

Growing a Business is a Balancing Act

08/27/07

How do we make good financial choices? Like most owners I talk to, we don't have enough money to do everything we want to do. The business is doing okay, although it's had some ups and downs. We'd like to see it grow and become more profitable. Any suggestions you have would be appreciated.

Growing a business is a balancing act. Two critical tasks for every owner to master are choosing what to spend money on, and constantly analyzing whether you're getting the most bang for your buck. Focusing on growth is usually one of the best things you can do, as long as it has a good enough margin. Make a list of the spending options, and payoffs, to help prioritize spending. Analyze where money is currently being spent. Know what growth targets you have to hit to make things easier. And identify opportunities to spread out cash flow as you weather growth spurts. Let's take a look at these recommendations in a little more detail.

Let's start with margin. It is critical that you know you're making enough money. You have to cover your direct costs – the cost of delivering the work, as well as your indirect costs – the overhead of the business. Additionally, you need to have money left over to put into reserve funds, pay bonuses, and develop the business.

Develop a model you can rely on to price out existing and new business opportunities. Make sure that model accounts for all direct, indirect, reserve, bonus and development costs. If it does, that's great. If the work you have on hand, or the work you're proposing to take on, doesn't allow you to cover all the bases, go back to the client for more money, or figure out how to operate more efficiently. Don't keep going forward, until you solve the shortfall.

One of the biggest challenges for any business is weathering growth spurts. As the business expands, cash flow usually dries up. You usually have to lay out cash for additional resources - people, materials and development - well before the client pays you for everything you're going to deliver. This can lead to a cycle of using cash from the last client to fund the ramp up of the next client. Instead of stretching for maximum growth – and maximum cash flow crunch, my suggestion is to slow it down a bit. Go for a slower growth rate initially, in order to have a more sustained, profitable growth curve down the road.

Figuring out what your company needs to do in marketing is crucial, if your business is going to grow. Many owners begin with high hopes, and end with disappointing results. Test initiatives, starting with low hanging fruit and low cost / low

risk options. Find out what works, then expand on it, rather than committing a large amount of funds only to find out later that plans didn't pan out as expected. Build on successes, rather than taking large leaps of faith.

Ever hear of the owner who threw everything they had into hiring a "great" sales person who was going to "save the business" or "significantly drive the business forward" by bringing in a "ton" of new opportunities? 6 months to a year down the road, the owner is ready to throw that sales person out on the street, complaining that the sales person didn't produce. Be careful not to get caught in the trap of committing all of your growth funds to a plan that relies on one person. Figure out how to commit more internal resources to sales. Limit the funds committed in advance of results, in order to safely ramp up.

Make a list of all of the things you want to spend money on. Sort the list into 4 categories: 1 = helps get new profitable clients, 2 = helps improve the business for the future, 3 = helps keep existing good clients, 4 = helps sustain the business as is. Generally, as you ramp up, you want to commit $\frac{3}{4}$ of your funds to categories 1 and 2, getting new clients and improving the business. Once you've gotten over your first growth hurdle, you'll have additional cash flow to put towards 3 and 4.



Trusted Advisor to Business Owners

Growing a Business is a Balancing Act

08/27/07

Look for opportunity to spread out cash flow. Negotiate with vendors for longer payment terms. If you need new equipment, lease it, rather than tying up cash flow when you're going to need it most.

As you grow, analyze where you're currently spending and where you're getting results. Identify opportunities to cut back, or shift around resources. Don't start spending too soon on "nice to do's" once business starts rolling in. Stay on budget, and put money into savings, growing sales and paying down debt.

Looking for a good book? Try *Grow Your Business* by Mark Henricks.

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. 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.

O: 914-238-3500. • F: 914-238-2529
AskAndi@StrategyLeaders.com • www.StrategyLeaders.com
Strategy Leaders, Inc. • 5 Crossways, Chappaqua, NY 10514

