

Avoiding the roadblocks to growth

By Steve Wilson



You survived the startup of your business. You have a good customer base and a dependable workforce. You're making a decent profit, and your debts are manageable. Congratulations! Life is good.

Now you have the itch to grow the business to the next level. You might want to open a new location, add a product line or target a new customer group. Over the years I've been actively involved in the startup and growth of a variety of businesses, from manufacturing to Internet service. Just when I think I've made every mistake there is, I make a new one. The biggest mistake I've made (several times) is to think that launching a growth phase is different from starting a new company. Because the existing business is running smoothly, I forget many of the survival tactics that I relied on to get the original business up and running.

1. Separate growth from existing business.

If at all possible, treat each business expansion, such as a new location or a new product line, as if it were a startup business. Create a separate profit center, and track all resources being invested in the new business. Your existing business becomes the "investor" in the growth business, just like the investors who provided the financing for your startup. Estimate the value of resources provided to the growth business and charge it to the profit center.

It's essential that you "true cost" the growth business to determine pricing, margins and performance. For example, if you need to expand your office for growth, have the new business pay the additional rent. Even if you fit the new business into your existing space, charge it a reasonable amount of your current rent. If your receptionist spends 25 percent of the time handling calls for the growth

business, charge a fourth of the salary and benefits. It isn't as difficult to configure as you might fear.

In my engineering service company, we operated somewhere between four and seven different revenue-generating profit centers and one corporate non-revenue-generating division. All revenue-generating profit centers, including new operations, had projected monthly sales and gross-margin targets. The entire monthly budget for the corporate administrative division was charged to the profit centers according to their gross margin

The biggest mistake I've made is to think that launching a growth phase is any different from starting a new company.

targets. If a new business unit was targeted to produce 5 percent of total company gross margin for the month, then that division was charged 5 percent of the budget for the administrative operation. Even when a division missed its target, it was still charged. It was a lesson from the startup days when I had to report to my investors on where every penny of their investment was being spent.

2. Have a plan. You need a complete business plan for the growth business, including costs, milestones, goals and contingencies. The plan will help you share your vision with everyone involved in the growth. It also serves to keep you focused, so you don't go off chasing rainbows every time you see a new opportunity. Before you ever launch the growth phase, you want to be very clear about the point where

you must execute contingency plans, or even pull the plug on the growth business before it jeopardizes the existing business.

I've seen businesses suffer serious financial losses, and even failure, when they pursued a growth opportunity well beyond their existing resources. During my career, I've launched about 20 startup or growth businesses. More than half did not work out and were quickly shut down. Sure, I lost money. However, by taking small losses, I was able to preserve resources for the next opportunity. There's an old saying among successful entrepreneurs: "If half the decisions you make don't turn out to be wrong decisions, you aren't taking enough risks." Don't be afraid to admit a mistake; it's just the stepping stone to the next success.

3. Manage your cash. You'll be surprised at how quickly you run out of cash when you're in a growth mode. This is especially true if your customers don't pay you immediately. About 10 years ago I partnered with one of my employees in a company providing direct dial Internet service to small Midwest communities. We started the business with plenty of cash and were operating at a profit in a very short time. We were adding new towns every few months. Customers paid for service at the beginning of the month. During all this time we were buying hardware, leasing telephone lines and adding technical support staff.

What we didn't expect was that 35 percent of the customers paid late, knowing that we weren't likely to immediately cut off the service. About 10 percent never paid and used the service for free until we did cut them off. We ran out of cash before the end of the first year and were buying new hardware on extended credit. At one point I had to put a freeze on all new equipment purchases until suppliers were paid

current. Sure, I could have borrowed more cash, or even leased some of the new equipment. I just didn't think we were doing an adequate job of managing our resources. Despite all the complaining about the spending freeze, our service did not decline, and we did not reduce the rate of new subscribers. Our technicians just got better at positioning the right hardware in the right locations to meet demand. It was another lesson I remember from the startup days: If you use what you have, you have everything you need.

4. Staff sparingly. Managing the proper staffing level is probably the most critical element of successful growth. It doesn't do you any good to spend money developing a new customer base if you can't service those customers effectively. Know exactly how long it takes to hire and train your primary service providers. If your trainers are also providers, you must allow for their reduced productivity during training periods. Recruit constantly to ensure you have a good pool of qualified employees.

