The Simple Maths Behind the World's Fastest-Growing Companies

Martin Stone, CEO of Conversion Rate Experts

CONVERSION RATE EXPERTS

THE QUEEN'S AWARDS FOR ENTERPRISE

We pioneered a unique approach to CRO—and then wrote the Amazon #1 bestselling book on it

Google	amazon	facebook	Booking.com
		LLOYDS BANK	SONY
BT	Bupa	HALIFAX	Hertz
vodafone	Carrefour	DELL	verizon

BANK OF SCOTLAND	GSK	Meta	starcom
dyson	PayPal	O_2	CONDÉ NAST
myfitnesspal™	CHOICE HOTELS®	Yale	BARRATT HOMES
AVG®	Gartner®	citrix™	jenny CRAIG®

الاتحاد ETIHAD	INTUIT quickbooks	audible an amazon company	BCP
Coppel	DOORDASH	SeaWorld ORLANDO	Regus™
AirArabia	D+G	xero	AAG® American Advisors Group
verisure	GENERALI	betterhelp	NATIVE

Voices.com	jamf	Course Hero	Study.com
capital.com	jiffy	naked wines	On the Beach
PURPLEBRICKS	Yopa	Roots	gohenry
sunshine.co.uk	DECKED	Optibac Trusted friendly bacteria	RENOGY TRUSTED ENERGY SOLUTIONS


ZH588
Financial Crisis 2008
Arab Spring 2011
2020
MARITIME


From complex system...

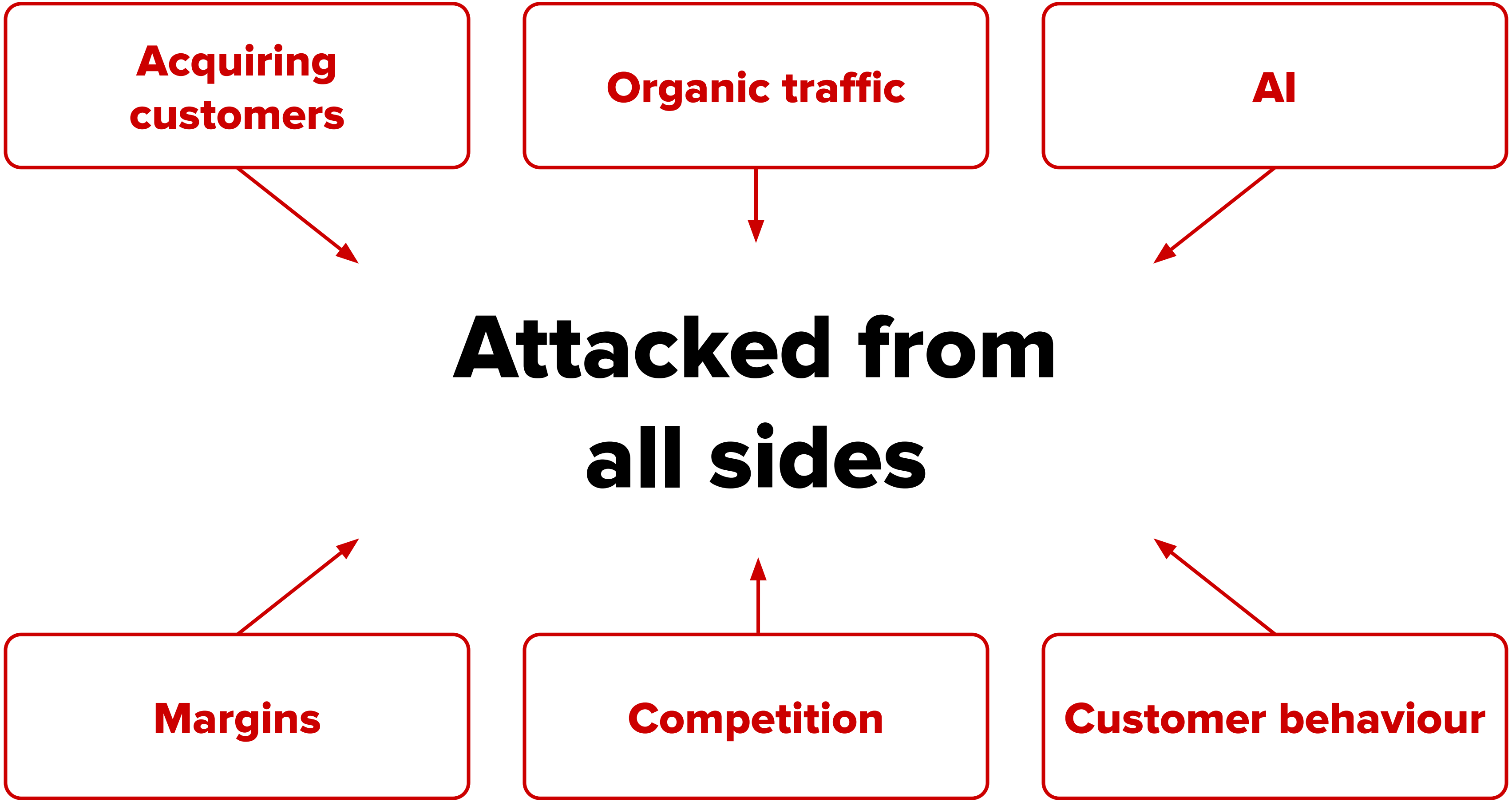

...to simple model
Left canard
Right canard
Simple control model
Left elevon
Right elevon
Rudder
pitch $\approx a(c_L + c_R) + b(e_L + e_R)$
roll $\approx c(e_R - e_L)$
yaw $\approx d \cdot r$
inputs: $c_L,\ c_R,\ e_L,\ e_R,\ r$

Coming up:
QR code and a mystery gift

But now…
The Simple Maths Behind the World's Fastest Growing Companies

CONVERSION RATE EXPERTS

THE QUEEN'S AWARDS FOR ENTERPRISE


Acquiring customers
Organic traffic
AI
Attacked from all sides
Margins
Competition
Customer behaviour

Growth demands a plan.

Do more of everything...

Growth demands a plan.

Do more of everything...

More advertising.

Growth demands a plan.

Do more of everything...

More advertising.

More campaigns.

Growth demands a plan.

Do more of everything…

More advertising.

More campaigns.

More channels.

Growth demands a plan.

Do more of everything…

More advertising.

More campaigns.

More channels.

More products.

Do more of everything...

More advertising.

More campaigns.

More channels.

More products.

More initiatives.

More **advertising.**

More **campaigns.**

More **channels.**

More **products.**

More **initiatives.**

More **(or less) people.**

A different approach…

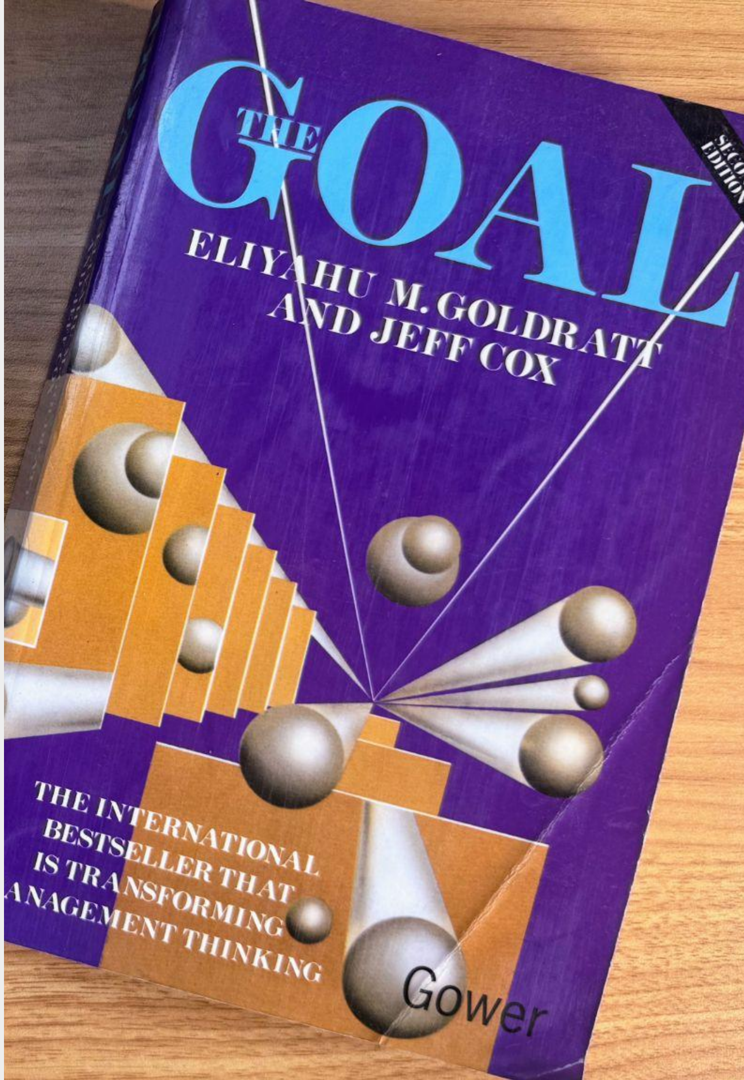
based on a fundamental truth

Growth is not a function of effort.

It is a function of leverage.

