A Model of Small Business Growth

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***Abstract* —** Small and medium enterprises (SMEs) play an important role in the world economy and its development. In particular, small and medium enterprises generate new jobs, support innovation and stimulation of private ownership and entrepreneurial skills. At the same time, the growth is an important and desirable stage for all for-profit organizations. However, current models of small business growth are rather theoretical and most of them are not suitable for a practical everyday use. In this paper, we present a model of small enterprise sales growth, which is based on two axes: the average bill and the frequency of visits. Consequently, we derive partial factors which affect this growth and propose tools to manage growth – the profitability matrix and segmentation matrix. The use of the model is demonstrated on the example of hairdressing salons, representing businesses providing services. The model may be used in managing small businesses as well as in the education of small business' owners.

***Keywords*—** Small and medium enterprises; Growth; Model; Education

I. Introduction

Small and medium enterprises (SMEs) have become a subject of interest of academics, researchers, and practitioners. The vast majority of businesses around the world are small and medium-sized enterprises, and these enterprises play a vital and important role in the world economy and its development.

The importance of small and medium enterprises lies in job creation, innovation and stimulation of private ownership and entrepreneurial skills. Moreover, small businesses are flexible and able to adapt quickly to a changing environment, which is becoming important in times of economic crises. Small and medium enterprises generally employ the majority of the active working population and sometimes, they are considered to be more important than large firms and corporations [20].

The definition of small business is not standardized and varies in different countries, as well as in individual sectors. In European countries, a small business is usually defined as a company that has less than fifty employees, while medium-sized enterprises are defined as companies with less than 250 employees. In the United States, a small enterprise is defined as an enterprise having less than 250 employees, while a medium-sized enterprise is defined as an enterprise with less than five hundred employees.

However, small businesses are often characterized, inter alia, by a chaotic and simple management and the omnipresence of the owner in all business processes, including HR management, marketing, financial management etc. For this reason, the education of small business owners significantly impacts their growth and competitiveness. At the same time, in a rapidly changing and challenging society, the need for entrepreneurship education and training has permanently increased [7]. However, the existing models of business growth are rather theoretical, and most of them are not suitable for a practical everyday use.

In this article, we present a model of sales growth, which can be used in managing a small business which sell products, goods or services, as well as in the education of owners of small businesses.

In the first part of the article, we deal with the existing models of business growth and its measurement. In the second part of the paper, we formally derive our model and present its two axes – the average bill and the frequency of visits. Even if the model is mathematically founded, the knowledge of mathematics is not necessary for its use in practice, which can be seen as one of its advantages. Subsequently, we propose two matrices: the profitability matrix which can be used in defining the most profitable products and services, and the segmentation matrix which can be used in line with the above-mentioned two axes of our model. In the third part of the article, we illustrate the use of the model on a practical example: the case of small hairdressing salon management.

II. Business Growth and its Measurement

Some theorists attempted to model the evolution of businesses using corporate life cycles.

The stage model or corporate life cycle theory originated from economic literature ([19] or [22]). This model describes the progression of a firm through multiple growth phases over time. For instance, Miller and Friesen [16] described five common stages of firm development: birth, growth, maturity, revival, and decline. However, the number of stages in corporate life cycle models is not standardized [12]; some theorist considers more or less than five stages of business life cycle.

The important thing to point out is that from the perspective

The authors would like to express their gratitude for the financial support of the University of Economics, Prague - the paper is one of the outcomes of the research project No. MF/13/2012 "Business Strategy on Globalized Markets".

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of corporate life cycle theories, the growth represents only one of the stages in the business life. Much attention has been devoted to this stage since a permanent growth is desirable and important for all for-profit organizations.

At this point, we can mention the widely-cited conceptual article of Greiner [8] who presumed that business growth consists of five phases: growth through creativity, growth through direction, growth through delegation, growth through coordination, and growth through collaboration.

Sometimes, economic theorists distinguish two kinds of business growth: organic growth and growth through mergers and acquisitions (inorganic growth). However, in the case of small and medium enterprises, almost all growth is supposed to be of organic nature [4]; in this article, we will deal with the organic growth only.

In this paper, we will concentrate on the growth stage of the corporate life cycle. Growth is a process function which happens over multiple time periods. A small firm growth can be represented by the change of some amount over time. The most frequently used measures of growth are probably profit, physical output in natural units, sales in monetary units and market share (see e.g. [5] or [26]). It is presumable that these measures are mutually interrelated.

