

## Growing Pains for Small Businesses

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I own an Art Gallery, which has been in business for two years. The gallery has been successful, and I am currently at the juncture at which I must decide whether to continue to operate the gallery as a small business or whether I should write a business plan and attempt to get financial backing so that I could grow the business? How can a small-business owner determine when the time is right to seek funding?

The question this owner asks is one that virtually every entrepreneur asks, at some point. The implications are wide-ranging and likely to have long-term impact on the future of the business. There are several stages of business growth, and it sounds as though this business is between stages one, establishing the business, and two, structured for growth.

Every entrepreneur has to decide at some point whether to stay in stage one, where the business operates day-to-day, or grow the business to stage two, where there is more cash flow from sales and investments are made to build a more sustainable business. Most business owners end up staying in stage one for the life of the business, or try to make it to stage two and fall back into stage one, unable to overcome the challenges of building a sustainable, profitable, long term growth business. However, research also shows that building a stage-two

business has significantly greater rewards than the continued challenges of maintaining a stage one business.

This owner asks whether she should write a business plan. Whether you intend to seek financing, or go it alone, you would be well advised to put together at least a basic financial model of your business. If you don't have one, you're not alone. When I ask business owners if they have a budget, 99% respond, "no". And yet, a budget is the most basic of business tools. It tells you how much money you need to operate, and allows you to play "what if" under a variety of conditions. It's one of the first tools I help all of my clients build, because without it, a business owner is operating in the blind. Also, take time to put down on paper what growth means to you. It doesn't have to be complicated, or lengthy. However, you need to be clear how you are going to increase sales revenue, increase profitability, and lower overhead costs/sale. Remember, the name of the game for every business owner is making a profit.

### **How will you increase sales?**

This owner may want to focus on how to get more potential customers in the door and how to follow up with past customers to bring them back to look at new inventory. She might bring in items on consignment, so that she has more available to sell

without tying up funds until art sells.

### **How will you increase profitability?**

This owner can look at increasing prices, to make each sale more profitable. She might want to charge artists a handling fee for carrying their inventory. She might also want to look at how to get buyers to go from purchasing one item to purchasing a second item at the same time. She might suggest to a buyer a second painting, a sculpture to go with the painting, or give advice on how to decorate a room with complimentary art.

### **How will you reduce the overhead costs allocated to each sale?**

In this owner's case, I know she has a lovely gallery on the main road in Chappaqua. This should help increase sales, as it's a showcase for the art she displays. She can lower overhead per sale by treating the real estate as having 24-hour potential. Being open more hours, with more customers coming in the door would help increase sales and cash flow without increasing her cost for real estate.

This owner next needs to define the role of financing. In general, at this stage, financing is only appropriate if it directly translates into new business, additional revenue and more profit. I've seen a lot of business owners get into trouble because they borrowed money to cover a

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shortfall. Loans are not for covering payroll or operating expenses. You need to define how you will use financing to get more customers in the door and get them to buy more once they are in the door. Be careful if the answer is, "acquire more inventory". Often financing simply translates into more inventory that doesn't sell fast enough, and sits around costing money rather than producing revenue.

Finally, this owner needs to define exactly how much financing she will need, for how long, what it will cost her including interest, and how she will pay it back. She needs to know exactly how much more in sales she will need, at what profit margin, to be able to pay back the loan. She needs to know that this is realistic for her business, that she can hit that increase with limited risk. She is advised to expect that trial and error will result in exactly that, errors, and her plan has to have room to afford those errors.

The business has to stand on its own, which it sounds like your business is currently doing. Now define, in writing, how you will use additional funding to grow. Decide if it is worth the risk, given that you will have to pay back the loan, no matter what happens. Be realistic about your plan, most entrepreneurs are way too optimistic, and get themselves in trouble hoping for the best. Think about whether you can

accomplish the growth more creatively, by self funding, or by growing more slowly, or by partnering with someone else.

Looking for a good book? Try *Growing Pains: transitioning from an Entrepreneurship to a Professionally Managed Firm*, by Eric Flamholtz and Yvonne Randle. Flamholtz is a professor of entrepreneurship at UCLA, and has written a well thought out book on the challenges of building a sustainable business. It is a textbook; be prepared to do some serious reflection as you read.

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