

Planning Growth Strategies for Your Small Business

By BNET Editorial

published on BNET.com 5/29/2007

The most successful approach to growth is an integrated one. The business owner and management team must examine all functions of the enterprise to ensure they are working together to reap the benefits of expansion. Suppose a successful new sales promotion strategy designed by the marketing department has attracted many new customers. In principle, this is fantastic news. But what will happen if the customer service department hasn't sufficiently expanded to deal with new accounts? Or, what if the shipping department cannot cope with the increased demand in orders? If either occurs, the new sales strategy might well have been wasted. *Planning* for growth is a primary management task. It enables you to understand the full impact of growth on your business, so that growth continues without major internal setbacks.

What You Need to Know

Can anyone control a growing business?

Many businesses that start small get by without a proper plan that identifies exactly whom they will serve, how and where they will focus their resources, and the financial goals they intend to achieve. However, as a company grows, it becomes more difficult to operate effectively without a solid and detailed plan. More options appear, and it becomes easy to get distracted. That's why it's a good idea to prepare a business plan or adapt the one you already have written. You need to set the future direction of your company and address the demands that invariably accompany growth. Consulting a business adviser could help greatly with this important task. An outsider's eyes can often spot opportunities and weaknesses that insiders may overlook.

How can I sustain growth?

If your business has tended to grow without a specific marketing focus, you may need to find out more about your market before you can be confident your growth will continue. If you're not sure where the increased customer demand is coming from, for instance, you cannot be certain that it will last.

To start, determine where your most promising markets are, then get a better picture of what customers want and how your business can continue to serve them. Look carefully at how your customer base is evolving as it grows. Segmentation may be slowly occurring which requires you to push your product in a certain direction and realign your sales organization.

Does growth involve any legal decisions?

If your business started as a sole proprietorship, or even as a partnership, you may be at a point where it's time to consider whether incorporating would be beneficial. Such a change would involve more paperwork and would certainly entail meeting more accounting and legal requirements, but it also would limit your personal financial liability (an incorporated business is considered a separate entity from its founders and operators). This is important to consider as revenues and earnings grow dramatically, and your business's financial requirements and risks begin to dwarf your personal resources. Incorporation helps to ensure that your own personal resources are protected.

With growth, staffing and contractual liabilities expand, too, as your company's activities increase. All these activities increases your potential exposure should something go wrong. In time, there will be even more at stake, so you need to protect yourself and your business by ascertaining it's always on sound legal footing. It's also in the best interests of your suppliers and your customers.

It's very important to research such a move thoroughly before making any major decisions and to get good professional advice, preferably from your financial advisors and an attorney experienced in business law.

What to Do

Consider the Best Way to Raise Financing

Growing a business without sufficient working capital can be difficult at best and can threaten the whole enterprise. Boosting production to meet increased demand or expanding service to more customers invariably means investing in capacity or capability long before that investment begins to generate a return. That means turning to sources of fresh dollars to help finance expansion. Just where to turn depends both on how much is needed and what it's needed for.

Bank loans are common, of course, while rates and terms may vary. Getting substantial amounts of investment dollars is usually straightforward but may well require relinquishing part of your ownership: either selling shares of the business outright or acquiring another partner. Involving venture capitalists is another option. So is an initial public offering of stock—an *IPO*. Each of these options comes with strings attached, however, and thus demands scrutiny and a great deal of thinking.

Hire Carefully

The shift from sole proprietor to partner or employer can be dramatic and difficult, for it represents many changes. However, if that business is to continue growing, it may be an essential shift.

For an entrepreneur accustomed to full control, it means learning to delegate tasks and relinquishing control of some operations. Such actions often are what create the capacity for fresh growth. It also means understanding and appreciating that success now depends on the collective efforts of many, not just on entrepreneurial motivation. It can be hard lesson to learn for some.

The importance of recruiting individuals with requisite skills who also are trustworthy, reliable, dedicated and motivated goes without saying—but it is *never* easy to do. In a tight labor market where skills are hard to find, it's that much more important and challenging. Of course, adding employees involves adding substantial costs, too—and not just a bigger payroll. There are both real and indirect recruiting costs, as well as training costs, pension contributions, more costly medical and insurance benefits, and income and FICA taxes. There are also more health and safety regulations to obey and more personal records to keep.

