Five Leading Indicators of Organic Growth

By Sam Klaidman

Customer-oriented metrics can help you evaluate long-term sustainability.

To maximize organic growth, businesses must acquire new customers and get existing customers to stay with them and buy more products and services. Sounds simple, doesn't it?

If it were, though, we wouldn't hear so much about businesses declaring bankruptcy or planning layoffs. When determining a company's potential for organic growth and long-term sustainability, I try to look at these five metrics:

1. Percent of customers highly likely to refer
2. Percent of customers highly likely to repurchase the same products or services
3. Percent of customers highly likely to purchase other products or services
4. Ratio of new sales to repeat sales
5. Percent of sales from referred prospects

Note that I said "try to look at these five metrics." Very few businesses I have seen actually track all of them. Does yours?

Let's take a closer look at why your business should track each one.

Percentage of Customers Highly Likely to Refer

Whether a business is in the B2C or B2B world, it most likely collects voice-of-the-customer feedback, surveying customers about their relationships. In the relationship survey, one of the "standard" questions asked to calculate the net promoter score (NPS) goes something like this: "On a scale of 0 to 10, where 0 is highly unlikely and 10 is highly likely, how likely are you to recommend company A to your colleagues and associates?" The answers to this question are analyzed as follows:

- 9 & 10 are Promoters
- 7 & 8 are Passives
- 0 – 6 are Detractors

NPS = % Promoters - % Detractors

Without getting into a discussion about the validity of the NPS calculation, I see great value in analyzing the size and, more importantly, the trend of the percent of "10" responses, the top-box percent. (Note: Some organizations call top box the 9s and 10s, but I think that is too watered down.)

The NPS score is not something that can be managed; it is earned by doing many different things right and consequently earning a customer's loyalty. It is an indication of how often the company's performance exceeds the customer's expectations. It shows that customer-facing employees are empowered to do what is in the customer's best interest, and that their primary job is to take care of the customer.

I was recently working with a software company that was looking for insight into why its year-over-year revenue growth declined for two consecutive years. The company's NPS data was flat for three years and included some promoters, which yielded a positive NPS. But diving deeper into the data, there was a clear pattern in the customers who downgraded their scores from 10 to 9.

When we looked at the purchase history of the 9s, we saw a reduction of annual support contract revenue. They were still using the product, but it wasn't given as much importance as in prior years—so they were willing to suffer any consequences resulting from cancelling their support contracts. How long do you think they will continue to use it? When it's time for a replacement, do you think they will automatically repurchase from my client or shop around?

Percentage of Customers Highly Likely to Repurchase the Same Products or Services

In the relationship survey, you have the opportunity to probe how the customer feels about each touchpoint (e.g., website, sales, installation, training, support and user group), as well as the overall strength of the relationship as it affects different potential outcomes related to your business. The NPS "likely to recommend" question is one such example. Another very useful question deals with the customers' likelihood of repurchasing more of what they currently purchase. Again, in my opinion, the only response that matters is top box. It's not like horseshoes, where close counts. Either they will repurchase the same stuff or they won't. Conversely, there is value in the degree of not purchasing as you can decide whether you can turn the situation around or are better off using resources to work with new prospects.

Unlike NPS, there are many "legitimate" reasons that a customer will not repurchase. For example:

- You sell capital equipment, and the business only needs one (a 3-D printer for the development department or a blood analyzer for a physician's office).
- Your customer changed its basic product design approach like Apple did, when it shifted from PowerPC to Intel.
- Regulations change or come into force that cut you out of the picture.

I was recently working with the service vice president of an instrumentation company, and was trying to identify why his consumable business was declining. After interviewing a significant number of first-tier customers, I discovered that one of their major distributors introduced a low-cost, fully compatible, single-use instrument, and the customer base was buying it based on price. My client still kept the customers, but was losing the high-margin, low-effort sales due to price. Red flags were raised, and the company is now working to introduce a new item with a value proposition that beats that distributor.

Percentage of Customers Highly Likely to Purchase Other Products or Services

This is another top-box analysis of a relationship survey question. While the previous metric focused on existing products and services, this one looks at other products and services where the customer is not captive or even semi-captive. This time the customer has a clean slate and can evaluate the competitive marketplace. This metric addresses the question of how much will the existing relationship shape the purchase decision.

Let's say that you and your family drive a Toyota Camry as the "family car," and you decide to give your 18-year-old kid a new car to take to college. You don't want to break the bank, yet you want the reliability and other benefits of a new car. Do you first research the Yaris or Corolla, or do you start searching websites for reviewer recommendations? A truly loyal Toyota fan would take the kid down to the Toyota dealership.

About the Authors

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