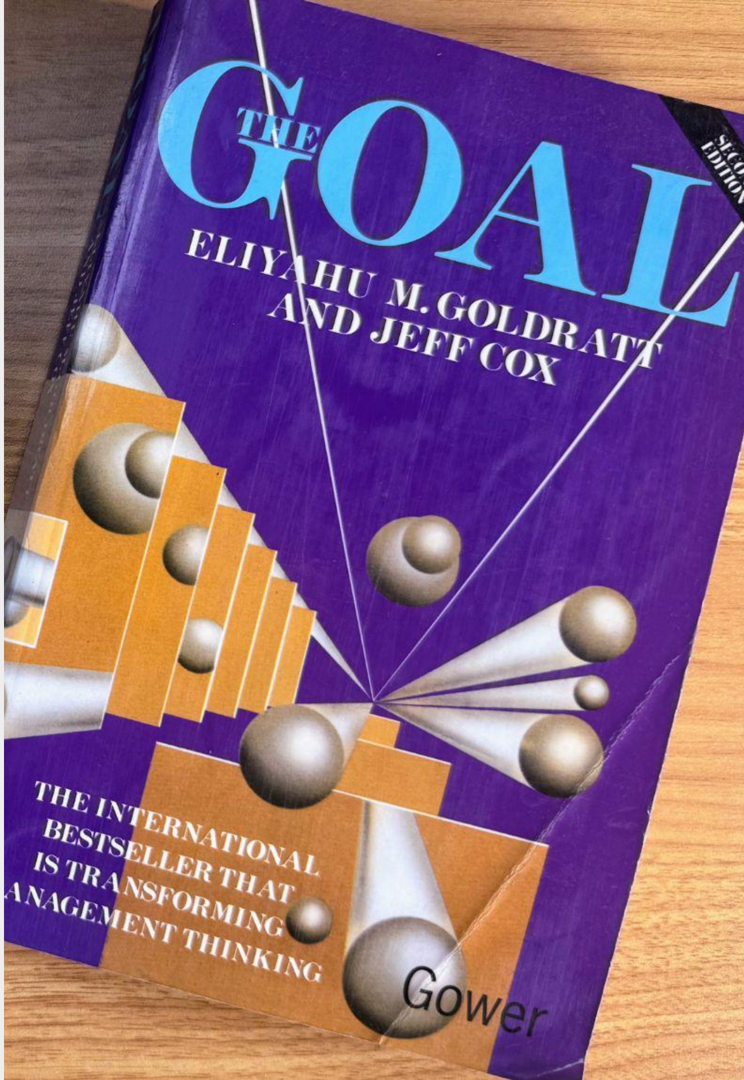
Find. Fix. Compound.

The Theory of Constraints



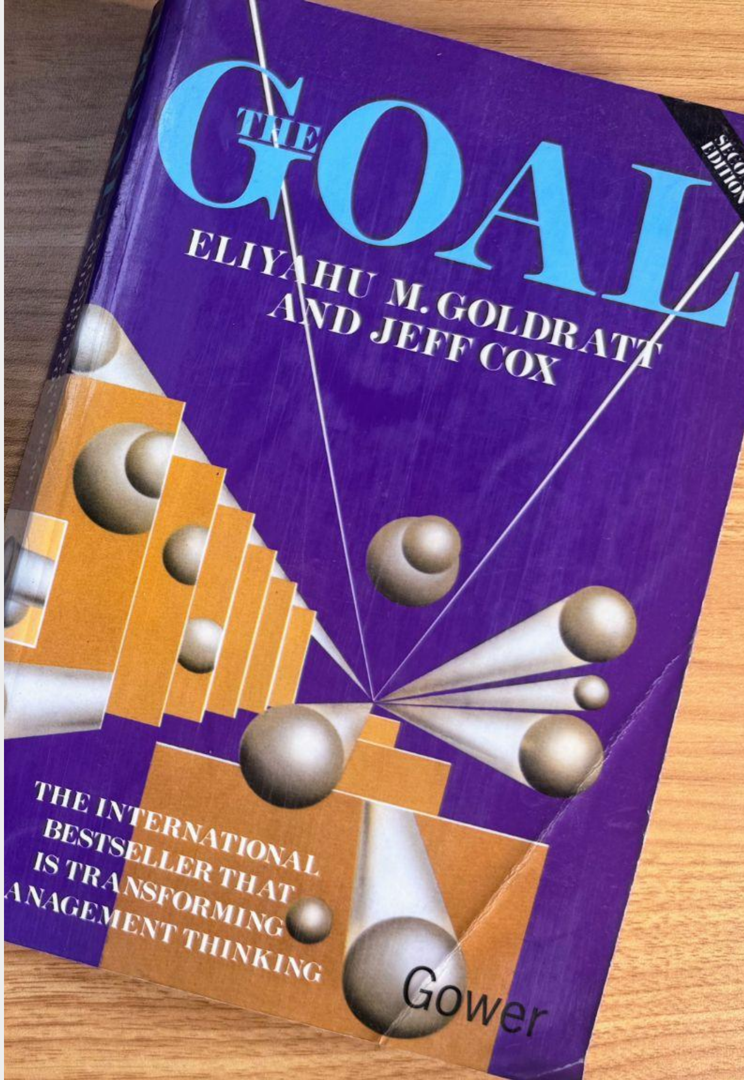
The Theory of Constraints

- No process can move faster than its slowest stage (the bottleneck or constraint).



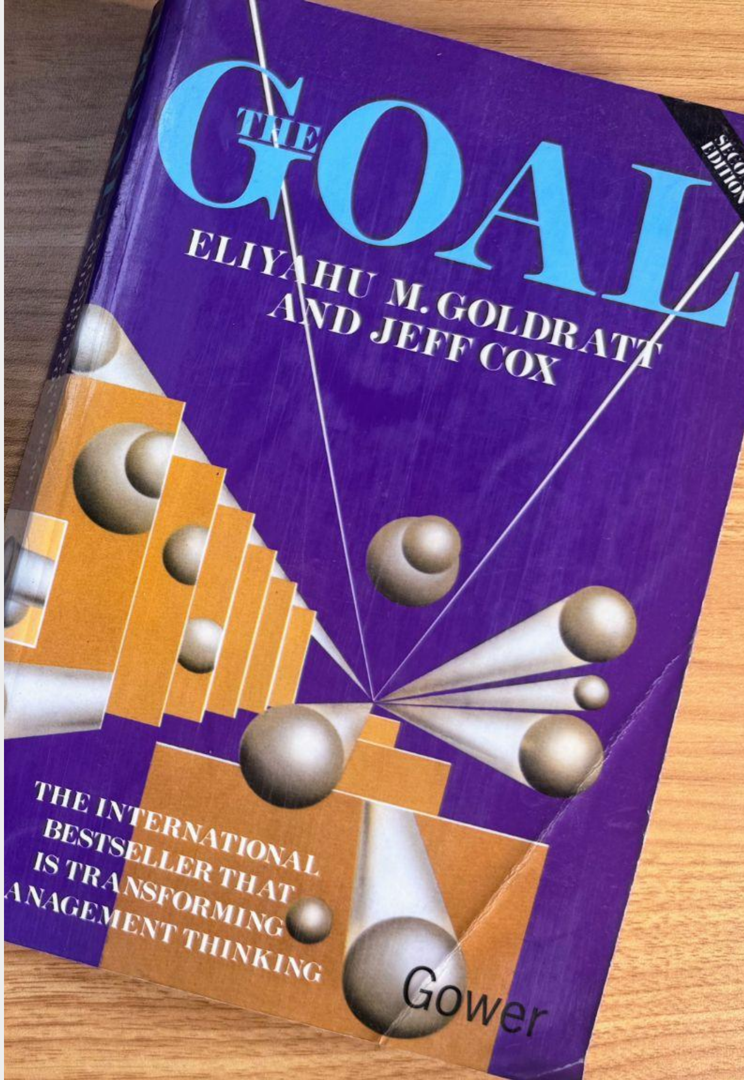
The Theory of Constraints

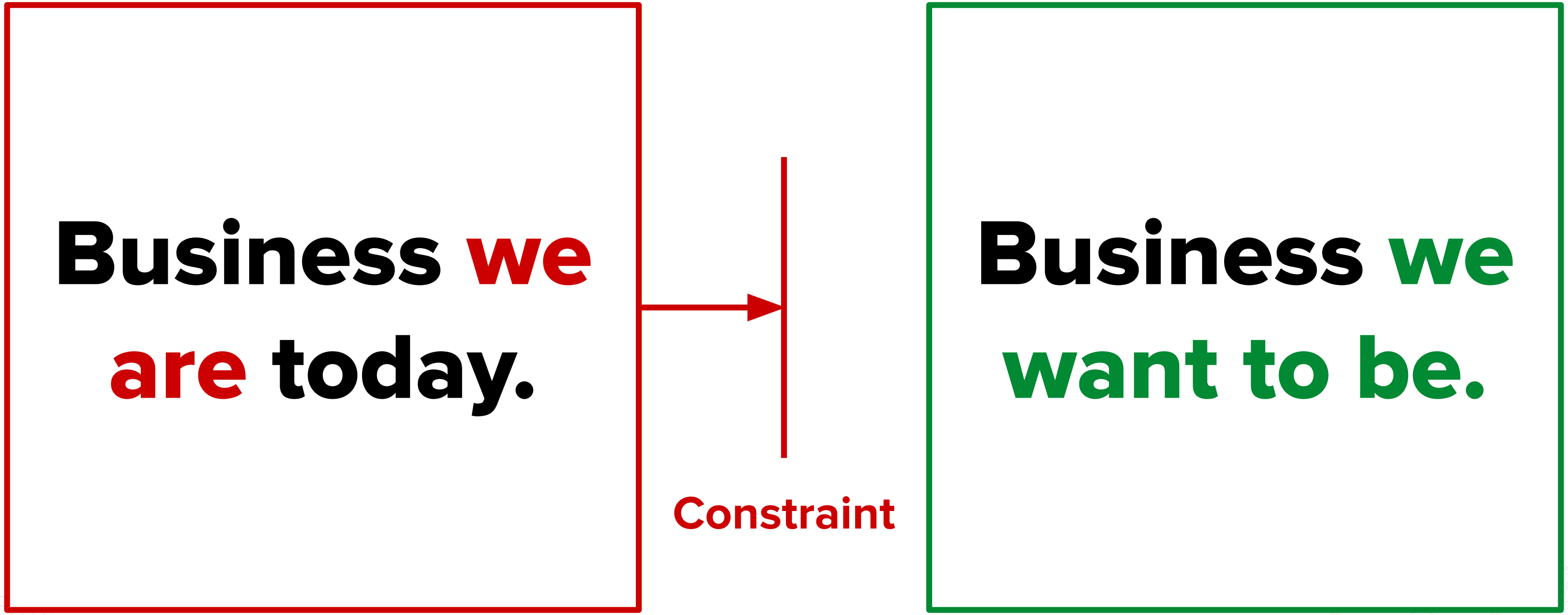
- No process can move faster than its slowest stage (the bottleneck or constraint).
- That one bottleneck constrains the *entire* process.



The Theory of Constraints

- No process can move faster than its slowest stage (the bottleneck or constraint).
- That one bottleneck constrains the *entire* process.
- Once you've identified the constraint, focusing on any other activity that doesn't fix it is irrational.




Business we are today.
Constraint
Business we want to be.

Business we are today.