However, the interdependence between these variables is not clear and the empirical results on this topic are inconsistent and mixed. For example, evolutionary models suppose that profitability is the main factor of firm growth (see for example [1] or [17]). Other authors found that the profitability had a positive impact on the growth rate, but growth rates had a negative impact on the current year's profitability [24].

Sometimes, profitability is even considered to be in a direct trade-off relationship with firm growth because profitability is concentrated on short-term results and postpones investments which are sources of growth, but their impact is not immediate [15].

We may also mention the term “sustainable growth rate” which is defined as the maximum yearly increase in sales which is consistent with the given conditions and limitation of the financial policy of the firm. Higgins [9] defines the optimal (sustainable) firm growth rate as

$$g = P \times R \times A \times T \qquad (1)$$

where P denotes the return on sales (profit margin) usually defines as the ratio of earnings over sales, R denotes the plowback ratio (1 – dividend / earnings per share), A denotes the asset turnover (sales / assets), and T denotes the equity multiplier (assets / equity). However, the application of this model is limited when the above-mentioned parameters are not stable (constant).

We will further consider that the sales growth of a firm is a sufficient measure of its growth, because sales growth can be considered to be a normal aspect of the phenomenal growth of small enterprises [16].

A. *Factors of Business Growth*

Empirical evidence shows that most small firms do not manage to grow; instead, they start and go out of the market small. This is perhaps due to the fact that these companies serve only local markets and therefore have no significant growth potential (see e.g. [21] or [23]).

The growth may be influenced by external and internal factors which may or may not be affected by the firm itself.

External factors of small firms growth often considered in the literature are dynamism, hostility and heterogeneity [6]. For example, firms operating in dynamic regions or industries are more likely to be growing (see e.g. [1]), but the growth is negatively affected by environmental hostility and the overall risk of the environment [26].

Internal factors are often controllable by managers. Among such factors, we can cite the firm size, ownership structure, location, management competences, human resource management, and so on. Sometimes, human capital, which is considered to be one of the most important internal factors influencing business growth, is emphasized [14].

We can also classify the factors influencing growth in small firms following [25] as factors related to the entrepreneur, factors related to the firm and factors related to the strategy.

These factors are summarized in Table I.

Table I. Factors influencing growth in small firms

Entrepreneur	**Firm**	**Strategy**
Motivation	Age	Workforce training
Unemployment	Sector	Management training
Education	Legal form	External equity
Management experience	Location	Technological sophistication
Number of founders	Size	Market positioning
Prior self-employment	Ownership	Market adjustments
Family history		Planning
Social marginality		New products
Functional skills		Management recruitment
Training		State support
Age		Customer concentration
Prior business failure		Competition
Prior sector experience		Information and advice
Prior firm size experience		Exporting
Gender		

Source: [25]

The effects of the factors described in the table may be unclear; for instance, the effect of size on the performance and growth of companies is not clear [18], while concerning ownership, it is considered that family-owned and family-managed businesses perform better than non-family businesses, but grow less [13].

However, only an appropriate combination of the above-mentioned factors can produce a rapid firm growth. Unfortunately, traditional models are too general and many of the above-mentioned factors may not be influenced by the firm itself. The impact of growth factors will vary across industries and sectors. Moreover, the usability of such theoretical models in practice by ordinary small business owners is debatable. A more specific and precise model is needed in order to be used in the everyday management of small firms.

III. A Model of a Small Firm Sales Growth

Let us define a company as an agent transforming a set of input factors into three classes of outputs: products, goods and services.

In the following text, three scalar values and six vectors are used (following the usual mathematical notation, bold letters represents vectors, i.e. ordered lists of elements):

- K denotes the number of products offered;
- L denotes the number of goods offered;
- M denotes the number of services offered;
- $\mathbf{k} = (k_1, k_2, \ldots, k_K)$ denotes the quantities of products offered;
- $\mathbf{l} = (l_1, l_2, \ldots, l_L)$ denotes the quantities of goods offered;
- $\mathbf{m} = (m_1, m_2, \ldots, m_M)$ denotes the quantities of services offered;
- $\mathbf{p} = (p_1, p_2, \ldots, p_K)$ denotes the prices of products offered;
- $\mathbf{q} = (q_1, q_2, \ldots, q_L)$ denotes the prices of goods offered;
- $\mathbf{r} = (r_1, r_2, \ldots, r_M)$ denotes the prices of services offered.

