

Budget Tension

Revenue Growth and Incremental Operating Profit

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Budget tensions is a natural law that impacts every business. Pressures often arise when organizations simultaneously try to accelerate revenue growth while investing initiatives to drive competitive position and increase incremental operating profit (IOP).

There is no straightforward approach to align both budget and investment priorities and avoid creating budget tension. Organizations must continue to invest in revenue growth and their competitive position while producing scalable IOP. As a result, companies must continuously optimize their business to create **re-investment dollars**.

Optimization of the business is not an easy process. Organizations must look critically and deeply to analyze all aspects of the company, especially in areas where spending is significant. Consider the following:

- Can you eliminate non-value-added procedures and reallocate those resources for revenue growth and investment into a competitive position?
- What activities can you postpone or substitute for creating internal investment tradeoffs?
- At scale, what should be the incremental operating profit margin on revenue growth?

Continuous **business and performance optimization** are a must for companies seeking a successful trifecta of growth, income, and competitive position. The fastest way to achieve this is for executives and stakeholders to determine and monitor their incremental operating profit (IOP): **revenue growth – expense growth = IOP**

Measuring IOP on revenue growth allows executives to comprehend and study the company's optimal performance. In a later stage business, expenses that grow faster than revenue can signal internal operating issues. In growth businesses, IOP can be used as a metric to prioritize internal investment.

For example, if a company generates revenue growth of \$10M and \$4M of IOP (40%), decisions can be made on how to allocate margin contribution for the growth and competitive position investment.

Continuous optimization, along with a formulaic IOP methodology allows companies a **disciplined approach** in determining a logical pathway **for investment and revenue growth initiatives**.



Calculating
IOP

Revenue Growth
— Expense Growth

Incremental
Operating Profit

