THE 50 FOR 50 GROWTH GUIDES · GROWTH FACTOR 4

The Formula: Growth Formula

THE 50 FACTOR — GROWTH FACTOR #04

The Business Growth Formula

The Complete Implementation Guide

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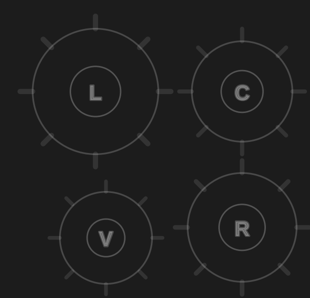

LEADS × CLOSE × VALUE × RETENTION

Principle #4: The Business Growth Formula

The Complete Implementation Guide

This white paper is a companion to Chapter 4 of The 50 Factor by Scott Scully. The book tells the story. This guide gives you the step-by-step playbook to build, measure, and optimize the four numbers that determine whether your company grows or stalls.

Why This Principle Matters

Every business, at every size, in every industry, can be understood through four numbers that multiply together to produce revenue. Most founders obsess over one — usually leads — and are blind to the other three.

This blindness is expensive. The average B2B services company spends 60–70% of its growth budget on lead generation while ignoring close rate, customer value, and retention — the three variables that often have more leverage and cost less to improve.

Here's the math that changes everything: a 10% improvement in each of the four variables produces a **46% increase in revenue** — with no additional marketing spend. A 20% improvement in each produces a **107% increase**. The numbers don't add. They *multiply.* And that multiplication effect is why this formula is the most important single concept in this entire book.

Yet when we ask founders to state their four numbers from memory, fewer than 15% can do it. They know their revenue. They know their lead count — roughly. But close rate? Average customer lifetime value? Annual retention? Blank stares. They're running a company on instinct, and instinct lies to you when you're tired.

The Formula

REVENUE = LEADS × CLOSE × VALUE × RETAIN

Four numbers. That's it. Every growth strategy, every marketing initiative, every sales training, every client success program, every pricing decision you ever make will affect one or more of these four numbers. If you don't know what they are, you can't diagnose what's broken. If you can't diagnose what's broken, you're guessing. And guessing at scale is how companies die.

The Four Variables: Deep Dive

Variable 1: Leads

Definition: Qualified conversations with real decision-makers per month. Not website visitors. Not MQLs (marketing qualified leads). Not LinkedIn connections. Not business cards collected at conferences. Conversations — where a real human with budget authority is talking to your team about a real problem you can solve.

Why founders over-index on this: Leads are visible. They feel like progress. You can buy more of them. The marketing industry has spent decades convincing founders that the answer to every growth problem is "more leads." It's the easiest variable to throw money at and the least efficient one to improve in isolation.

How to measure it accurately:

- • Count only conversations where you've confirmed the person has decision-making authority or direct influence on the purchase.
- • If your sales team is logging "leads" that include tire-kickers, info-gatherers, and people who filled out a web form by accident — your lead number is inflated and useless.
- • Track by source: inbound (website, referral, content) vs. outbound (cold call, email, event). The close rates will be wildly different by source, and lumping them together hides the truth.

The dirty secret about leads: Doubling your leads without improving the other three variables doesn't double your revenue. It usually increases revenue by 60–70% at best — because the marginal leads are lower quality, your close rate drops, your sales team gets stretched thin, and your onboarding can't keep up. The last 30% evaporates in operational friction.

Common lead measurement mistakes:

- • Counting website form fills as "leads" when most never respond to follow-up.
- • Counting the same prospect multiple times across different campaigns.
- • Not distinguishing between a conversation with a decision-maker and a conversation with a researcher.
- • Treating all lead sources as equal when referral leads might close at 40% and cold outbound at 8%.

Variable 2: Close Rate

Definition: The percentage of qualified leads that become paying customers. If you had 100 qualified conversations last month and 20 became customers, your close rate is 20%.

Why this variable is usually the weakest link: Most B2B services companies have close rates between 15–30%. The best are at 35–50%. The difference between 20% and 35% — on the same lead volume — is a 75% increase in new customers. No additional marketing spend. No additional leads. Just getting better at converting the opportunities you already have.

How to measure it accurately:

- • Use a consistent definition of "qualified lead" (see above). If the denominator is fuzzy, the close rate is meaningless.