Being selective about whom you employ should be self-evident. In a firm's early growth years, especially, it is imperative that new hires be “good fits” not only with you but also with your other employees and with your company's atmosphere and structure. The consequences of poor hires and employee dissatisfaction usually show up in low quality products, low morale, an unpleasant workplace atmosphere, and myriad disruptions throughout the business day.

Consider subcontracting some tasks—“outsourcing” is the term still in vogue—if you are reluctant to hire more people directly. It can mean significant savings in medical and benefits costs, too—perhaps even avoiding them entirely. But be sure to first research carefully the firms you'll be relying on for workers; an irresponsible provider of labor can unleash havoc on your operation and wreck your reputation.

An alternative to directly boosting employment may be bringing in a partner. Before establishing any partnership, though, you will need to decide exactly how responsibilities will be split and how soon your new partner will have full business control—if that's part of the arrangement. It is also particularly important that you completely trust (and feel able to work with) any new partner.

Think About the Implications of Taking On Larger Premises

Many small firms initially operate out of small, low-cost premises—including the home of the owner. As the business expands, so will its need for more space. To get some idea of what to expect, consider how expensive it is just to move from one house to another. The principle is the same, it's just lots more expensive.

If a firm is to open additional branches or offices, considerable strategic planning is needed to ensure success, because the entire dynamics of the business are about to change, dramatically. You should be concerned about not only site selection, financing, and staffing—but also about the degree of independence each new site will have, communications links, and how information and dollars will flow.

Increase Efficiency

To deal with the challenges growth presents, it is essential to run a well-designed operation, one that can absorb more tasks as growth continues. If you need to increase capacity, make sure you allow plenty of time to test new systems. If your product line is expanding, be absolutely certain that new products or services work as well as promised. A badly designed new product can devastate an entire company, prompt defections and/or layoffs and cast doubt on its future.

It is all too easy for costs to get out of control, too. Make sure you invest in suitable cost control systems as you increase capacity; you may need outside help to do it, too. It's also a good time to ask: "Are we working to optimum efficiency?" There is no point expanding inefficient systems.

Consider the Benefits of Telecommuting

Telecommuting,—working from home— isn't for everyone. But it may be an appropriate way to deal with growth, at least at first. Having employees working from their homes reduces the pressure on space, decreases overheads, and keeps the office size to a minimum. This assumes that offsite employees can do the work you need done.

What to Avoid

You're Not Fully Committed

Decide once and for all if you really *are* committed to growing your business into a larger enterprise. What do you *really* want to do? Are you prepared to deal with the challenges of increased responsibility? There is little point in expanding your business if you know down deep that you prefer running a small operation. Don't fall into the "grass is greener" trap and think that growing the business won't take up that much of your time and energy. It will.

You Don't Have the Right Capabilities

Expanding the business will mean putting the right people and resources in place to help you and learning how to develop and manage a larger team—or hiring someone else to do it. Be brutally honest with yourself and conduct a "time audit," a detailed breakdown of how you spend your day. Look in the mirror and ask how much time you can spare from the day-to-day running of the business to manage growth. Think about the new systems you'll need, along with the new staff that surely

must be hired. Then, if you think you can incorporate them all into your day, you may need a reality check—or some courses on managing a larger business.

You Have Insufficient Finances

You must make sure that you fund all your growth plans. This is no time for skimping or short-changing. Again, be realistic and brutally honest. And, be prepared to limit your objectives or delay some expansion until you can safely commit to having the funding levels they require. Many businesses that are primed for growth can stall prematurely, of funds starvation. Make sure you can *afford to grow*.

Where to Learn More

Book:

Little, Steven. *The 7 Irrefutable Rules of Small Business Growth*. Wiley, 2005.

Web Site:

Seeds of Growth: Ideas To Help Small Business Grow:
www.seedsofgrowth.com/other-sources/small-business-ceo?page=6