

Growth and Development

02/14/05

The question this week comes to us from a profitable fundraiser for sports teams.

Here is the question: The leap from \$1 million in revenue to \$2 million is really a lot more complicated than just taking in twice as much money. As our revenues climb toward the \$2 million milestone, what kinds of challenges are we likely to confront in the areas of finance, administration and client management? After all, we can't just double our staff because sales are in the process of increasing. What can we do to make sure that this growth is a welcome development rather than the cause of a lot of chaos and lower margins?

First, let me congratulate this owner for pursuing a leap forward. Generally, companies that exceed the \$2 million revenue mark are significantly more stable, profitable and sustainable, as compared to companies with revenue below that mark. At \$2 million, there is a chunk of money left over after paying for basic infrastructure items like office space, owner income, and computer systems.

Owners of growing businesses have to realistically evaluate their reach. Hands-on perfectly describes most business owners, and you have to learn to let go, or the business stalls. At \$1 - \$2 million, the business probably still operates informally, with the

owner at the center, fully involved in every aspect. You have to learn to step back to decide what is most critical, where can you make the greatest contribution, and what parts of the business need you most. Finance, administration and client management are all critical success areas for growing businesses.

In finance, the owner can no longer handle every bill, invoice, purchase order and check. You have to insure customers are billed for every service, outstanding accounts receivable are fully collected, on time, with minimum write-offs for problem accounts. You have to teach employees to prevent errors, and keep a lid on spending. You have to monitor all financial aspects of the business without being directly involved, managing the business through flash reports that can identify when things are on or off track.

As the business grows, it gets easier and easier to leak revenue out through the cracks. Wonder what kind of leakage is acceptable? According to a Lucent white paper, "Best in Class" were companies with <1% revenue leakage, while "Below Average" companies had 3%-5% leakage and "Poor" performers had 5%-15% leakage. Think of it this way. 1% of \$2 million is \$20,000 lost, 5% leakage equates to \$100,000 lost, and 15% means \$300,000 goes out

the window. You have to instill in everyone the importance of controlling revenue leakage. You have to watch things like a hawk, from up above, where you have a good overview of everything that's going on, with the ability to dive in with pinpoint accuracy when something catches your eye.

Administration and operations require infrastructure, systems, checks and balances, clearly defined expectations, more formal communication, better detail management and follow up. Employees may not understand what we, as owners, take for granted. Insure that procedures are in place, defining how you want things done. Set aside more time for regular meetings. Meet in small groups, for limited time periods, with an agenda to help stay on point. At this stage, most owners should be in a series of internal meetings for 2 to 3 hours a day; "no man is an island" becomes the mantra for the business owner.

Customer management and expansion is the heart of the business. It can be challenging to grow customers, while introducing new players who are not as familiar with what customers expect. Easily accessible computer files documenting customer agreements and expectations are crucial. Assigning accounts to specific personnel, and setting up teams, are effective ways to

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ensure accountability and focus on customer needs. Refrain from giving away the store to get volume. You will have a very hard time winning a low-margin game, and shouldn't even try. You're better off figuring out how to niche the business into underserved areas where profits are better protected. At this stage in sales, the goal is to prove the company has what it takes to generate increasing amounts of sales in a sustainable market.

Growing the company has to be the owner's number one job, since owners are best positioned to decide on what to pursue or avoid. Grow by directing the resources of the business. Remember that the connection between hiring and growth in revenue is clear. Companies predicting workforce expansion are also predicting revenue growth of 1 ½ to 2 times greater than companies with stagnant workforces. A growing business needs more talent and expertise, which means the business gets bigger, becomes more complex. Compare this to an earlier stage of the business when growing meant selling the next customer and personally delivering the product or service. You now grow the business by hiring the best people you can find, putting them in place with the best systems you can design, and holding them accountable to the highest standards.

Looking for a good book? Try Robert Bacal, *Performance Management*, McGraw Hill, Briefcase Books. It's an easy to digest, practical guidebook on how to get top performance and value from each employee, through goals-focused performance planning, meetings and performance appraisals that foster a true commitment to success. Alternately, you can look at *The Knowledge Engine: How to Create Fast Cycles of Knowledge-to-Performance and Performance-to-Knowledge* by [Lloyd Baird](#) and [John C. Henderson](#). Built on five years of research and application in leading corporations, they explain the principles of leveraging knowledge assets, and give concrete examples and practical tools to get you on your way. Drive what is known quickly back into performance just-in-time.

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If you are a business owner and you have a question or would like to discuss some aspect of your business, call [1.877.238.3535](tel:18772383535) or send an email to AskAndi@StrategyLeaders.com.