Then, the total sales S in period t can be specified as

$$S_t = \mathbf{kp} + \mathbf{lq} + \mathbf{mr} = \sum_{i=1}^{K} k_i p_i + \sum_{i=1}^{L} l_i q_i + \sum_{i=1}^{M} m_i r_i \quad (2)$$

As we already notes, growth happens over multiple periods. The growth rate g of the company can be represented by the change in sales volume S, where Δt represents the time interval.

$$g = \frac{dS}{dt} \approx \frac{\Delta S}{\Delta t} = \frac{\Delta\left(\sum_{i=1}^{K} k_i p_i + \sum_{i=1}^{L} l_i q_i + \sum_{i=1}^{M} m_i r\right)}{\Delta t} \quad (3)$$

The equation can be further decomposed into two terms. Let C denote the number of customers. Then the sales growth can be specified as

$$g = \frac{\Delta\left(\sum_{i=1}^{K} k_i p_i + \sum_{i=1}^{L} l_i q_i + \sum_{i=1}^{M} m_i r_i\right)}{\Delta t} = \frac{\Delta\left(\sum_{i=1}^{K} k_i p_i + \sum_{i=1}^{L} l_i q_i + \sum_{i=1}^{M} m_i r_i\right)}{\Delta C} \times \frac{\Delta C}{\Delta t} = B \times f \quad (4)$$

We will call the first term **average bill** (B) and the second term **frequency of visits** (f). The average bill can be rewritten as

$$B = \frac{\Delta \sum_{i=1}^{K} k_i p_i}{\Delta C} + \frac{\Delta \sum_{i=1}^{L} l_i q_i}{\Delta C} + \frac{\Delta \sum_{i=1}^{M} m_i r_i}{\Delta C} \quad (5)$$

The number of visiting customers C can be represented by the sum of existing customers E and new customers N. So the frequency of visits can be further rewritten as

$$f = \frac{\Delta C}{\Delta t} = \frac{\Delta(E+N)}{\Delta t} = \frac{\Delta E}{\Delta t} + \frac{\Delta N}{\Delta t} \quad (6)$$

And finally, the whole sales growth g can be specified as

$$g = \left(\frac{\Delta \sum_{i=1}^{K} k_i p_i}{\Delta C} + \frac{\Delta \sum_{i=1}^{L} l_i q_i}{\Delta C} + \frac{\Delta \sum_{i=1}^{M} m_i r_i}{\Delta C}\right) \times \left(\frac{\Delta E}{\Delta t} + \frac{\Delta N}{\Delta t}\right) \quad (7)$$

We have shown that sales growth can be represented by a product of two terms: the average bill and the frequency of customer visits.

Since we seek to maximize growth, we may do so by increasing the average bill or frequency of customer visits.

These two components and their properties vary by industry. Some goods are characterized by a low frequency of visits, but a high average bill (e.g. typically more expensive goods, such as car dealership or real estates), while other sectors are characterized by a high frequency of visits and a low average bill (typically more affordable goods, such as stationery or food stores).

The ways of increasing sales are graphically illustrated in Fig. 1.

In the following text, we will discuss the possibilities of increasing the average bill and the frequency of visits.

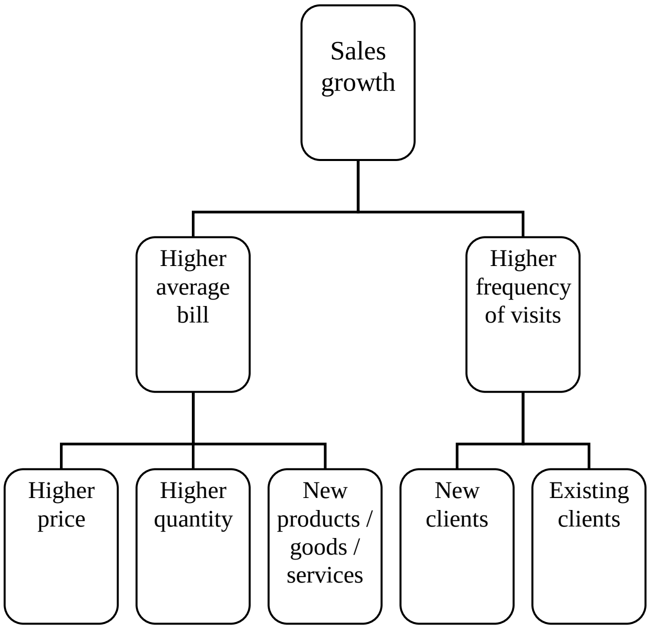

Fig. 1: Ways of increasing sales growth

A. *Increasing the Average Bill*

The average bill, i.e. the amount of sales over the number of customers, can be increased by