Biggest lever

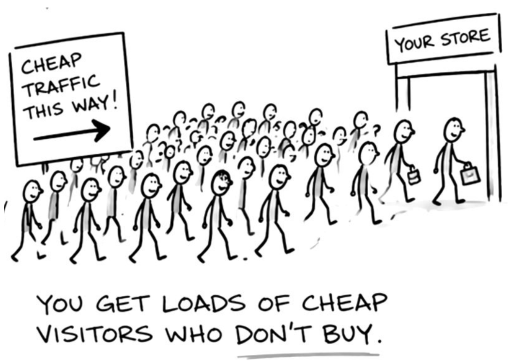
Business we want to be.

Goodhart's Law

When a measure becomes a target, it ceases to be a good measure.

Marketing

Target: More traffic

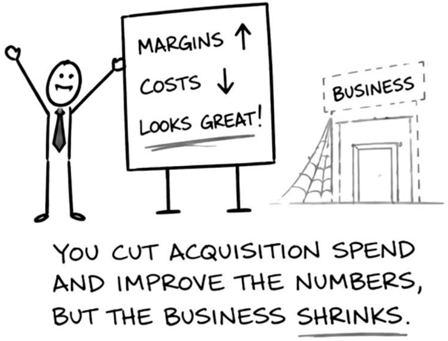


Ecommerce

Target: Higher conversion rate

Finance

Target: Higher margins



WhereWoof

WhereWoof

Ad costs

195,000

WhereWoof

Traffic
219,000

Ad costs
195,000

WhereWoof

Traffic
219,000

×

Conversion rate
1.0%

=

Orders
2,190

Ad costs
195,000

Traffic
219,000

×

Conversion rate
1.0%

=

Orders
2,190

×

Average order value
150

=

Sales
328,500

Ad costs
195,000

Based on 70%
gross margin

Variable costs
98,550

(**Traffic** **219,000** × **Conversion rate** **1.0%**) = **Orders** **2,190** × **Average order value** **150** = **Sales** **328,500**

Ad costs
195,000

(Traffic 219,000 × Conversion rate 1.0%) = Orders 2,190 × Average order value 150 = Sales 328,500

Based on 70% gross margin

Variable costs
98,550

Ad costs
195,000

Fixed costs
18,525

WhereWoof

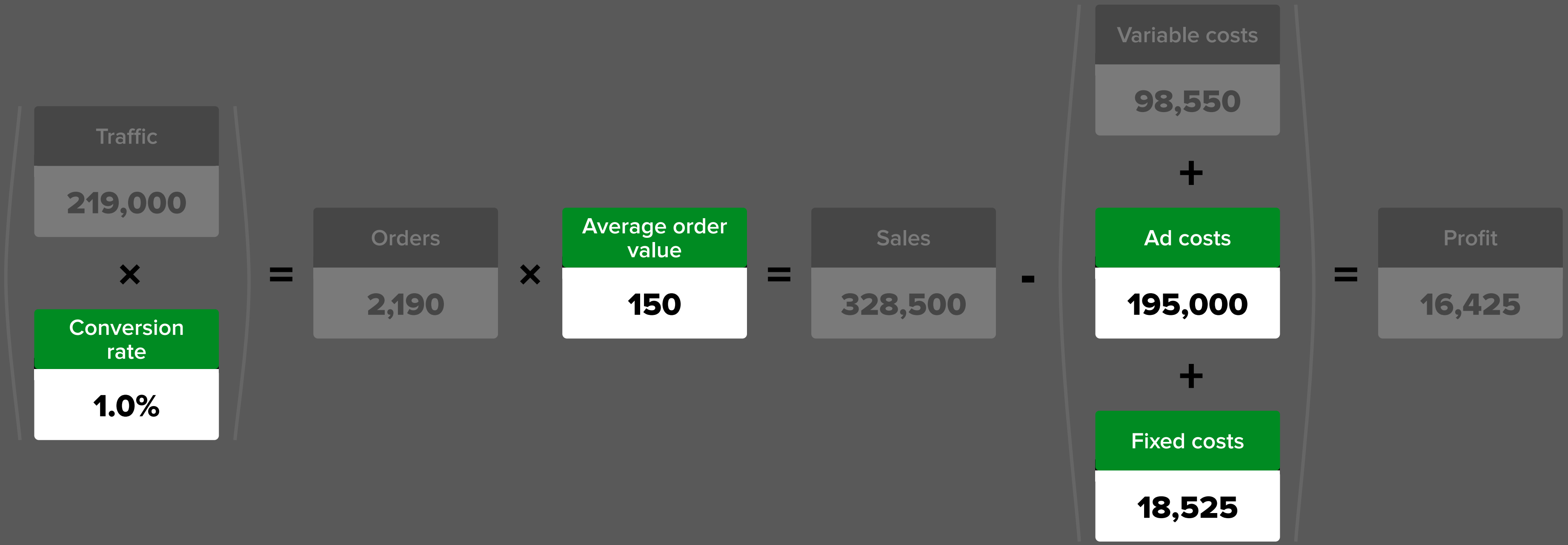
Based on 70% gross margin

Traffic		Conversion rate		Orders		Average order value		Sales		Variable costs		Ad costs		Fixed costs		Profit
219,000	×	1.0%	=	2,190	×	150	=	328,500	-	98,550	+	195,000	+	18,525	=	16,425

(Traffic 219,000 × Conversion rate 1.0%) = Orders 2,190 × Average order value 150 = Sales 328,500 - (Variable costs 98,550 + Ad costs 195,000 + Fixed costs 18,525) = Profit 16,425

Net margin of 5%

WhereWoof


Traffic
219,000
×
Conversion rate
1.0%
=
Orders
2,190
×
Average order value
150
=
Sales
328,500
-
Variable costs
98,550
+
Ad costs
195,000
+
Fixed costs
18,525
=
Profit
16,425

Reduce fixed costs

Traffic		Conversion rate		Orders		Average order value		Sales		Variable costs		Ad costs		Fixed costs		Profit
219,000	×	1.0%	=	2,190	×	150	=	328,500	- (	98,550	+	195,000	+	18,525	) =	16,425

WhereWoof

Reduce fixed costs

(Traffic **219,000** × Conversion rate **1.0%**) = Orders **2,190** × Average order value **150** = Sales **328,500** - (Variable costs **98,550** + Ad costs **195,000** + Fixed costs (-20%) **14,820**) = Profit **16,425**

Reduce fixed costs

Traffic
219,000
×
Conversion rate
1.0%

=

Orders
2,190

×

Average order value
150

=

Sales
328,500

-

Variable costs
98,550
+
Ad costs
195,000
+
Fixed costs (-20%)
14,820

=

+23%
Profit
20,130

BUT...

A big but 🙂

Morale

Culture

Increase ad spend

$$\left(\text{Traffic } 219{,}000 \times \text{Conversion rate } 1.0\%\right) = \text{Orders } 2{,}190 \times \text{Average order value } 150 = \text{Sales } 328{,}500 - \left(\text{Variable costs } 98{,}550 + \text{Ad costs } 195{,}000 + \text{Fixed costs } 18{,}525\right) = \text{Profit } 16{,}425$$

WhereWoof

Increase ad spend

(Traffic 219,000 × Conversion rate 1.0%) = Orders 2,190 × Average order value 150 = Sales 328,500 - (Variable costs 98,550 + Ad costs (+50%) 292,500 + Fixed costs 18,525) = Profit 16,425

Increase ad spend

(Traffic (+50%) **328,500** × Conversion rate **1.0%**) = Orders **2,190** × Average order value **150** = Sales **328,500** - (Variable costs **98,550** + Ad costs (+50%) **292,500** + Fixed costs **18,525**) = Profit **16,425**

WhereWoof

Increase ad spend

(**Traffic (+50%)** 328,500 × **Conversion rate** 1.0%) = **Orders (+50%)** 3,285 × **Average order value** 150 = **Sales** 328,500 - (**Variable costs** 98,550 + **Ad costs (+50%)** 292,500 + **Fixed costs** 18,525) = **Profit** 16,425

WhereWoof

Increase ad spend

(Traffic (+50%) **328,500** × Conversion rate **1.0%**) = Orders (+50%) **3,285** × Average order value **150** = Sales (+50%) **492,750** - (Variable costs **98,550** + Ad costs (+50%) **292,500** + Fixed costs **18,525**) = Profit **16,425**

WhereWoof

Increase ad spend

(Traffic (+50%) **328,500** × Conversion rate **1.0%**) = Orders (+50%) **3,285** × Average order value **150** = Sales (+50%) **492,750** - (Variable costs (+50%) **147,825** + Ad costs (+50%) **292,500** + Fixed costs **18,525**) = Profit **16,425**

WhereWoof

Increase ad spend

(
Traffic (+50%)
328,500
×
Conversion rate
1.0%
)
=
Orders (+50%)
3,285
×
Average order value
150
=
Sales (+50%)
492,750
-
(
Variable costs (+50%)
147,825
+
Ad costs (+50%)
292,500
+
Fixed costs
18,525
)
=
+108%
Profit
33,900

WhereWoof

A second big but

🙂

BUT...

Traffic quality

Increase the price

(Traffic
219,000
×
Conversion rate
1.0%)
=
Orders
2,190
×
Average order value
150
=
Sales
328,500
-
(Variable costs
98,550
+
Ad costs
195,000
+
Fixed costs
18,525)
=
Profit
16,425

WhereWoof

Increase the price

Traffic
219,000
×
Conversion rate
1.0%
=
Orders
2,190
×
Average order value (+20%)
180
=
Sales
328,500
-
Variable costs
98,550
+
Ad costs
195,000
+
Fixed costs
18,525
=
Profit
16,425

Increase the price

(Traffic **219,000** × Conversion rate **1.0%**) = Orders **2,190** × Average order value (+20%) **180** = Sales (+20%) **394,200** - (Variable costs **98,550** + Ad costs **195,000** + Fixed costs **18,525**) = Profit **16,425**

Increase the price

(
Traffic
219,000
×
Conversion rate
1.0%
)
=
Orders
2,190
×
Average order value (+20%)
180
=
Sales (+20%)
394,200
-
(
Variable costs (+20%)
118,525
+
Ad costs
195,000
+
Fixed costs
18,525
)
=
Profit
16,425

WhereWoof

Increase the price

(Traffic 219,000 × Conversion rate 1.0%) = Orders 2,190 × Average order value (+20%) 180 = Sales (+20%) 394,200 - (Variable costs (+20%) 118,525 + Ad costs 195,000 + Fixed costs 18,525) = Profit 62,415

+280%

WhereWoof

Not another but! 🙂

BUT...

