

Common Business Growth Mistakes

1. Growing pains

As with many things in life, size isn't everything. You may be better off, both financially and emotionally, staying as a small business.

Growing your business may make you wealthier and give you increased status (if that's what you're after). But there are plenty of difficulties involved in growing a business which should give you pause for thought:

- Increased borrowings - You'll probably need extra short-term funding to pay for more office-space, extra computers, more stock and so on.
- Increased staff - Your abilities as a manager of people will be severely stretched as you start to increase the number of staff. You will have to learn new skills of delegation, dispute resolution and motivation.
- Where's all my cash gone? - Growing businesses can often experience rapid increases in sales and profit, but show a reduction in cash generated. At it's worst, this reduction in cashflow can lead to insolvency and business failure.
- Extra stress - Aaarrggghh! There so much more to *do!* More personnel issues, more poorly paying customers, more crashing computers – they all add up to more stress.
- Oh yes – and more bureaucracy. As the business grows, so does the pile of paperwork and you may need to invest more of your scarce cash in bigger and better systems in order to deal with it.

If you relish the challenge of all of the above, then go for it. We're right behind you (literally if you want). But if you're wondering whether or not you can face it, don't worry. There's absolutely nothing wrong with continuing to be a successful *small* business.

2. Expanding your problems

Spending your way out of trouble is a very high risk strategy. Just ask any professional gambler.

Nonetheless, people often think that expansion will solve the problems of a business which is making a loss. For example, you might think that opening another branch or shop will increase your profitability because:

1. You'll achieve economies of scale by negotiating lower prices from your suppliers (you'll be buying twice as much stock, remember)
2. There'll be two shops paying for your salary.

For a start, you're unlikely to achieve significant economies of scale until you have your seventh or eighth shop. And if your business is working on such thin profit margins, you should do some more fundamental analysis first such as review your product mix and your pricing strategy.

Secondly, the fact that your salary will be paid by two shops may be an illusory benefit. If you can only spend half your time at each shop, perhaps you'll need to employ full-time managers to cover in your absence. If you don't, it's unlikely that the shops will operate at full efficiency.

It's best only to expand if you're already running a profitable business. If you're making a loss, focus your efforts on turning the business round first.

3. A wobbly bottom

It's a genuine business term, honestly, but if you're easily offended let's call it 'an insecure base for expansion'.

Don't think about expanding until your business systems are sound. If you're employing more than five people, make sure that you address the following before you contemplate growth:

- Human resource management - That's contracts of employment, job descriptions, induction procedures, training programmes, staff appraisals, employee records, an efficient PAYE system and a clear organisational structure. It may be appropriate to be approved by the Investors In People quality standard.
- Financial controls - You'll need an adequate book-keeping function leading to regular monthly management accounts. You should consider preparing annual budgets and monitoring the performance of the business against the pre-set targets.
- Operational controls - That is, IT systems, backup and support, quality control and regular supplier reviews.
- Marketing - How are you monitoring the success of different promotional methods? Do you have a detailed marketing plan for the year?
- Planning - Have you planned your expansion properly? You need to monitor the progress of these plans, and it might be useful to find a mentor or advisor to help you with your expansion.

You may think that you can expand without addressing the above, because you run your existing business that way. However, it isn't a coincidence that all big businesses have adequate systems and many small businesses don't. If you want to go from one to the other and stay there for any length of time, you'll have to accept this and embrace it.

4. Running out of money - over-trading

It's a cruel old world, but one of the most common causes of business failure actually occurs when you think you're doing brilliantly.

Rapidly growing businesses often experience substantial increases in sales and profit, but a *decrease* in cashflow. This decrease is known as over-trading and is caused by two things:

- a tendency to grant attractive credit terms to entice big new customers. This increase is not matched by an increase in credit terms from suppliers and can result in an acute short-term cashflow crisis, and
- the requirement to invest in new assets, such as premises, vehicles, machinery, computers and so on.

For example, a web design client of ours was approached by a large blue-chip client with a proposal that would double its annual turnover. The client intended to pay for most of the contract *after* completion. This would have caused critical cash-flow problems and the design company had to decline the proposition.

Another client - a tie wholesaler - secured a large order from a leading retailer. They had to take into account the time that would elapse between purchasing the cloth, collating other materials from different suppliers, paying another company to produce the ties and receiving payment for the finished goods. In this case, they used the services of a debt factoring company to help manage their cash-flow successfully, and avoid bankruptcy.

If you have adequate monthly management accounts, there are simple calculations you can do to monitor whether or not you are starting to experience liquidity problems caused by overtrading.

If you are having problems, then using the services of a debt factoring company is just one of the ways in which you can address them.

5. Diversifying into something you know nothing about

Jeff Wilson plays rugby for the most revered team in the world, the New Zealand All Blacks. Astonishingly, he has also played cricket for the New Zealand national side - no slouches either.

Very few of us mere mortal are so multi-talented. What makes a successful architect open up a restaurant, or the recruitment agency move into technical consultancy? And why to so many Brits with no previous experience want to move to the Mediterranean to work eighteen hours a day in their own bar? Is it because they want to make more money or simply that they're bored?

Big businesses diversify all the time. Richard Branson's Virgin group has established many unrelated businesses. Virgin has the benefit of a hugely strong brand, however, which gives each new venture a style already recognised and appreciated by customers.

As a small business, without a strong brand, you should think long and hard about diversifying into unknown territory.

If you're bored, and in need of a fresh challenge perhaps you should consider expanding your business into e-commerce, buying one of your competitors to increase economies of scale or, better still, take a sabbatical and go and write that novel.

6. Start doing the things you hate.

"But I *like* making clay pots and I *hate* managing people."

It's easy to forget that growing your business means spending more time managing than doing. Some people like this; others end up missing their craft and bemoaning the fact that they have to deal with all the hassles of running a larger business:

- Managing people
- Entertaining clients
- Schmoozing the bank manager
- Dealing with the auditors

If, like so many others, you find that managing finance and people has turned out not to be one of your greatest strengths, then you have the choice of either going back to being a smaller business or getting help and training in small business management.

Alternatively you can employ the services of a business mentor or non-executive director. They can help to brainstorm some of the strategic issues and allow you to spend a bit more of your time going back to doing the things that you enjoy

7. Where's the Exit Strategy

If you're planning on retiring in the next three to five years, you need to think about your exit strategy now.

This is a way of realising the value of your business in hard cash, either by selling it to a trade buyer or by floating it on a stock exchange such as the Alternative Investment Market. In fact, most small businesses exit by trade sale.

It could be that you, the individual, pretty much *is* the business: if you're in a service based industry with only a few employees, then business is down to you, your chargeable time and your contacts. In that case, the business isn't worth very much without you.

So if you're planning to sell the company in the foreseeable future, it's useful, if at all possible, to develop products, services and systems that are not heavily dependent on you as an individual, thus increasing the value of the business to potential purchasers.



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