- increasing unit prices of products, goods or services (components of **p**, **q** or **r**);
- increasing quantities of existing products, goods or services (components of **k**, **l** or **m**);
- selling new products, goods or services (increasing K, L or M).

The first way of increasing the average bill is to increase unit prices of products, goods or services. The possibility of increasing the unit prices depends on the positioning of products, goods and services. These possibilities are limited with regard to demand curves and their elasticities. Products, goods and services with premium positioning (e.g. luxury goods such as sport or recreation) will have higher price levels and margins, but these will be offset by a lower number of units sold.

In contrast, more affordable products, goods and services will have lower profit margins, but will be bought by a considerably higher number of consumers.

The economic theory suggests that the quantity demanded, i.e. the volume of products, goods or services sold, is a function of the price. This fact has to be taken into account when adjusting prices.

The price elasticity of demand determines the effect of price changes on the total revenue. If the demand is inelastic and the price is increased, the total sales are growing (it is a case of necessary goods such as food or accommodation). If the demand is elastic and the price is increased, the total revenue declines (e.g., the aforementioned luxury goods). It is also necessary to take into account the fact that the price elasticity of demand is not constant, but it varies across different intervals of price changes. The price elasticity of demand also depends on brand loyalty; loyal customers are supposed to be less sensitive to price changes [11].

The second way of increasing the average bill is to offer and sell more products, goods or services per one customer. This may be achieved by selling more existing types of products, goods and services, or by offering and selling new types of products, goods and services.

In addition, it is necessary to take into account the fact that small businesses typically have a limited time capacity (we will deal more with this issue in section C of this chapter). Time capacity T of a small business can be defined as

$$T = N \times h \times P_L \tag{8}$$

where N denotes the number of workers, h is the number of working hours per worker and P_L denotes the average labor productivity in the company, which can be calculated as a percentage of useful working time (not all workers work a full day, for example, due to their education, pauses, etc.) This capacity should be utilized the most effectively possible.

The decision-making on the selection of products, goods or services, to which the company will concentrate, should be based on managerial decision-making tools such as cost-benefit analysis.

For businesses that are focused on service provision but are not able to offer more services, a good way of increasing the average bill is the sale of goods or products. In particular, this is advantageous because the sale of a product or good takes only a short time, but the provision of a service usually takes longer.

Similarly, small manufacturing businesses or commercial enterprises that are not able to increase their sale of products or goods may increase the average bill by offering additional services, such as transport of goods, etc.

B. *Increasing the Frequency of Visits*

The second term in the equation 6, the frequency of visits f, increases when:

- existing customers buy more frequently;
- new customers are acquired.

Making the existing customers buy more frequently is associated with offering a larger number of products, goods or services or introducing new products, goods, or services discussed in the previous section.

This can be supported by increasing the customer loyalty, which is associated with the soundness of the product in all its concepts, not just the core product, but related services like warranty etc.

The frequency of visits may be also supported by tools of sales promotion and loyalty programs. Loyalty programs directly motivate the customer to visit the company more frequently. Among other tools which positively affect the frequency of visits, we can cite the customer databases, CRM systems and other IT tools.

Acquiring new customers is linked to the marketing strategy of the company. Small businesses often focus on fragmented markets and have very limited budgets. For this reason, the marketing possibilities are limited both in terms of extent and activity.

As we already mentioned, small businesses are characterized by the omnipresence of the owner in all processes, including the marketing activities. The marketing of small business is often simple, chaotic, and very dependent on the actions of competitors [3]. The marketing concept is mainly focused on the production and price.

Cross-marketing activities, such as cooperation with other businesses in the industry which are focused on similar segments of clients, or participation on events targeted on them may also create additional demand for products and services.

Another possibility is to trailer random passers-by the outer premises of the company, such as windows, as well as by performing marketing activities in other places: nearby stores, shopping malls, etc.

