

## Building a Plan to Take On Only What You Can Handle

03/28/05

This week's question comes from an owner who bought his business 6 years ago, when the company's main service was engraving. Over time, the company added glass etching, purchased an embroidery machine and added a laser division. Now they are trying to define its next steps.

Choices this owner has identified include:

- Add new services, or make existing services more profitable?
- Market to new customers, or expand sales to existing customers?
- Keep growing, or stop and make the business easier to run at its current size?
- Relocate the business, and if so, rent or buy?

Expanding a business is costly and risk is a given. I recommend that you build a growth model and play out your options on paper, to see which ones are least risky and most profitable. Think selfishly. Decide what's best for you, personally, in terms of time, effort, risk, and your end game.

Choosing to offer a high margin service to a high-margin customer is a home run. Focus on profit, and cash flow, by developing a matrix of new and old customers, new and old products. Emphasize two quadrants: old products/new customers and new products/old customers. That's where the

greatest profit usually resides. Do 5% - 10% in the new products/new customers quadrant, knowing it is probably the riskiest because everything is a trial. Old products/old customers should also be a small percentage. As maturity sets in with this group, profit dwindles. Balance existing customers with new customers, to keep the business fresh.

5% annual growth won't keep up with inflation.

50% annual growth can stress the business everywhere, and probably is not sustainable. Want to double the business? 15% annual, sustained growth for 5 years will get the job done; so will 20% for 4 years. It may sound a lot less exciting than bragging you've leaped forward by 50%, or 150% in one year, but boring can be good for business when it turns into positive cash flow and profits year after year. Lower annual growth targets and better cash flow give you the time you need to perfect profitability.

You need to sell, but sell well – get good customers who buy your best items, and pay your prices willingly and quickly – now and in the future. Unfortunately, too many entrepreneurs get caught up in the adrenaline rush of opportunity, and forget to say, "Enough!" Build a plan to take on what you can handle, and be strong enough to turn down or delay the excess. Remember, the end game is sustainable growth and profit.

Test high economy and low economy solutions, to strengthen your business no matter what happens. Make sure you're doing something different from your competitors, so you can charge a premium. Look for reasonably priced technology solutions to reduce overall production costs and eliminate production glitches. Focus on short development and product cycles, to serve a marketplace that demands continual change. Be clear about marketing – who does it, at what cost, and how long it will take to have an impact. Fit all of the above into your overall growth targets.

Cash flow is paramount. Protect cash flow by limiting cash outlays. When experimenting with something new, it is usually safer to do leases and outsourcing, so you can quickly ramp up, or down. Until the product takes off, you want to regulate cash flow, by balancing expenses with revenue growth.

Once this owner has growth targets, he can plan people, space and equipment. He needs to lay out what it will take to sell, produce, deliver, bill and collect the new things he plans to offer. This will help him decide if, and when, to relocate. This owner's business is located in a midsize building. He's comparing buying a small building next door to moving the entire business into a larger location. Generally, producing all services under one roof is less costly than operating

## Building a Plan to Take On Only What You Can Handle

03/28/05

in multiple locations, and simpler and easier for customer service.

This owner needs to shop around for real estate to find the best price and layout. Check for the next tax increase, and ask for recent electric and heating bills, as those may be the biggest on-going variables. Estimate costs for acquisition, build-out, relocation, business interruption, and be sure to have enough money to do the move comfortably.

Owning real estate can be an asset for both the business and the owner, assuming he can afford the cash flow needed to get into, and stay in a building. Ownership increases control and reduces interruptions. It does take several years to recover an investment in new space and equipment. This owner will have to define the amount of time he is willing to put into the business, to recover the profits that should come out of an expansion move.

When borrowing to fuel growth, compare interest costs to profit. Self fund, if you have the money, but don't risk your last dime on an investment opportunity. Never borrow defensively – to keep from falling in a hole. As owner, your name is on the bank loan. If all your assets are tied up in the company, and it hits a downturn, you just got hit twice – loss of earnings and a call from the bank.

This owner also needs to be sure he has good tracking and financial tools in place. Forget trusting that things will work out. You need tools to make decisions, so you take action on the merits, with confidence that you have a sound plan. You need to know where you are, daily, weekly, monthly, quarterly, annually, and match that to where you expected to be. You can fix problems early, so long as you can see them. You also need to know when things are on track enough to keep going.

As you grow, if you find yourself saying, "there's too much on my shoulders", take that as a warning sign. You need to strengthen the business by getting more people taking the lead. If you don't know how to do that, find someone to teach you. Strong management will make your business hum.

Looking for a good book? Try: *Beans: Four Principles for Running a Business in Good Times and Bad*, by Leslie Yerkes, Charles Decker and Bob Nelson. It is the fictionalized story of an entrepreneurial owner, who got re-energized by focusing on what was important to himself and his business. He decided to stay small, built a good product and amazing customer loyalty, honored his employees, and prospered in the process.

*Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at [www.AskAndiBlog.com](http://www.AskAndiBlog.com). Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.*

*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](mailto:AskAndi@StrategyLeaders.com).*