- • Track close rate by sales rep, by lead source, and by deal size. The averages hide the variance — and the variance is where the coaching opportunities live.
- • Measure time-to-close alongside close rate. A 30% close rate with a 90-day sales cycle is very different from a 30% close rate with a 30-day cycle.

What drives close rate up:

- • Better discovery calls (understanding the prospect's real problem before pitching the solution).
- • Tighter qualification (saying no to bad-fit prospects early instead of wasting months).
- • Stronger objection handling (having documented, practiced responses to the top 10 objections).
- • Social proof (case studies, testimonials, referrals from similar companies).
- • Speed to follow-up (responding to inbound leads within 5 minutes vs. 5 hours is a 10x difference in conversion).

What drives close rate down:

- • Pursuing unqualified leads because "any meeting is a good meeting."
- • Generic proposals that don't address the prospect's specific situation.
- • No follow-up process — letting leads go cold after the first conversation.
- • Discounting to close, which trains prospects to wait for a deal and erodes your value positioning.
- • Sales reps who don't know the product deeply enough to handle technical questions.

Variable 3: Customer Value

Definition: What a customer is worth to you over the full lifetime of the relationship — not just the first contract. This includes the initial sale, expansion revenue, upsells, cross-sells, and any increase in scope over time.

Why founders undervalue this variable: Most founders think of customer value as "our average contract size." That's the opening bid, not the value. A customer who starts at $2,000/month and grows to $8,000/month over three years is worth $216,000 — not $24,000. If your systems aren't built to expand existing relationships, you're leaving the most profitable revenue on the table.

How to calculate it:

Simple method: Total revenue from all customers acquired in a specific period, divided by the number of customers in that cohort, measured over the full relationship.

Working method for most companies:

- • Average monthly contract value × average customer lifespan in months = Lifetime Value (LTV)
- • Example: $3,000/month × 36 months average lifespan = $108,000 LTV

What drives customer value up:

- • Upsell and cross-sell programs built into the account management cadence.
- • Annual price increases (even 3–5% annually compounds dramatically).
- • Expanding scope as the client grows — being proactive about what else you can solve.
- • QBRs (quarterly business reviews) that focus on results delivered and opportunities identified.
- • Executive-level relationships, not just day-to-day contact relationships.

What drives customer value down:

- • No systematic upsell process — leaving expansion to chance.
- • Discounting to retain instead of delivering more value.

- • Single-threaded relationships (only one person at the client knows you; when they leave, the account is at risk).
- • No price increases ever, which means your real revenue per client decreases every year due to inflation.

Variable 4: Retention

Definition: One minus your annual churn rate. If you lose 15% of customers per year, your retention is 85%.

Why this is the cheat code: Retention is the single most important variable in the formula — and it's the one most founders look at last. High retention doesn't just keep revenue from leaking. It actively feeds the other three variables:

- • **Retention feeds leads.** Happy customers refer. They write testimonials. They become case studies. Every retained customer is a passive lead generation engine that costs you nothing.
- • **Retention boosts close rate.** When your prospects call your references and hear "We've been with them for four years and they're incredible," your close rate goes up. You can't fake tenure. Retention is the ultimate social proof.
- • **Retention grows value.** The longer a customer stays, the more they spend. Year-one customers rarely buy everything you offer. Year-three customers often spend 2–3x their original contract.

The flip side is equally powerful: Low retention poisons all three. When customers churn, you lose their referrals, their testimonials, and their expansion revenue. You have to replace them with new customers — at full acquisition cost. And the market hears about it. Your reputation shifts from "they deliver" to "they churn." Close rates drop. It's a death spiral that starts quietly and accelerates.

How to measure it accurately:

- • **Logo retention:** What percentage of customers (by count) are still with you 12 months later?
- • **Revenue retention:** What percentage of revenue is retained? (This can be over 100% if expansion exceeds churn — called "net revenue retention.")
- • **Cohort analysis:** Track each quarterly cohort of new customers separately. Are Q1 customers retained at the same rate as Q3 customers? If not, something changed — find out what.

Benchmark: Best-in-class B2B services companies run at 90–95% annual logo retention and 100–110% net revenue retention (meaning they grow existing accounts faster than they lose them).

The Compound Math: Why Small Improvements Win

This is the most important section of this white paper. If you remember nothing else, remember this.

Scenario 1: Double your leads

You spend $200K on marketing to double your lead volume from 50 to 100 qualified conversations per month.