Demand

Conversion

Increase the conversion rate

(Traffic 219,000 × Conversion rate 1.0%) = Orders 2,190 × Average order value 150 = Sales 328,500 - (Variable costs 98,550 + Ad costs 195,000 + Fixed costs 18,525) = Profit 16,425

Traffic	×	Conversion rate	=	Orders	×	Average order value	=	Sales	-	(Variable costs	+	Ad costs	+	Fixed costs)	=	Profit
219,000	×	1.0%	=	2,190	×	150	=	328,500	-	98,550	+	195,000	+	18,525	=	16,425

WhereWoof

Increase the conversion rate

(Traffic 219,000 × Conversion rate (+50%) 1.5%) = Orders 2,190 × Average order value 150 = Sales 328,500 - (Variable costs 98,550 + Ad costs 195,000 + Fixed costs 18,525) = Profit 16,425

WhereWoof

Increase the conversion rate

Traffic	×	Conversion rate (+50%)	=	Orders (+50%)	×	Average order value	=	Sales	-	Variable costs	+	Ad costs	+	Fixed costs	=	Profit
219,000	×	1.5%	=	3,285	×	150	=	328,500	-	98,550	+	195,000	+	18,525	=	16,425

WhereWoof

Increase the conversion rate

(Traffic 219,000 × Conversion rate (+50%) 1.5%) = Orders (+50%) 3,285 × Average order value 150 = Sales (+50%) 492,750 - (Variable costs 98,550 + Ad costs 195,000 + Fixed costs 18,525) = Profit 16,425

WhereWoof

Increase the conversion rate

(Traffic: **219,000** × Conversion rate (+50%): **1.5%**) = Orders (+50%): **3,285** × Average order value: **150** = Sales (+50%): **492,750** - (Variable costs (+50%): **147,825** + Ad costs: **195,000** + Fixed costs: **18,525**) = Profit: **16,425**

Traffic	Conversion rate (+50%)	Orders (+50%)	Average order value	Sales (+50%)	Variable costs (+50%)	Ad costs	Fixed costs	Profit
219,000	1.5%	3,285	150	492,750	147,825	195,000	18,525	16,425

Increase the conversion rate

(Traffic: **219,000** × Conversion rate (+50%): **1.5%**)

= Orders (+50%): **3,285**

× Average order value: **150**

= Sales (+50%): **492,750**

- (Variable costs (+50%): **147,825** + Ad costs: **195,000** + Fixed costs: **18,525**)

= Profit: **131,400**

+700%

WhereWoof

BUT...

Oh no! 🫣

Your control—a shelter from the storm

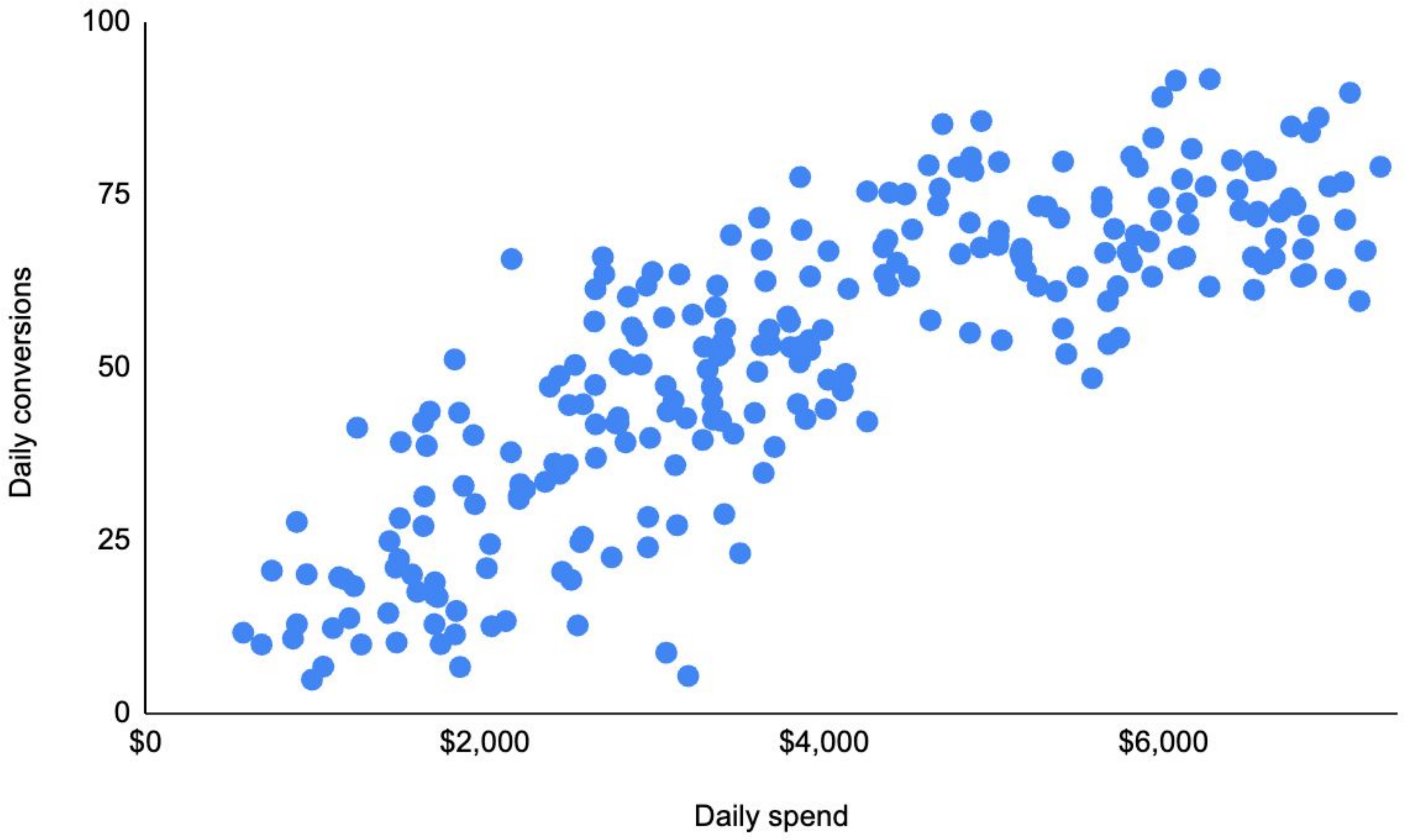
Your control—a shelter from the storm

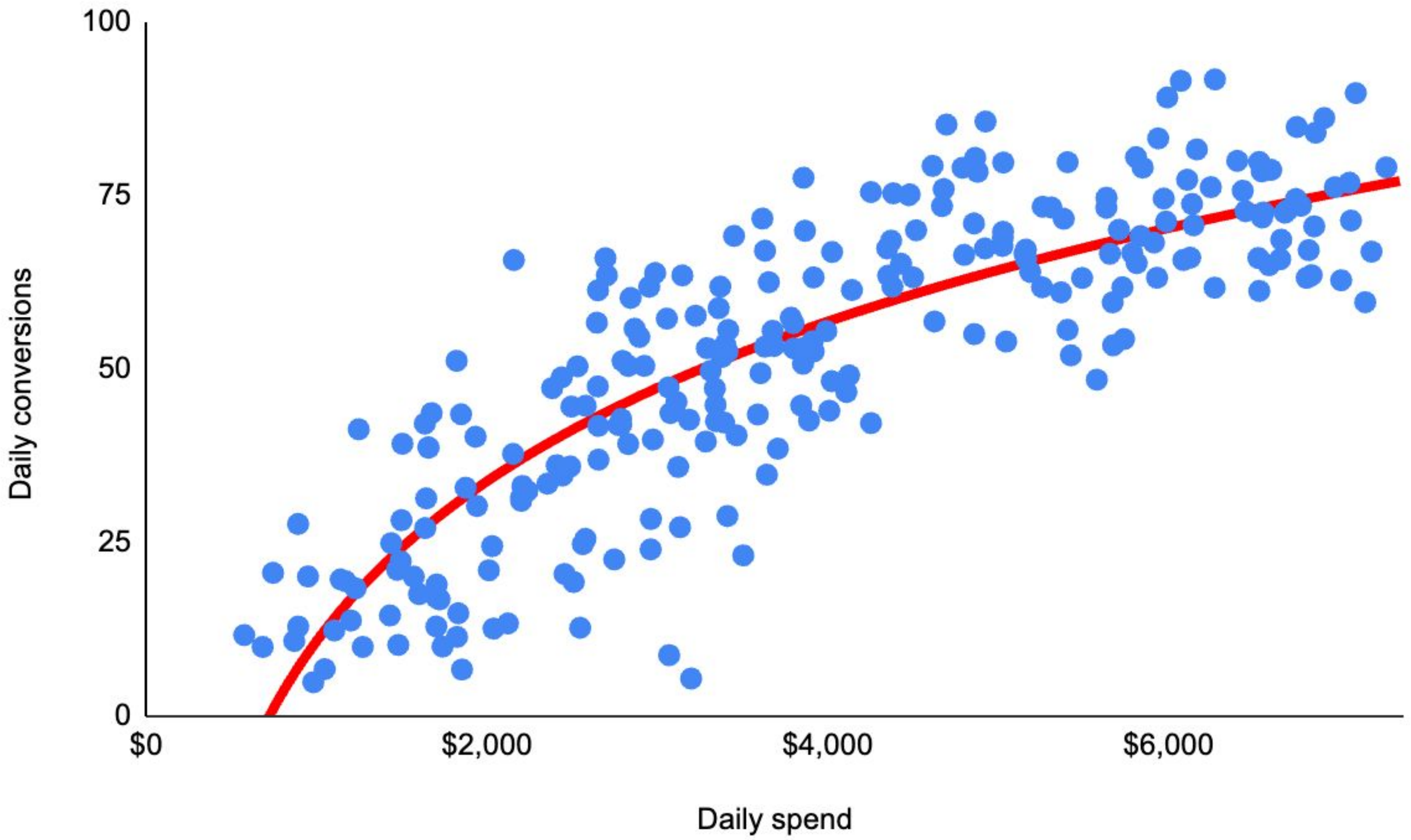
Now we know our biggest lever...what next?