C. Achieving Growth through Increasing Profitability: The Profitability Matrix

The second category of marketing tools deals with the second axis of increasing profitability. From the marketing and business point of view, it is important to understand which products or services are the most profitable for the company and therefore should be promoted via targeted campaigns. Among others, the following important notions must be taken into consideration in terms of profitability - operating margin from each product or service, the percentage on total turnover of the salon and time requirements for the product or service.

On Fig. 2, we propose a **profitability matrix** which is a suitable analytical tool to analyze these dimensions.

Fig. 2: Profitability matrix

The size of each bubble represents the percentage of each product/service on the total turnover and the position in the matrix quadrant classifies each product/service from the point of view of time requirement (high, low) and operating margin (high, low), when each quadrant is defined by average values for both criteria.

This matrix is based on the logic that with limited time capacities, companies should focus their energy on services that generate a high profit operating margin and do not require a high amount of time capacity, in order to cover high fixed costs. For example, a research of L´Oréal shows that only the average labor costs for hairdressing salons in Europe represent 45% of their total turnover. Fixed costs must be amortized and distributed across products/services as fixed costs cannot be directly associated to a particular product/service.

It is also important to understand that not every product or service has to be profitable. Certain services can be used as a tool to build consumer loyalty or to attract new clients. Others can represent a point of difference and specialty of a given company. In those cases, profitability is not the key. However, it is essential to clearly identify purpose of each service.

The importance of profitability analysis rises when the strategy of the company is based on low average prices, because when prices are low, the key objective is to generate high volume of services sold in order to be profitable. In such scenario, even a minor loss on one service multiplied by the number of visits and its repetition can generate a significant decrease of overall profits.

D. Two Axes of Client Segmentation: The Segmentation Matrix

In line with the two above-mentioned axes of our model – the average bill and the frequency of visits – we propose a useful tool for customer segmentation. An effective segmentation based on purchase behavior of consumers can help to effectively manage marketing and sales efforts and focus them on key issues of the company growth. The **segmentation matrix** we propose for such purposes is illustrated in Fig. 3.

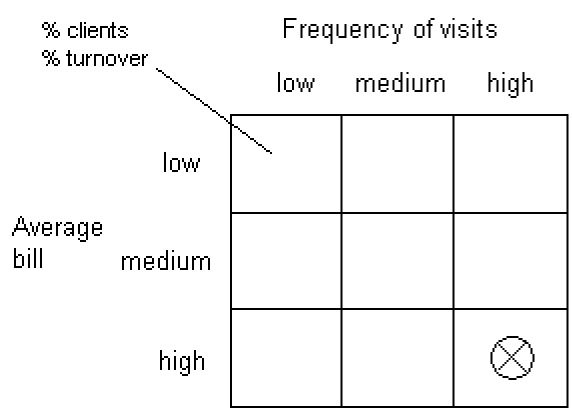

Fig. 3: Segmentation according to *B* and *f*

In order to manage our growth model, we will divide consumers into nine different categories based on their average bill (low, medium, high) and their frequency of visits (low, medium, high). The intervals of each category will depend on every specific case (based on the size of the firm, the industry it is operating in, the type of clientele, etc.).

Afterwards, we calculate the percentage of total clients that belong to each category and the percentage of total turnover generated by the company. This type of segmentation will allow us to identify key issues of the company – should it focus on increasing the average bill or does the low frequency of visits represent a more serious issue? Both axes require different marketing and sales tools and their management could be very costly. A more effective way is to clearly understand in which segment the clients belong and address them in order to increase the profitability of the company.

Obviously, the most profitable group of customers is located in the bottom-left corner of the matrix.

IV. The Use of the Model –Examples

The model we described in the previous sections can be used in managing sales growth of small businesses. In this section, we illustrate the use of our model by the case of hairdressing salon management.

A. Specifies of Hairdressing Salon Management

Most hairdressing salons belong to the small companies. The hairdressing industry is driven by the lifestyle, fashion trends and new technologies. A hairdressing salon is an integral part of a specific distribution channel, the intermediary between professional products manufacturers (e.g. L'Oréal, Schwarzkopf, or Procter&Gamble) and customers.