Result: Revenue roughly doubles (minus efficiency loss from lower-quality leads and operational strain). Cost: $200K+ in marketing spend. Net: expensive, slow, and fragile.

Scenario 2: Improve all four by 10%

You improve leads from 50 to 55 (+10%). You improve close rate from 20% to 22% (+10%). You improve average customer value from $50K to $55K (+10%). You improve retention from 85% to 93.5% (+10%).

Result: 1.10 × 1.10 × 1.10 × 1.10 = **1.46.** A 46% increase in revenue. Cost: mostly operational improvements that require time and focus, not budget. Net: cheaper, faster, and durable.

Scenario 3: Improve all four by 20%

Result: 1.20 × 1.20 × 1.20 × 1.20 = **2.07.** A 107% increase. You've doubled revenue by getting 20% better at four things — none of which required a massive capital investment.

Scenario 4: The realistic improvement over 2 years

Year 1: Leads +15%, Close +20%, Value +10%, Retain +10%. That's 1.15 × 1.20 × 1.10 × 1.10 = **1.67.** A 67% revenue increase.

Year 2: Another round of similar improvements on the new baseline. The compounding accelerates. By the end of year 2, you've roughly tripled the business.

This is how companies go from $3M to $10M to $25M without raising capital, without massive marketing budgets, and without burning out the team. They get incrementally better at all four numbers, and the multiplication effect does the heavy lifting.

How to Build the One-Page Scorecard

Step 1: Create the spreadsheet

Four rows: Leads, Close Rate, Average Customer Value, Retention Rate. Twelve columns: one for each month (or the last 12 months of data). One additional column: trailing 12-month average.

That's it. No charts. No dashboards. No color coding. Just the numbers.

Step 2: Populate with historical data

Go back 12 months. Pull the numbers from your CRM, your financial reports, your client services data. This will take time — probably a full day of work — and you'll discover that some of the numbers don't exist in clean form. That's normal. That's the point. The act of reconstructing the data reveals where your measurement gaps are.

Common discovery: Most founders find that they can produce Leads and an approximation of Close Rate, but Customer Value and Retention require manual calculation because nobody has been tracking them systematically.

Step 3: Look. Don't fix.

For the first month, just look at the scorecard. Don't try to improve anything. Just internalize the numbers. Notice trends. Notice which variables are strong and which are weak. Notice which months were good and which were bad — and whether you can explain why.

The most valuable thing this scorecard does is replace feelings with facts. You thought your close rate was "pretty good" — now you know it's 18%. You thought retention was "in the nineties" — now you know it's 82%. The numbers don't lie, and they don't have opinions.

Step 4: Review monthly in your leadership meeting

Add 5 minutes to your monthly leadership meeting. Put the scorecard on the screen. Read the numbers out loud. No interpretation yet — just the numbers. Get your leadership team used to seeing all four variables together, every month, as a unit.

The Focus Rule: One Number Per Quarter

This is where most founders break the system. They look at the formula, they see four variables, and they launch four improvement initiatives simultaneously. Within 60 days, none of them have moved.

The rule: Measure all four. Pick one per quarter. Obsess over it.

Here's how:

Choosing your quarterly focus

Ask three questions: 1. **Which variable is farthest below benchmark?** (If your close rate is 12% and the industry average is 25%, that's your biggest gap.) 2. **Which variable has the most leverage right now?** (If you're getting 100 leads a month but closing 8%, fixing close rate adds 1 new customer for every 4% improvement — no additional leads needed.) 3. **Which variable can we realistically move in 90 days?** (Retention improvements often take 6–12 months to show up. Close rate improvements can show up in 30 days with better training.)

Making it visible

Once you pick the quarterly number, everyone in the company should know:

- • **What the number is** (close rate, retention, etc.)
- • **Where it stands today** (18%)
- • **What the target is** (25% by end of quarter)
- • **What we're doing about it** (the specific initiative — sales training, onboarding redesign, etc.)

Put it on the wall. Put it in every weekly meeting. Put it in the Slack channel. Make it impossible to forget.

The quarterly review

At the end of 90 days:

- • Did the number move? By how much?
- • What worked? What didn't?
- • What did we learn?
- • What's the next quarterly focus?

Then pick the next variable and repeat.