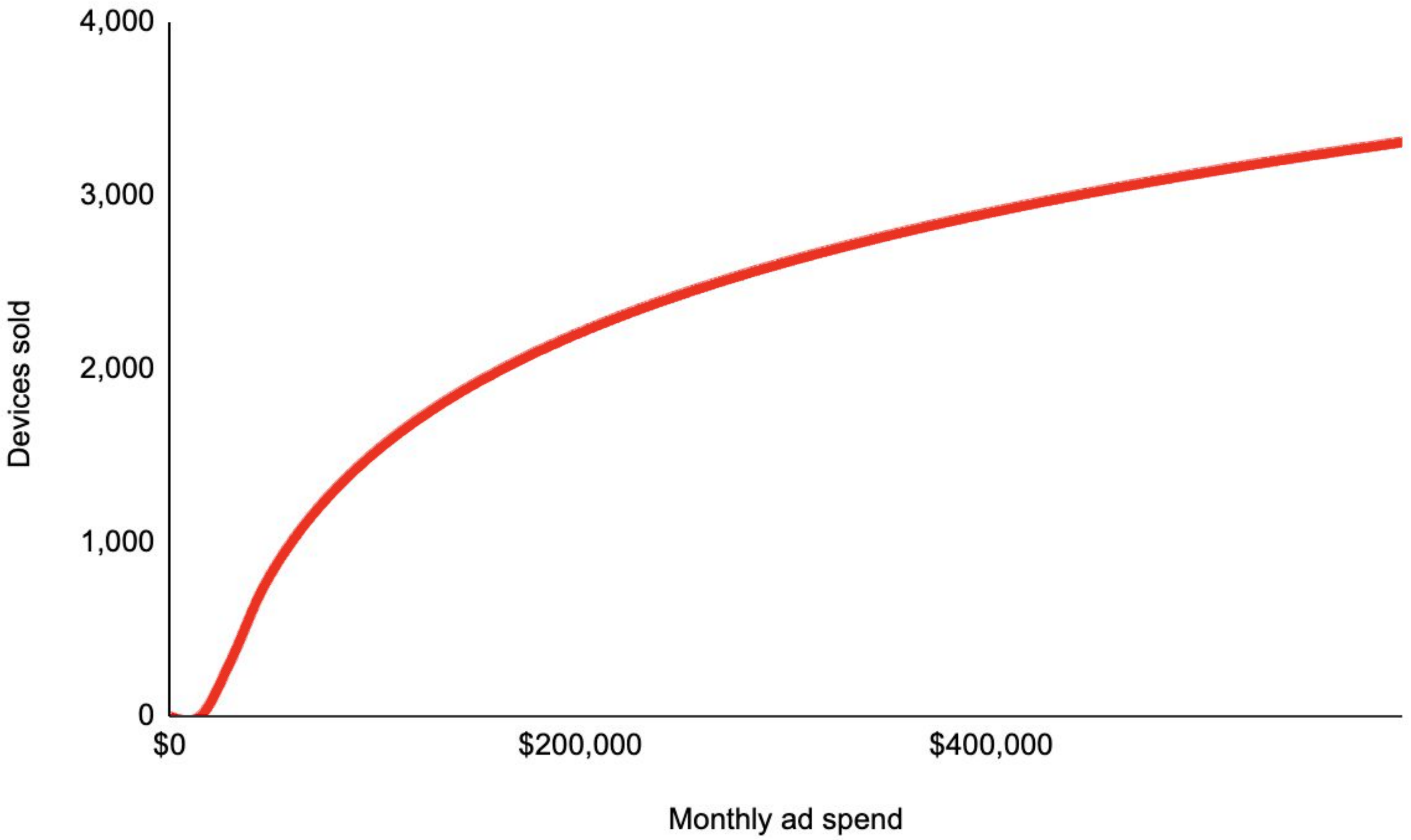
WhereWoof

StrayTech

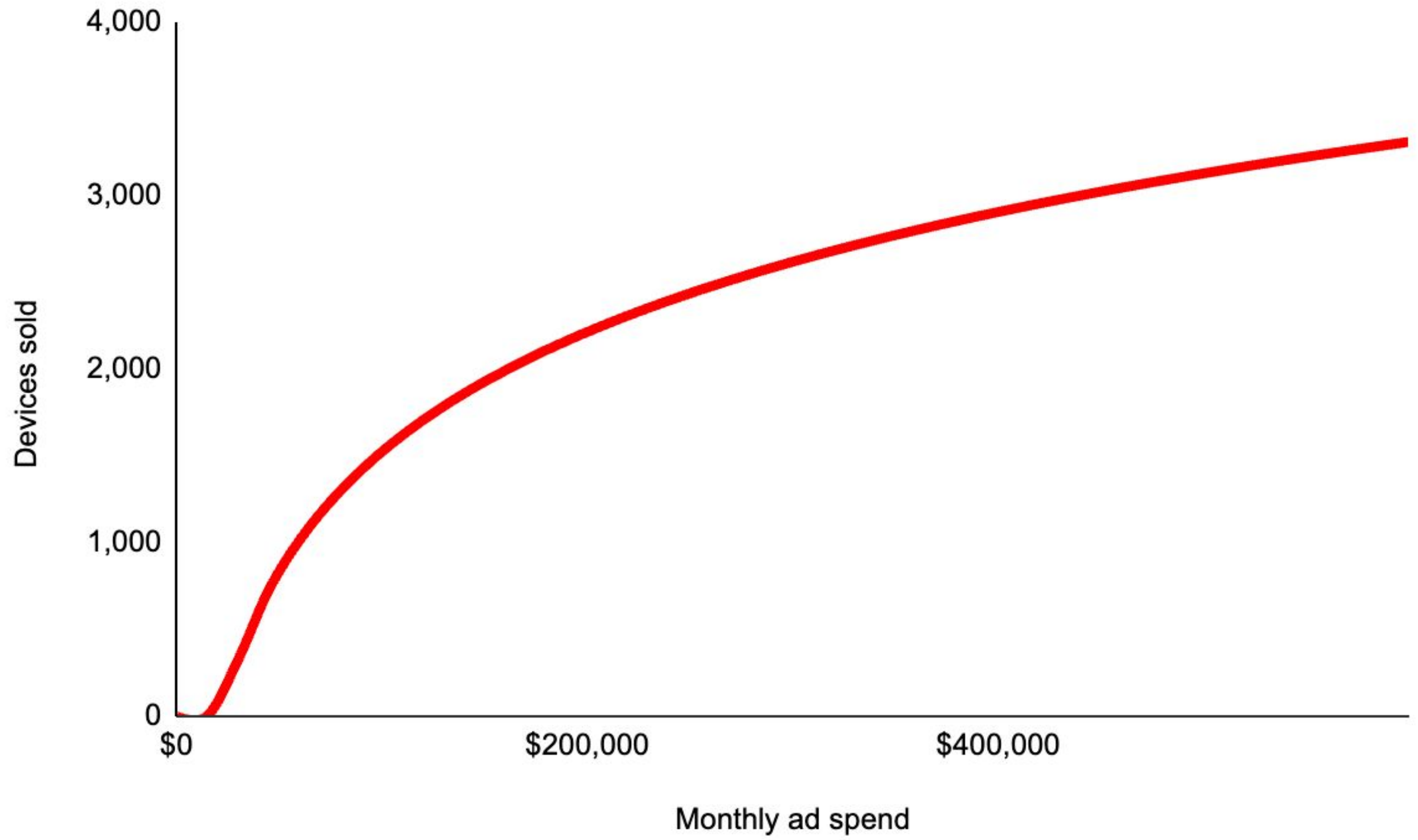
WoofLoose

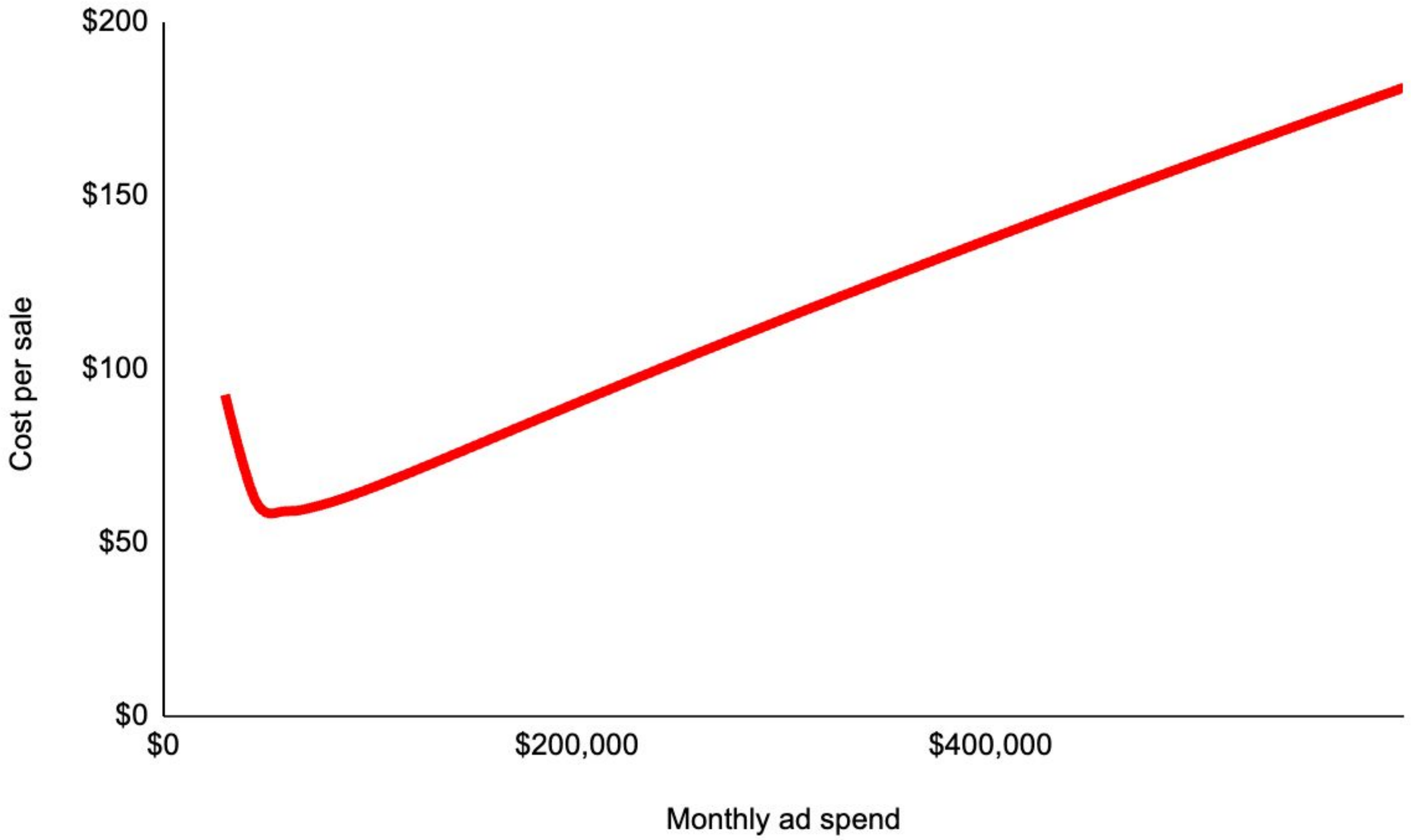

100
75
50
25
0
Daily conversions
$0
$2,000
$4,000
$6,000
Daily spend

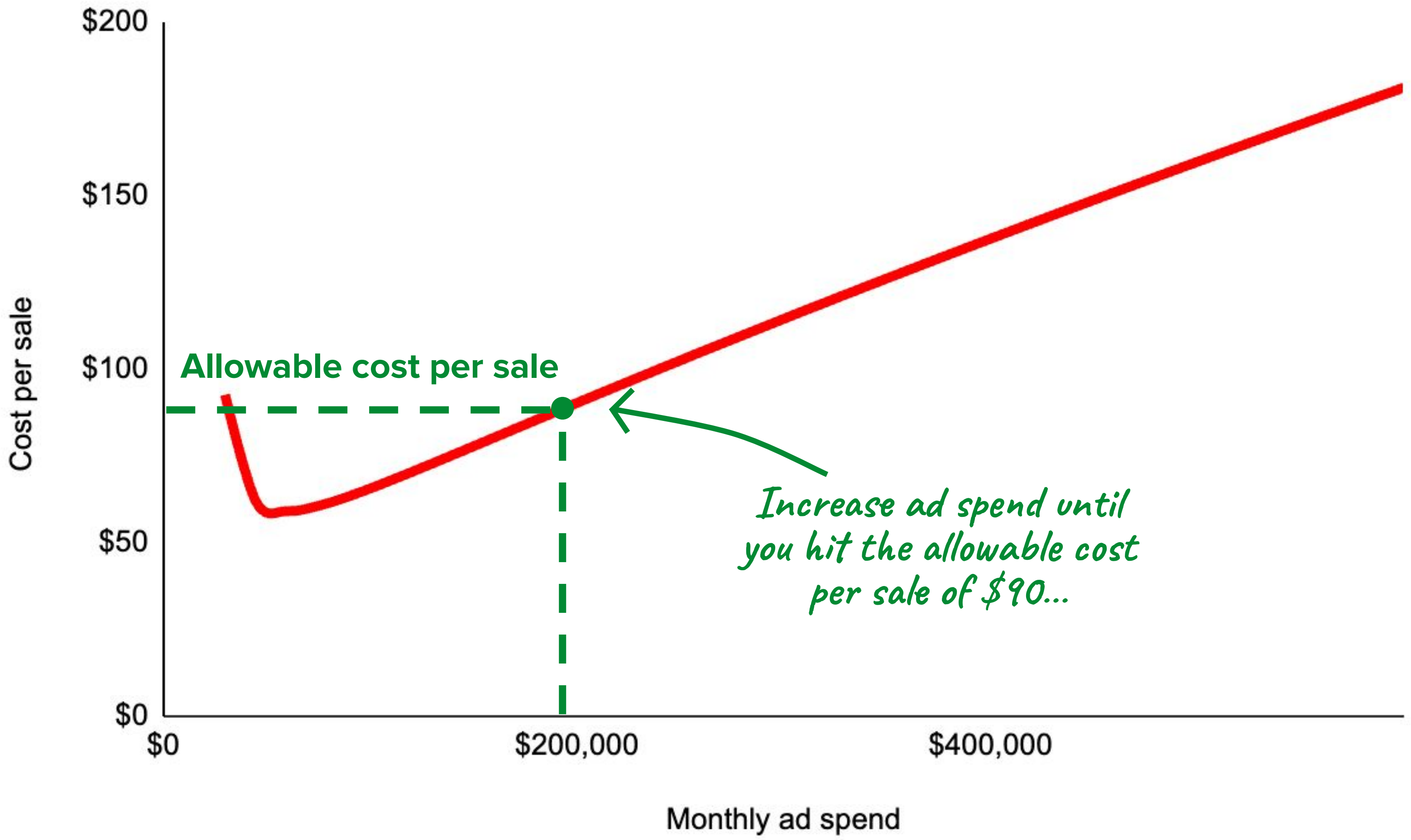

100
75
50
25
0
Daily conversions
$0
$2,000
$4,000
$6,000
Daily spend

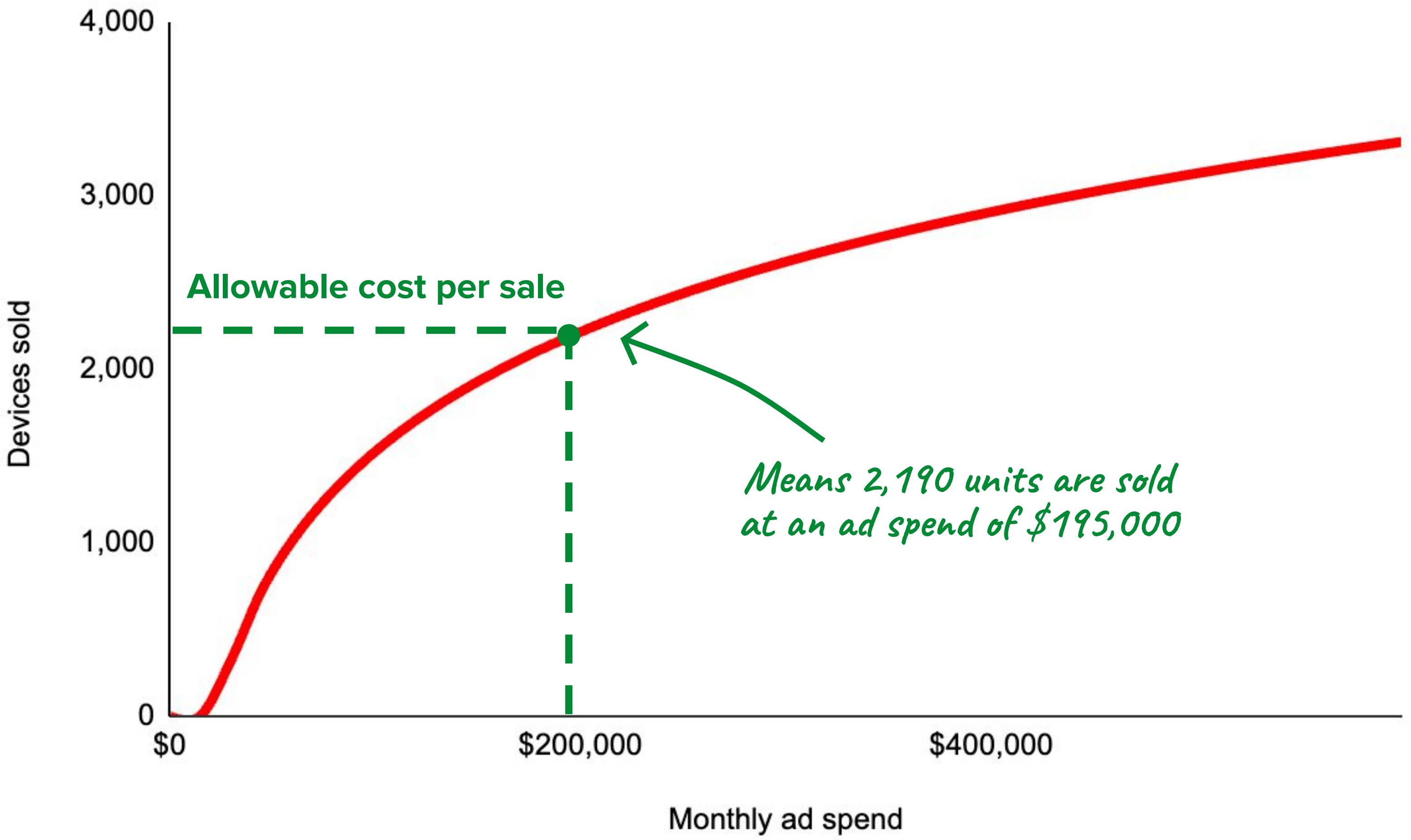


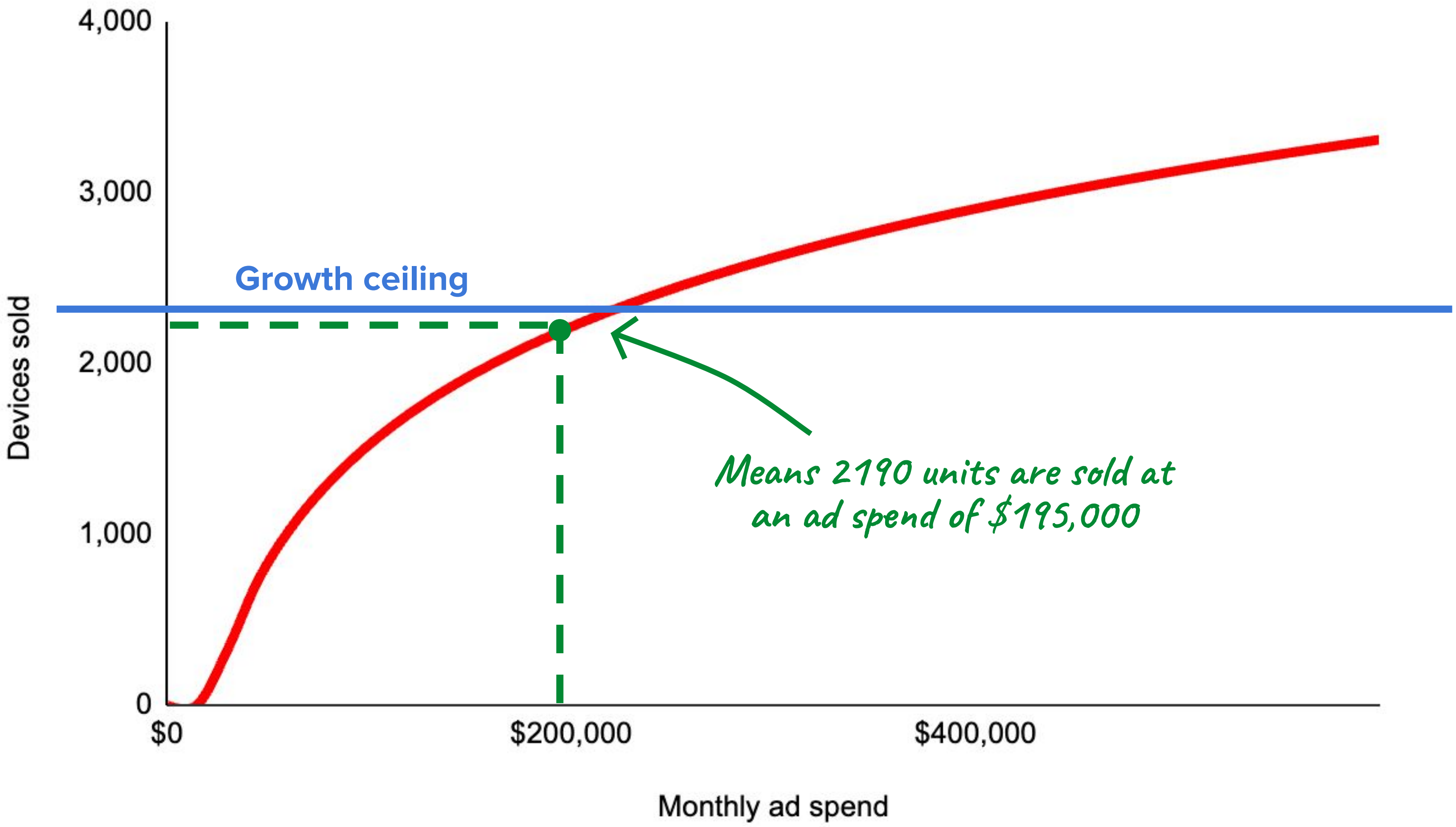
4,000
3,000
2,000
1,000
0
Devices sold
$0
$200,000
$400,000
Monthly ad spend


4,000
3,000
2,000
1,000
0
Devices sold
$0
$200,000
$400,000
Monthly ad spend


$200
$150
$100
$50
$0
Cost per sale
$0
$200,000
$400,000
Monthly ad spend


$200
$150
$100
$50
