

# Revenue per Employee

Our Nation's Most  
Critical Number

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Increasing sales by 30% this year in a market where US competitors are going out of business due to overseas competition, Advanced Circuits ([www.4pcb.com](http://www.4pcb.com)), the \$36 million Denver based manufacturer of custom printed circuit boards, is showing all of us how to compete as mid-size firms. Ron Huston, recently named one of the Top 10 Bosses in the U.S. by *Fortune Small Business* magazine, is choosing to lead.

The election is over. There is only so much an administration can do to drive the economy. As business leaders, its time we stepped it up. We must drive productivity like we've never driven it before. We must educate our people because our school systems are failing. We must revamp our business models and create higher paying jobs because the era of building companies on the backs of low labor is over. As business leaders of growing firms we must not rest on our laurels and relish in our lifestyles. We must embrace the importance of our contribution to the welfare of everyone and recognize that it's in our own self interest to drive up productivity and wages! India and China are going after our highest paying jobs and we need to step it up – we must choose to lead.

Let me propose the most important Critical Number for this decade, the overarching metric that should drive our decisions as business leaders -- **Revenue per Employee** (specific benchmark targets listed below). Our challenge is to double this number in all our firms over the next seven to ten years and then share these productivity gains with our people through higher wages. It's a win/win/win for us, our people, and the planet.

## The Container Store

The Container Store, the privately held retailer out of Texas named one of the top places to work in the U.S. the past five years, has a simple productivity formula: one great employee replaces three good; pay them twice as much (\$18 per hour vs. the standard \$9 a typical retailer pays) while having a lower total wage cost; and provide each employee with 160 hours of training. In essence, less higher paid smart people rather than a bunch of low paid "dump" folks! It's your choice. And if you're having a tough time recruiting employees, consider that The Container Store had 4000 people apply for the 40 positions they needed when they opened their latest retail store in New York City. Kip Tindell and Garrett Boone, the co-founders, are choosing to lead!

All three of The Container Store's productivity principles work together. By building their business model from the very beginning to focus on garnering three times the

productivity from sales associates, they can afford to pay them considerably above industry norm. The extensive training, in turn, helps to drive the productivity necessary to make the economics work. And the higher wages help to attract a better initial employee and retain the highly productive employees they create through their educational programs.

## **Henry Ford**

In 1913 Henry Ford made a bold move and literally doubled the wages of his employees from \$2.50 to \$5 a day, after the huge success of the Model T doubled his profits. By sharing the wealth, Ford saw a tremendous surge in output and skyrocketing morale among Ford workers. In addition, the \$5 wage permitted his workers to buy cars for the first time, helping to fuel demand. And thousands of potential employees moved to Detroit in hopes of getting a job, giving him a high quality pool of workers from which to draw as sales of Model T's continued to soar as wages went up and prices declined. The circle of (business) life is complete!

Our own modern day Ford, Dell is still manufacturing in the U.S. and employing forty-six thousand increasingly better paid employees because they've focused on doubling revenue per employee this past decade – from less than \$500,000 to almost \$1 million per employee – and they are relentlessly continuing to drive productivity and creating higher paying jobs. Michael Dell and his firm continue to step it up!

However, does revenue per employee translate into bottom line performance? One recent study in the technology industry (software, hardware, IT services, etc) found that the top 10% of companies ranked by performance had roughly twice the revenues per employee as the average.

## **Benchmarking Your Industry**

Interestingly, smaller firms, which you would expect to be more productive than their larger competitors actually average just over \$100,000 per employee vs. almost \$300,000 for the Fortune 500. All those systems and processes count for something. If you're interested in benchmarking your industry, go to [www.hoovers.com](http://www.hoovers.com), the leading business database in the U.S., and search for larger companies in your industry. Click on the Fact Sheet that displays as an option and simply take revenues and divide by the number of employees.

To give you a feel for the range of productivity generated by leading companies, Wal-Mart averages \$170,000 revenue per employee; GE is standing at \$436,000; Microsoft is averaging \$646,000; and the oil companies are generating over \$2 million. Taking a look at the education industry in which I play, DeVry is sitting at \$157,000. If the private sector education companies are so unproductive, you can only imagine how inefficient our public education system has become.

What are you going to do to show leadership in 2005? How are you going to step it up and build a business model that lets you compete on a global scale, enhance the competitiveness of your employees, drive productivity in meaningful ways, add to the knowledge of your people, and create opportunities to drive up wages while improving your bottom line?

How are you going to increase Revenue per Employee in 2005 and beyond?