Why Retention Is the Cheat Code: A Deeper Look

If you could only improve one variable for the rest of your career, choose retention. Here's the full case:

The math of churn: At 85% annual retention, you need to replace 15% of your revenue every year just to stay flat. If you have $10M in recurring revenue, you need $1.5M in new sales annually just to break even — before you can grow. At 95% retention, you only need to replace $500K. That's a million dollars in sales capacity freed up to actually grow.

The referral engine: A study by the Wharton School found that referred customers have a 16% higher lifetime value and are 18% less likely to churn than non-referred customers. Every retained customer is a potential referral source. Every churned customer is a lost referral — and potentially a negative reference.

The profit multiplier: Bain & Company's research shows that a 5% increase in retention rates increases profits by 25–95%. This is because the cost of serving a retained customer decreases over time (they need less support, they know your systems, they're more self-sufficient), while the revenue from them tends to increase (upsells, expansions, price increases).

The reputation effect: In B2B, prospects talk to your existing customers before they buy. If your average customer has been with you for 4 years, that's a powerful signal. If your average customer tenure is 8 months, that's a different signal entirely. Retention is the most honest marketing asset you have — and you can't fake it.

Common Mistakes and How to Avoid Them

Mistake #1: Measuring leads without qualifying them. If your "lead" count includes everyone who filled out a web form, you're measuring noise. Define what a qualified lead is — in writing — and count only those.

Mistake #2: Not tracking close rate by source. Your overall close rate is an average that hides critical information. Referral leads might close at 45%. Cold outbound might close at 8%. If you treat them the same, you'll misallocate resources.

Mistake #3: Thinking of customer value as the first contract. The first contract is the beginning of the relationship, not the full value. Build upsell, cross-sell, and expansion into your account management process.

Mistake #4: Measuring retention annually and finding out too late. Track leading indicators of churn monthly: usage data, NPS scores, support ticket volume, QBR attendance, response time. By the time a customer formally churns, they checked out 90 days ago.

Mistake #5: Trying to fix all four at once. One number, one quarter, one initiative. Focus is a superpower. Seventeen priorities is zero priorities.

Mistake #6: Relying on gut feel instead of the scorecard. "Things feel like they're growing" is not a metric. The scorecard doesn't care how you feel. It tells you the truth, every month, whether you want to hear it or not.

Mistake #7: Pouring money into leads when the bucket is leaky. If your retention is below 80%, fixing retention should be your first move — before you spend another dollar on marketing. New customers flowing into a leaky bucket are the most expensive way to stay flat.

Quick-Start Checklist

- ✓ ☐ Build the one-page scorecard this week: 4 rows × 12 columns
- ✓ ☐ Populate with the last 12 months of data (this will take a full day — do it anyway)
- ✓ ☐ Calculate trailing averages for each variable
- ✓ ☐ Don't try to improve anything yet — just look
- ✓ ☐ Review the scorecard in your next leadership meeting (5 minutes)
- ✓ ☐ Identify which variable is farthest below benchmark
- ✓ ☐ Identify which variable has the most leverage right now
- ✓ ☐ Pick one as your Q1 focus
- ✓ ☐ Set the target for that variable (specific number by end of quarter)
- ✓ ☐ Make the focus visible to the entire company
- ✓ ☐ Assign an owner who reports on that number weekly
- ✓ ☐ Review all four numbers monthly — every month, forever

Implementation Tools

Ready-to-use templates for this Growth Factor

XLSX **Growth Formula Scorecard**
Columns: Metric, Jan, Feb, Mar, Apr, May, +8 more

XLSX **Quarterly Focus Planner**
Columns: Rock, Owner, Definition of Done, Wk1, Wk2, Wk3, +10 more

XLSX **Retention Deep-Dive Worksheet**
Columns: Cohort, Starting Clients, Month 3, Month 6, Month 9, Month 12, +2 more

XLSX **Close Rate by Source Tracker**
Columns: Lead Source, Leads This Month, Closed This Month, Close Rate, Avg Deal Size, Revenue, +1 more

PDF **Growth Formula Quarterly Review**
Review all 4 levers every 90 days

This is Principle #4 of 50. Recognition (#1) creates the environment. Accountability (#2) sets the standard. Being in the business (#3) gives you ground truth. The Growth Formula (#4) gives you the numbers that tell you where to aim. Everything from here — quality, A-Player Scores, referrals, retention, playbooks — connects back to these four numbers.

Get the book: The 50 Factor by Scott Scully