$0
Cost per sale
Allowable cost per sale
Increase ad spend until you hit the allowable cost per sale of $90...
$0
$200,000
$400,000
Monthly ad spend


4,000
3,000
2,000
1,000
0
Devices sold
Allowable cost per sale
Means 2,190 units are sold
at an ad spend of $195,000
$0
$200,000
$400,000
Monthly ad spend


4,000
3,000
2,000
1,000
0
Devices sold
Growth ceiling
Means 2190 units are sold at
an ad spend of $195,000
$0
$200,000
$400,000
Monthly ad spend

WhereWoof

M E M O

To: Leadership Team
From: CEO
Date: Today
Subject: CRO Programme Update

Great progress!

CRO programme which doubles the conversion rate

Our CRO programme has delivered a 2× increase in conversion rate, turning more pet lovers into customers and accelerating revenue growth.

Key takeaway

The programme is doubling our conversion rate, with further upside as we scale learnings across channels.

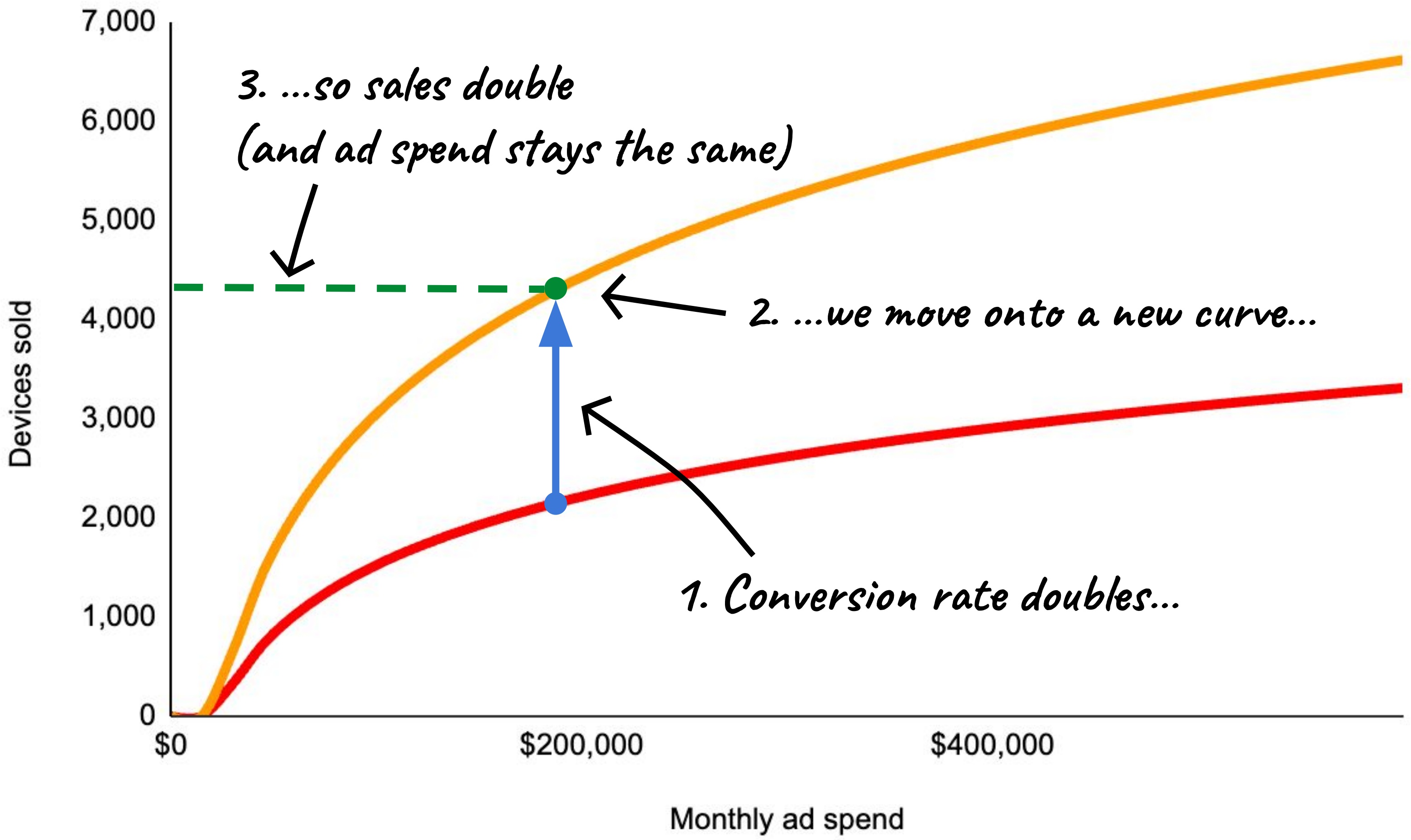
More dogs.
Happier people.
Bigger impact.

(Traffic 219,000 x Conversion rate 2.0%) = Orders 4,380 x Average order value 150 = Sales 657,000 - (Variable costs 197,100 + Ad costs 195,000 + Fixed costs 18,525) = Profit 246,375

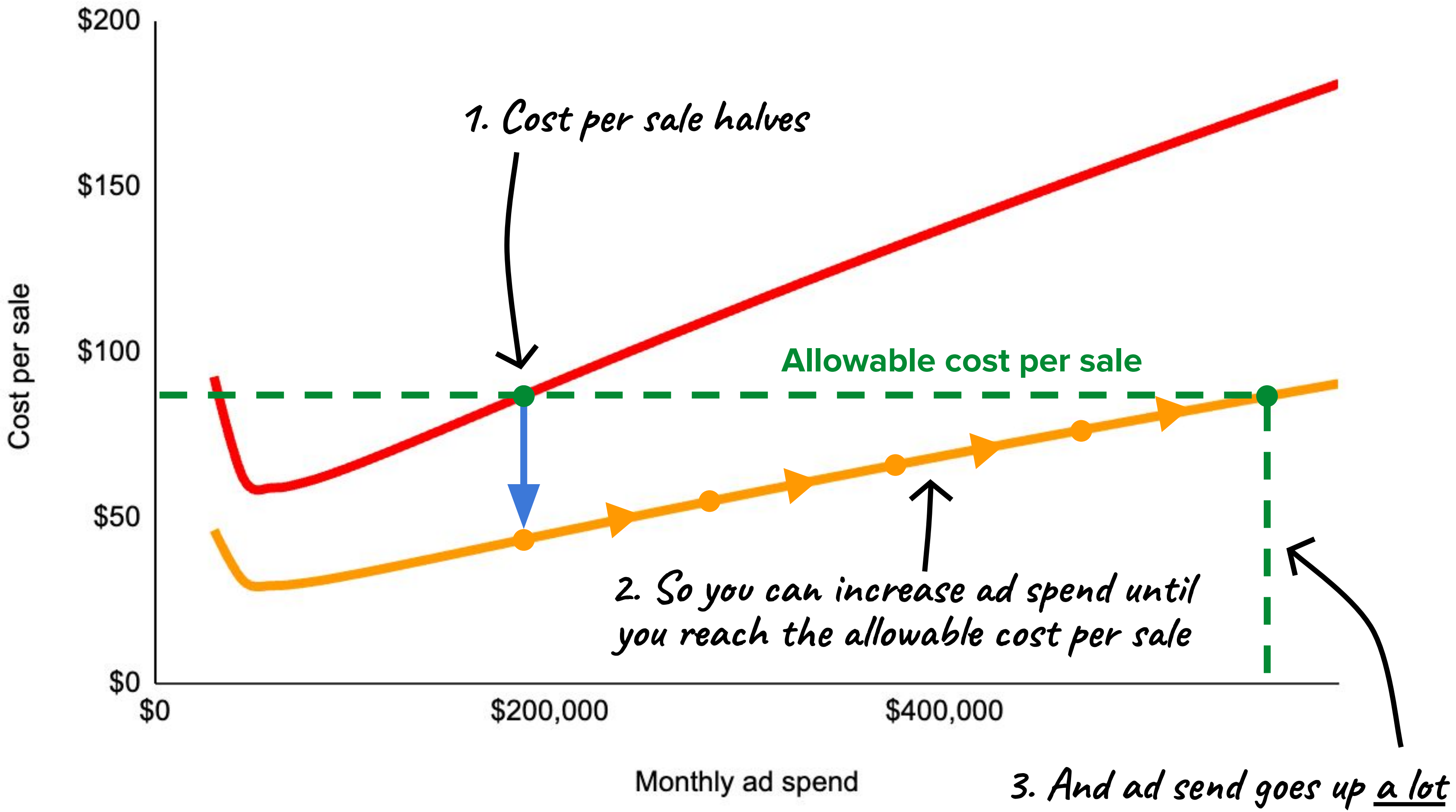
+1,400%

Traffic	Conversion rate	Orders	Average order value	Sales	Variable costs	Ad costs	Fixed costs	Profit
219,000	2.0%	4,380	150	657,000	197,100	195,000	18,525	246,375