However, don't hire until the last possible moment. You don't have the resources to overstaff like big companies do when they enter a growth phase. If you overstaff, productivity will decline and morale will suffer. At my operations we expect to see 85 percent productivity from our employees. During growth periods we increase that to 90 percent. We minimize administrative time and rely on overtime and paid meal periods to handle non-productive tasks. We learned that by periodically increasing our productivity expectations, combined with a good bonus program, our employees discovered new ways to streamline operations, reduce waste and improve customer service.

5. Delay upgrades to systems. Companies often upgrade business systems prior to launching a growth phase. Typically, the growth has to be postponed until the new systems are running smoothly. When our engineering service business was smaller, we estimated all of our projects using Excel spreadsheets. When we opened our third design center, we needed a more consistent, centralized computer-estimating system to support continued expansion. Opening the fourth design center was delayed for several months while we estimated every job with both the old and the new system to identify and correct all the discrepancies. In hindsight, we should have delayed the estimating system until the fourth design center was operational. If your current business systems can handle half of your planned growth, delay the upgrades until the new growth is established.

6. Standardize your equipment. Inventory your major equipment, and identify your best suppliers. Always buy the same brand, from the same supplier, even if it's more expensive than other brands. You'll save money in the long run on training, service, flexibility and adaptability. Southwest Airlines proved this by standardizing on one aircraft.

At my engineering service company, all of our office furniture was a modular design made by Steelcase, with 4-foot and 6-foot sound-absorbing wall panels. Only seven different component pieces were used to build a variety of office configurations in any open floor space. It was a traditional design, so we weren't concerned that the product line might be discontinued. Over a 5-year period we relocated, expanded and reconfigured the corporate office more than 14 times by recycling and adding components. Each time we rearranged the office, an employee's desk and file drawers moved, too, minimizing "down time." We even had a standard portable office configuration, complete with phones and computers, that could be moved by rental truck to any city and be operational in less than three days.

7. Minimize your inventory. Because cash is critical in the growth phase, you can't afford to tie up your available cash in increased inventory. Even if you have to forgo volume discounts or pay overnight shipping, it's better to keep the cash on hand for other needs. If your sales projections are wrong and you're stuck with excess inventory, you'll be lucky to break even when you liquidate the excess inventory. Your money is better spent on advertising and promotion.

This is also an opportunity to fine-tune your inventory management system for your existing business. Organize storage areas to create space for new products. Sell off excess inventory to generate additional cash for the growth business. You might be able to pay for initial inventories of new products from the sale of old, excess inventory. Identify the lead times, volume discounts and usage rates for your new products, and apply that knowledge to your existing product lines. You'll probably find you can improve your current product inventory turn rate by 10 to 15 percent. I remember a marketing campaign to launch a new service to our existing customers and prospects. We had two boxes of obsolete stationery taking up space in our overcrowded supply room. We used that old stationery for the announcement, freed up space in

the supply room and saved several hundred dollars in the process.

8. Involve everyone. Maintaining separate accounting for your business units does not mean you separate responsibility for the success of the growth business. Before launching any major growth phase, we shared the business plan with our employees. We listened to their suggestions and concerns, but they didn't get to vote. Based on the responses from employees, I'm sure the majority would oppose any change to the status quo. Growth is risky, and they preferred security. Knowing how they felt, we kept them constantly informed and involved about the progress of both the existing and the new business ventures. We shared financial information on all of the business units with everyone, and expected every employee to actively promote and support the newer growth business.

Growth was a key element in our company-wide bonus plan. If all of the business units, existing and new, met their growth targets, every employee's bonus was doubled. No exceptions. If one unit doesn't make the target, employees in the other units forfeit the extra bonus.

9. Celebrate victories. For each new venture, identify milestones that should occur about every eight weeks during the first year, such as the 100th new customer or weekly sales of \$10,000. Each time a milestone is achieved, celebrate the victory. These don't have to be elaborate celebrations; think banners, balloons, flowers and music. We liked our celebrations to be highly visible, so curious customers and neighbors would query employees about the reasons for celebrating. Sharing the victory with others went a long way to re-energizing everyone toward the next milestone.

When you're ready to launch your next growth phase, take some time to remember all the hard work, creativity, flexibility and excitement you experienced during the startup days of your business. The mistakes you made and the lessons you learned will help you avoid the roadblocks to new growth. ☺



Steve Wilson is president of Willow Creek Consultants and founder of Mid-States Technical, an Inc. 500 engineering services firm in the Midwest. A West Point graduate, he is the author of The Bucket Bonus Plan. You may reach him at 208.762.8638 or steve@willowcc.com. For further information, visit www.willowcc.com.