Professional products manufacturers sell their products to the salons for a tariff price. The products are subsequently sold to the customers for a suggested retail price, which is equal to the tariff price increased by a margin. The amount of margin varies across brands and their price positioning, but generally, the following rule applies: the higher the final price, the higher the hairdresser's margin on one product.

Hairdressing salons offer services (haircuts, coloring, styling, etc.) which are very specific and each service consists of the professional product and the knowledge and skills of the hairdresser. However, salons also offer goods – professional products for home use. In comparison with goods offered in retail stores, the prices in hairdressing salons are higher, which is justified by a higher technological level of the products and additional services, in particular consulting and care of the hairdresser.

In line with the proposed model, we will now analyze the possibilities of increasing sales growth of a luxurious hairdressing salon. The illustration is based on interviews with hairdressing salons' owners and training of hairdressers carried out in the Czech Republic and Slovakia between 2012-2013.

B. Increasing the Average Bill

When adjusting prices, it is necessary to take into account the luxurious nature of hairdressing services which results in a low price elasticity of demand. However, we can assume that another feature of this industry is a high income elasticity of demand [10], which means that when the income of households increases, the demand for hairdressing services increases more quickly than the demand for necessary goods. Another important aspect is the fact that customers are characterized by loyalty to a particular brand, which means they are less sensitive to price changes. The customers will appreciate a stable level of prices, so the possibilities of increasing prices are very limited.

However, we can propose several ways of offering new services, in particular when the salon is focused on premium brands of professional hair care. One of them is to make use of educational programs for hairdressers and to offer new fashionable services such as fashionable coloring or haircut. Then, a salon may clearly communicate to its clients that the best level of services is guaranteed due to ongoing education of its hairdressers and build its image on this fact. Further, the average bill may be increased by incorporating more hair care products (shampoos and conditioners) into classical services.

Another suitable way of increasing the average bill is to sell more goods (hair care products for home use). The margins of such sells are high and the time requirements are generally low. There are four key requirements that increase the probability of successful sales.

The first one is visibility of the offer in the salon, because clients will not buy what they cannot see. The second is the clarity of the offer, which helps hairdressers to communicate it to clients and clients will easily understand. The third is the time pressure; when an offer is only valid for certain amount of time, it increases the probability that clients will buy the offered products or services. The fourth key requirement is the motivation of hairdressers and engagement from the part of manager, which is often the crucial part as hairdressers consider themselves to be artists rather than sellers. They can be motivated by offering a share on profits on goods sold, or by various types of contests.

C. Increasing the Frequency of Visits

A higher frequency of visits can be achieved by offering more services. Further, it is possible to offer more additional services, such as light brightening, gloss increasing, etc. Other services, such as hair blowing, are very profitable and can be performed repeatedly, even on a weekly basis.

In our research among hairdressing salon owners, we have analyzed opinions on diverse marketing tools and their effectiveness in hairdressing industry with regard to the nature of business and very limited marketing budgets. Based on our interviews, we have divided marketing tools used by successful salons into two major categories as they will vary significantly in different situations.

Following the logic of our model, the first category has the objective to target new consumers and attract them to try out salon services, thus increasing the frequency of visits in salon by acquiring new consumers.

The most powerful, yet least expensive tool for this purpose is unquestionably the word-of-mouth, since it is the most reliable source of potential clients. Word-of-mouth can be spread also via email campaigns or Facebook activities, when salons motivate their clients to resend offers to their friends. Recommendation may be increased also by specialized offers for this purpose, such as "Come with your friend and you will both have 50% discount", etc. On the other hand, it is also important to consider that the word-of-mouth spreads very fast among consumers and too many unsatisfied consumers can have devastating effects on salon business.

To attract completely new consumers, salons must be visible in the places of interest of the target group, for example in nearby fitness centers, waiting rooms, etc. with propositions that create incentive to come and try out salon’s services. That requires a clear value proposition and an attractive try-out offer. For example beauty days, including celebrities or free service try-out, proposed to possible target group have based on the opinion of salon owners a good effect as they encourage potential clients to come.

A better visibility can be also achieved via targeted PR activities, such as beauty transformations in specialized fashion magazines, when hairdressers demonstrate their skills on selected readers of those magazines. Such transformations are very popular among consumers and cost practically no money as it is in the interest of fashion magazines to meet the needs of their readers.

Another possibility is to trailer random passers-by the outer premises of salons. The proximity of the workplace or living place is one of the key criteria involved in a woman’s’ choice of a salon.

