

Calculating Year-over-Year Growth

Crunching the Numbers

Business owners are constantly searching for ways to measure their business' performance, whether KPIs or financial metrics. The example of year-over-year growth (YoY), serves as an example of how to make KPIs and metrics work for your business. YoY is also a great metric to add to your financial toolkit to spot performance trends and develop action steps. What story is your business' numbers telling you? Information for a YoY analysis can help you decide if you should continue to invest in a particular product or service or if you should begin investing in new opportunities to sustain your business' growth.

WHAT IS YEAR-OVER-YEAR GROWTH?

YoY is a metric used to calculate a business' financial or revenue growth each year.

Since a business could be growing but not growing profitability, YoY sales growth is measured with other key performance indicators. For example, a business' net sales may see little growth, but the business could still be making more money due to increased profitability (for example, reducing expenses).

WHY IS IT IMPORTANT?

This is a key measurement when it comes to evaluating business performance. YoY allows you to measure the difference between revenue change—in other words, **how much net revenue your business made** versus your revenue change rate, or **the percentage change of revenue across a period of time.**

For example, a business might make \$500,000 more in net revenue this year. However, this might only be a 3 percent increase in revenue growth, compared to a 10 percent increase the previous year. Since this is a 7 percent decrease in YoY growth, this might indicate the current revenue stream is going flat. This means the business should consider investing in new products or services to continue growing revenue.

Additionally, YoY provides potential investors with a way of evaluating your company. If your business is consistently showing yearly increases, this could signal that your business is a good investment for them.

The Benefit to Your Business	The Benefit to Potential Investors
It provides you with more accurate information for monthly revenue growth, especially with products or services that are seasonal.	It provides them with an important measurement of how your business performs.
It paints a complete picture of whether your company is coming up short or is meeting or beating the previous year's performance.	It helps them see how your business' financial performance changes over time.
It's a reliable metric to track your business' progress.	It helps them determine if they should invest in your business.

CALCULATING YEAR-OVER-YEAR GROWTH

To calculate YoY, first take your current year's revenue and subtract the previous year's revenue. This gives you a total change in revenue. Then, take that amount and divide it by last year's total revenue. Take that sum and multiply it by 100 to get your YoY percentage.

For example, assume a business made \$200,000 in total revenue compared to making \$125,000 the previous year.

To find their YoY, take \$200,000 (current year's revenue) and subtract \$125,000 (previous year's revenue). This gives you a change in revenue of \$75,000.

$$(\$200,000 - \$125,000 = \$75,000)$$

Next, divide the change in revenue by the previous year's total revenue. This gives you 0.6.

$$(\$75,000 / \$125,000 = 0.6)$$

Finally, multiply 0.6 by 100 to get the YoY growth rate, which is 60 percent.

$$(100 \times .6 = 60\% \text{ YoY growth rate})$$

Check out this example, based on the entrepreneur quote above. It shows their YoY growth rate on **profit** and **price** for the past several years. It also includes actions steps they could take based on the data.

Year-over-Year Sales Growth				
Year	Sales	Change from Previous Year	Growth %	Notes & Action Step for This Fiscal Year
Y7	\$575,000	\$75,000	15%	Sales growth is low—10 percent new prospects vs. 20 percent in the past Action step: Sales team needs five new prospects by Monday.
Y6	\$500,000	\$100,000	25%	
Y5	\$400,000	\$150,000	60%	
Y4	\$250,000			

Year-over-Year Profit Growth				
Year	Profit	Change from Previous Year	Growth %	Notes & Action Step for This Fiscal Year
Y7	\$143,000	\$68,000	91%	Spike in profit: doubled sales to an existing client. <ul style="list-style-type: none"> • Action steps <ul style="list-style-type: none"> • Keep client HAPPY! • Assign client experience team. • Sales team: Bring new opportunities for existing client sales to Monday meeting.
Y6	\$75,000	\$15,000	25%	
Y5	\$60,000	\$10,000	20%	
Y4	\$50,000			

Use this worksheet to calculate your business' YoY growth.

Business Name: _____

Date Range: _____ to _____

STEP 1

Current Year's Revenue - Previous Year's Revenue = Difference in Revenue

[\$ _____] - [\$ _____] = \$ _____

STEP 2

Difference in Revenue / Previous Year's Revenue = Percent Change

[\$ _____] / [\$ _____] = _____

STEP 3

100 x percent change *(to give you your percentage)*

100 x [_____] = _____ year-over-year growth rate

Tip: To ensure your numbers are accurate, compare revenue from the same time period.

Conclusion:

Figuring out your year-over-year growth provides you with a high-level view of your business' financial performance. That information can help you make decisions that will maximize profits. Additionally, it will make your business attractive to potential investors who may be able to help you grow your business even more. As mentioned above, plug other KPIs and metrics into your analysis process to create data-based insights and action steps for your business.