Learn The Simple Equation That Tells You If Your Business Will Grow and Scale

Save on visits to the local psychic, this simple calculation will show if your business is going to grow.

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Revenue Per Person is an interesting metric to judge the likely success of a company. It's the total revenues, divided by the total number of full-time equivalent employees. The higher the number, the more money a business makes without needing many people.

Technology-driven businesses earn higher revenue per employee. Apple earns over US$2.7M per person with 130K+ employees. Google has 100K+ people and $136B in revenue (2018), earning over $1.3M per person. Facebook earns US$1.4m per person with 40,000+ people and revenue above $56Billion. Microsoft comes in at $875k per person and has 144,000 people with $125 billion in revenue.

Labor-intensive businesses have low revenue per employee numbers. Walmart has $514 billion of revenue and 2.2M employees so it's making $235K per person. Marriott International has 176K people and does $21 billion of revenue, about $114K per person.

A business that makes $10m revenue with 40 people ($250k per person) versus one with 150 people making the same amount ($66k per person) have very different futures. Both business

owners can boast about their eight-figure revenue, but the smaller team will be hiring more people next year, while the bigger team is barely keeping its head above water and will likely start to shrink.

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A small consulting business I know has four people and bills $1.2M – that's $300K per person. This business has invested in online training materials which it licenses to its clients. Another team the same size does $480K or $120K per person. This business only really sells time in the form of day-rates. A celebrity and author I know has 3 staff and earns an average of $1m per person by doing brand endorsement deals.

Revenue Per Person is a powerful indicator of success.

If a business maintains a high RPP, it can scale-up and hire great people quickly, grow without much debt or investment, innovate, take risks and acquire competitors. If a business has low RPP it's fighting a difficult battle. It can only afford to hire low-skilled workers, can't take chances, needs external investment or debt to grow, and a big mistake can put it at risk. It's like gravity constantly pulling the business down and keeping it small.

Revenue Per Person is the key to scale, profit, strength and agility. If you want performance, with few exceptions you'll need higher than average revenue per FTE. It's important to know what creates high RPP.

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If you search for the term 'Revenue Per Employee' in Google, this definition pops up in a special box:

> *Revenue per employee is a measure of how efficiently a particular company is utilizing its employees. In general, relatively high revenue per employee is a positive sign that suggests the company is finding ways to squeeze more sales (revenue) out of each of its workers.*

How strange that even Google – a company that has itself mastered high RPP – can't find a good definition with all its powerful algorithms. RPP is *not* a measure of how efficient employees are. It's *not* a way of squeezing more sales out of every worker.

RPP is actually a measure of the underlying assets a business has available to leverage. A business that has assets like data, proprietary technology, patents and even intangible assets like brand and culture will earn much higher RPP than businesses that don't.

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Consider a highly-motivated team of lumberjacks with sharp axes entering a tree-felling competition. The burly members of this group are as trained, strong and motivated as any person could ever hope to be. They compete against some low-skilled and barely motivated teenagers who have industrial-strength chainsaws.

Who's going to win the competition for the most trees felled per person?

The teens. Theresult has little to do with motivation or squeezing performance out of every lumberjack – it has everything to do with the chainsaws.

Now consider a motivated family running a local cafe. They might be passionate, friendly, hard-working and well-trained people, but the business still won't earn huge money. In the USA, the typical coffee shop earns $63K revenue per employee.

Compare that with a team of inexperienced, spotty teenagers working at Starbucks armed with a global brand, a bulletproof system, diverse products, better data, world-class training and many other assets. Starbucks brings in an average of $85K per employee globally. The assets earn an extra $22k per person. What's more, the average coffee shop makes a profit of $5,000 per person, whereas Starbucks is making a profit of $15,000 per person. Digital assets that scale creates higher profit as well as revenue across every person you hire.

Technology is vital to growth.

If technology wasn't moving at warp speed, employee motivation or utilization would probably be a leading factor in creating higher than normal Revenue Per Person. However, in a world where some of the richest people on earth started their companies less than 20 years ago, revenue per person has more to do with technology, insights, intellectual property and media.

The fact that your competitor might be earning twice the RPP as you doesn't mean they have doubly motivated people or they put twice the pressure on their people to perform. Their people probably don't work double-shifts or have double the qualifications. It's got more to do with the soft assets that their business has developed. Their people have been given chainsaws and your people are still swinging axes.

Revenue Per Person is a reflection of the assets your business has, and to a lesser degree how well you're sweating those assets. I would assume that if you are reading a business blog, you're already motivated and driven and you inspire those around you to lift their game too. If that's true, the key to your future growth isn't about even harder work, it's about developing high-quality digital assets for your team to utilize.

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