According to a L´Oréal research, a pedestrian stays 2 to 7 seconds on average in front of a shop window. A salon window has therefore to be visible both from distance and from close range, during the day and at night, and clearly express the type of services sold. Also, the window has to be easy and quick to read for the random passers-by.

Further, the window should have one single message/theme in one period, which should be easy to understand, thus having the potential to call to action.

Since the fashion industry is linked to seasons such as Valentine´s day, summer, fall collections etc., salon windows must be up-to-date and regularly changed every month or 6 weeks.

Also, the window should clearly indicate the prices of services provided by the salon, the opening hours, the contact phone number, the name of the salon, etc. It has to be innovating, aesthetical and eye-catching. Last but not least, it has to be respectful of the environment.

Our research indicates that classical advertisement is too expensive for hairdressing salons and has little or no return on investment. Advertisement in specialized press and public appearances can have a certain effect, but due to limited resources of salons, it must be as much targeted as possible and a set of evaluating criteria should be put in place to measure the return on investment.

Salons may also use recommendations through sales support. Another way of promoting the salon is the use of windows and exterior of the salon. It is important to pay attention to the first impression upon entering the salon, which raises the need for education and development of communication and business skills of hairdressers and receptionists.

As we already mentioned, hairdressing salons may also interact with nearby stores, such as fashion stores. In this case we are talking about cross-marketing, which can be implemented by various methods, such as gift certificates, coupons, etc. Another option is to promote the salon in commercial and administrative centers in the vicinity of the salon. Some possible ways of increasing the frequency of visits can be graphically illustrated on Fig. 4.

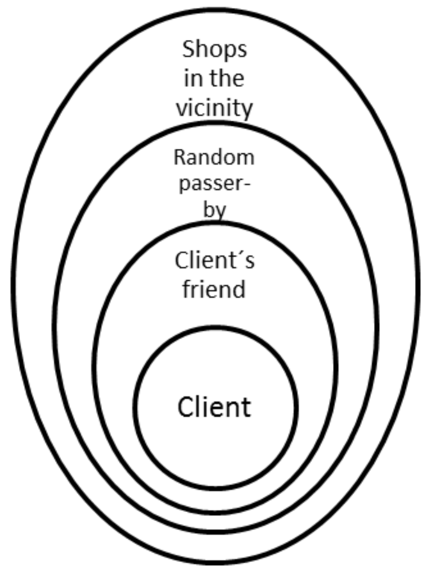

Fig. 4: Increasing the frequency of visits

D. *Using the Profitability Matrix*

We may also illustrate the use of the profitability matrix we proposed on Fig. 2. As we already noted, a second category of marketing tools deals with increasing profitability. The matrix takes into account two dimensions: time capacity and operating margin. Hairdressing services with high margins and low time requirements could be represented by hair cutting - this kind of service requires, in general, relatively low direct costs and can be done within one hour. In the Czech Republic, a typical example of services which have low time requirements and low operating margin is the blow-drying.

Certain services, such as highlights or hair extensions, are by nature highly time consuming. This type of analysis could however serve as a starting point for the analysis of pricing strategy for those services. If the operating margin of those services is below the average and their proportion on total turnover is significant, then their prices should be raised. .

V. Conclusion

In this paper, we suggested a model of sales growth which can be used in the management of small businesses. Even if the model is mathematically founded, the knowledge of mathematics is not necessary for its use in practice, which can be seen as one of its advantages.

The first part of the article was dedicated to the business growth and its measurement, and we also discussed the factors influencing growth in small firms. In the second part, we formalized our model in several equations, which resulted in the proposition that the sales growth of a small company can be decomposed into two terms: the average bill and the frequency of visits.

The average bill, i.e. the amount of money per customer, can be raised by increasing unit prices of products, goods or services, by increasing quantities of existing products, goods or services, and by selling new products, goods or services. On the other hand, the frequency of visits can be increased by making the existing customers buy more frequently and by acquiring new customers.

We also propose two matrices: the profitability matrix which can be used in defining the most profitable products and services, and the segmentation matrix which can be used, inter alia, in defining the most profitable group of customers.

In the final part, we demonstrated the use of our model in the case of hairdressing industry. The proposed methods are the result of interviews and round tables which have been carried out with hairdressing salon owners from Czech Republic and Slovakia between 2012-2013.

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