

Do The Math!



Spock Math – Live Long and Prosper

By Jay Goltz

I'm going to share with you one of the biggest ingredients for being successful—how to turn a \$1 million business into a \$100 million business. Live long and prosper and then die (also known as compound interest).

I'm reading a very interesting book about the story of the outdoors store, L.L. Bean. They started the company in 1912 and were pioneers in using the mail order catalog as a business tool. When the grandson of the founder took over the company in 1967, L.L. Bean had \$4.75 million in sales. By 2006, sales were \$1.45 billion. I knew they were big, but I didn't think they were that big. That's about the size of the entire picture framing industry. I guess everyone buys clothes and not everybody buys picture framing.

So what growth percentage would that be over the years? Let's do the math. On second thought, let's not. I'll just tell you. It's a compound interest rate of about 16 percent. That is an extremely impressive growth rate. Especially over the long haul.

Since I know you need your math fix, let's try this on a frame business. Let's say that your frame business does \$1 million a year. Let's also say that you grow it at 10 percent a year for the next 40 years. That means you are doing a lot of things right. After many years, that is no easy task. To avoid peaking out, you would have to constantly find a lot of new customers and expand geographically.

What does that look like after 40 years and what is the difference between 5 and 10 percent growth? Let's take a look at the chart.

As you can see, every percentage of growth that you increase has a substantial effect over the

	5%	10%
YEAR 1	\$1,000,000	\$1,000,000
YEAR 5	\$1,276,000	\$1,610,000
YEAR 10	\$1,630,000	\$2,593,000
YEAR 20	\$2,650,000	\$6,727,000
YEAR 30	\$4,300,000	\$17,449,000
YEAR 40	\$7,000,000	\$45,259,000

long run. The fact is, most companies peak out and in some cases have declining sales at some point. It is also interesting to note that only 30 percent of businesses survive to the second generation. Only 9 percent get to the third. Unless you started the company very young like I did, it's unlikely that you'll be in business in 40 years.

While the math is the math, the question is how can you maintain a 5 or 10 percent growth? It requires three things: expanding your market, developing a management team, and having the financial wherewithal—including pricing—to handle the growth. There's one other thing you need. The desire to handle a much bigger business. Bigger business, bigger problems. Some people are happier running a company with 20 employees rather than 200 employees. You have to know yourself.

Here's the point: If you can maintain a reasonable growth year after year over the long run, you will end up with a much bigger business. Growing too fast can have disastrous results. Everyone's familiar with going out of business. You can also grow out of business. ■

Jay Goltz owns Artists' Frame Service in Chicago, IL, which employs over 80 people at its main framing operation. He has received many business honors and is known for his straight talk on succeeding in business.