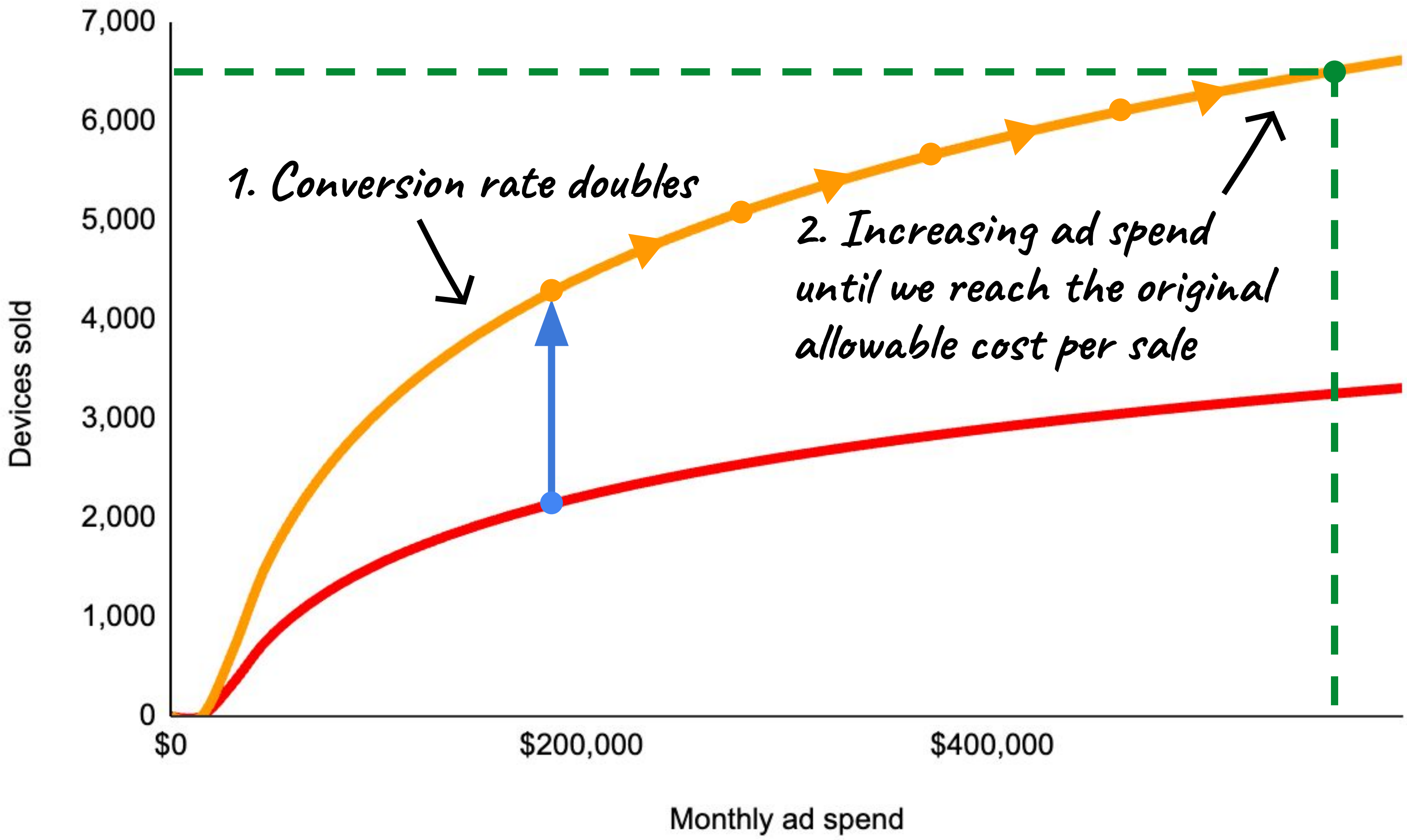
WhereWoof



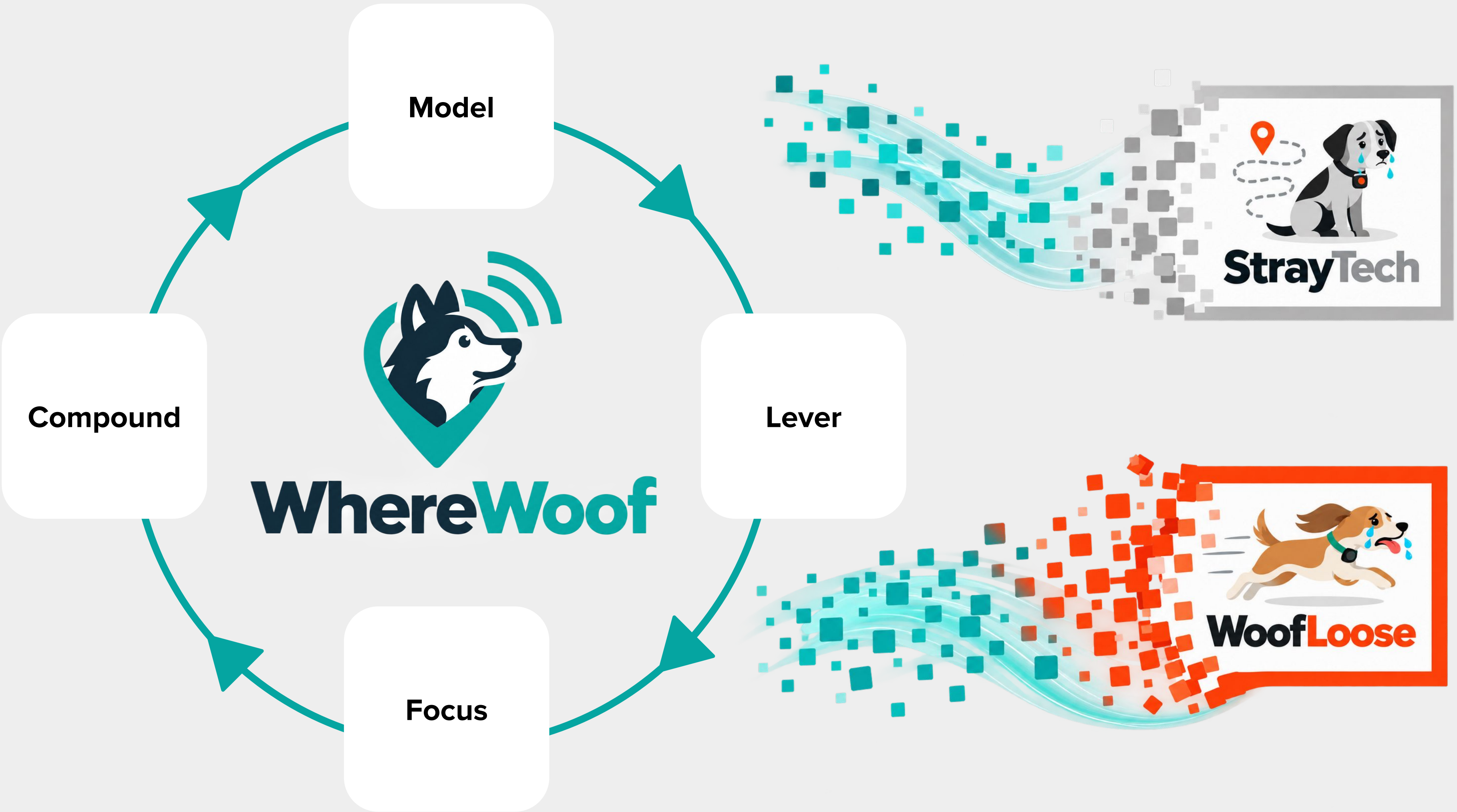
3. ...so sales double
(and ad spend stays the same)
2. ...we move onto a new curve...
1. Conversion rate doubles...
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
Devices sold
$0
$200,000
$400,000
Monthly ad spend



$200
$150
$100
$50
$0
Cost per sale
$0
$200,000
$400,000
Monthly ad spend
Allowable cost per sale
1. Cost per sale halves
2. So you can increase ad spend until you reach the allowable cost per sale
3. And ad send goes up a lot



7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
Devices sold
$0
$200,000
$400,000
Monthly ad spend
1. Conversion rate doubles
2. Increasing ad spend until we reach the original allowable cost per sale


Model
Lever
Focus
Compound
WhereWoof
StrayTech
WoofLoose

An operating system for growth

An operating system for growth

1. Model your business

An operating system for growth

1. Model your business

2. Find the biggest growth lever

An operating system for growth

1. Model your business
2. Find the biggest growth lever
3. Focus (and elevate)

An operating system for growth

1. Model your business
2. Find the biggest growth lever
3. Focus (and elevate)
4. Compound your gains

An operating system for growth

1. Model your business
2. Find the biggest growth lever
3. Focus (and elevate)
4. Compound your gains
5. Go to step 1

Growth is not a function of effort.

It is a function of leverage.

The Monday Morning Question

What’s the biggest constraint stopping us becoming the business we want to be?

Why aren’t we working on it?


B2B ordering built around your business
Punchout
EDI
ERP
cloudfy.
Customer Ordering App
Self-service portal
AI
Pocket Guide to Growth
cloudfy.
Born ready for B2B
cloudfy.com
Stand C50

For a free book, these slides, and more, scan this QR code.