot of different tools online, Zapier is a gold mine, and there is no code required.

FIXING BOTTLENECKS

Exercise: Outsourcing or Automating your bottleneck

- Record one of your processes with Loom
- Identify your biggest bottlenecks in that process.
- Can you outsource or automate this to fix that bottleneck?
- Search for tools online or use a platform like fiverr.com
- Take that step! Even if your outsourcing or automating something small, you will see how it will increase the overall capacity of your work

Outsourcing and automation sound like a big step, but it’s the step you need to take when you want to grow. If you’re not removing your bottlenecks, you’re keeping a glass ceiling for your business.

24H PRESSURE COOKER

How often have you gone through situations that are so familiar, that you fail to pay any attention to the opportunity right in front of you?

Think of the case when you lose your keys and are searching for them, why do you keep checking in the same few places, over and over?

Stop operating on automatic pilot and start innovating
A former client of Chris wanted to implement new digital marketing strategies. We tried to kickstart the collaboration and get things live quickly to gain momentum, but the team was overthinking their campaigns and ideas, completely lost in their overly-familiar work routines.

So he shook things up a bit and introduced the 24h exercise.

24h: don't accept things as they are
The team could only leave the room after thinking of three new ideas that could be implemented within 24 hours. So the ideas had to be simple, easy to implement, and therefore probably right in front of them.

One hour later they had left the room with great ideas, and their new digital marketing strategy went live yet another 48 hours later! What happened? How was the ‘impossible’ suddenly possible, and did they manage to launch campaigns that they were already “thinking” over for weeks?

24H PRESSURE COOKER

Look at the familiar as if seeing it for the first time
The trick is to manage to look at the familiar—your own campaigns, products, customers, and work processes—as if seeing it for the first time. Adopting this view might enable you to notice untapped opportunities.

Doing this in 24h will cause you to be extremely focused, out of your comfort zone and actionable without overthinking your ideas.

Spotting opportunities
In the workshops that Chris gave over the past five years, he always included an exercise similar to this, to learn how to spot the opportunities right in front of the audience.

He'd give them 15 minutes to call their internet, tv or other service providers to generate as much discount as possible on existing bills. And what do you think? On average, people would generate over 100 euro within 15 minutes.

Not bad, right?

So, let's see if you would recognize an opportunity when it is staring you right in the face.

24H PRESSURE COOKER

Exercise: 24h pressure cooker

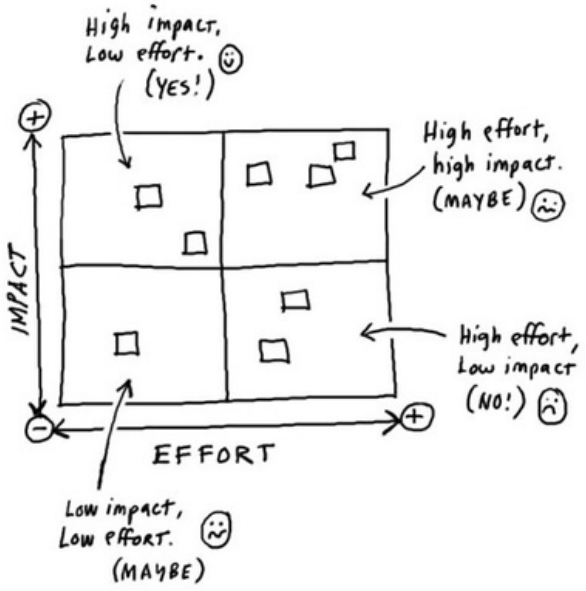
- Set a monetary goal that you want to achieve within 24 hours.
- Try to look at your products, campaigns, clients, processes, service providers etc as if you are seeing it for the first time.
- If someone else would look at your business, someone without any form of shame or reservations, what would they be doing?
- Can you get discounts?
- Is there a smarter, easier way to get campaigns live?
- Can you upsell clients? Or winback clients?
- Whatever you need to do, step out of your comfort zone, be creative and fix it

FINDING FOCUS

We covered a lot, and you went through 4 exercises! If you finished them all, you're a rock star! If not, don't worry. This last exercise will help you find the one thing that will set you up to maximize the output.

Exercise: Finding your growth Lever

- Go through your previous revenue stress testing exercises.
  - [GC 3/30] What's slowing you down?
  - [GC 4/30] The money is in the follow-up
  - GC 5/30] Fixing bottlenecks with processes, outsourcing and automation
  - [GC 6/30] Can you spot the opportunity right in front of you?
- Plot the exercises in an impact-effort matrix
- Start with the exercise with the lowest effort and highest impact.
- Try to finish at least one exercise in the coming weeks.





ABOUT US

In our combined 20.000+ hours of experience, we've encountered the same issues that businesses struggle with and found a common passion for growing businesses and (online) transformation.

Chris has founded one of the worlds best growth hacking agencies and exited in July 2020. He has worked with hundreds of clients on different continents. He is a lecturer at Beeckestijn Business school and has spoken around the world about growth.

His true passion is unlocking extreme revenue growth and transforming everything that is necessary to support that. Chris still works with some clients 1-on-1 next to building his portfolio of online products.

Marlies has 10+years experience in working as a Marketing Manager for big corporates such as eBay and Bugaboo as well as (tech) startups and scale-ups in the Netherlands. In 2019 she co-founded the agency Amsterdam Webdesigners and has consistently made 10K+ since her first month as freelance consultant.

Great teams know their strengths and weaknesses. Therefore Marlies is creating our online infrastructure, campaigns, copy and creatives. Chris is more client facing in our products. So, he is your main point of contact.