Manage business growth

Growth is fine as long as it is controlled and properly managed. Fast growth can be sustained, but it is tricky because it involves cash, people and premises. It is therefore necessary to plan well in advance and cover all the checklists of items before running with an expansion program.

Some of the issues that will come up include such things as:

- **People** - you will need people who are experienced and who are able to make decisions without having their hands held. You also need people who can picture the vision of the growth and are excited about being part of it.
- **Managers** - will there be extra weight on current managers as the business grows? It may be necessary to re-look at what the business has in the way of good management. As your managers are going to be critical in the success or otherwise of expanding the business, these are the people that need to not only be motivated, but to be properly recompensed. If managers are unable to cope with their present workload, then obviously any expansion is going to increase that workload to the extent where either the job will not be well performed or the manager will leave. There may be a need to train new staff to assume some of the roles that are brought about by the growth program that is in place.
- **Staff** - growth will obviously mean extra staff and so the process of recruitment and training is very important. The trouble is, in many cases the business owner or the managers are already up to their neck in keeping the current business running successfully and have little time for extra training. A conscious effort must be made to hire experienced staff who are able to be self-motivated and this will require time from existing business owners otherwise the growth program will be affected.

Limitations to growth

Some of the limitations to growth include the following:

- Lack of time to look for new work, train staff, improve working methods and organise the business.
- Lack of money for building up stocks, buying new equipment and promoting the business.
- Lack of space for running the business, holding stocks, installing equipment and trying out new developments.
- Lack of trained staff.
- Over-dependence on a single customer.
- The ability of the owner and/or staff to adjust to changing circumstances.
- Lack of vision – leadership qualities.

These difficulties sometimes arise through a wrong balance of resources between those used for the normal operation of the business and those used for the ongoing development of the business.

Operation means those activities that are required for the day to day running, for example, getting supplies for filling orders, managing staff and routine administration.

Development means those activities that are designed to increase business in the future such as developing new products, finding new customers, training staff and improving working methods, and involve leadership qualities. "Operation" is mainly concerned with today while "development" is concerned with tomorrow.

The thing is, if you don’t pay enough attention today, then there won’t be a tomorrow and if you don’t pay enough attention to tomorrow you will fail to adapt as circumstances change and one day there won’t be a "today". Some of these difficulties also arise through the penalties of success, which can be put down as overwork and overtrading.

Overwork and overtrading

Overwork is a signal that time resources are under stress. Some of us can work much longer than others, but we all have a limit and once that limit is exceeded certain symptoms will start to appear. The individual has more difficulty in dealing with other people and becomes more impulsive, finding it harder to think clearly. They make more wrong decisions and refuse to make other decisions when they should. They can get "touchy" and if anyone points out their mistakes or presses them for a decision the stress shows, to the extent where at the end of it all, there is possibly a breakdown.

Overtrading is a signal that cash resources may be under strain. Most businesses follow the basic cash flow cycle from money paid for supplies to money paid to staff, to convert the supplies into a product and to money received when the product is finally sold. There are time lags at each stage and working capital is needed to cope with these lags and any fluctuations in them. So when a business is expanding, the amount paid out at each stage is much higher than in the previous stage. There is usually a delay before the higher income is received at the final stage, so if the working capital is not increased to cover that slack, then problems will arise.

In the worst-case scenario, the business can go "bust" through the lack of cash even though on paper it is making a profit. So this need to avoid overwork and over trading can set limits to the rate of growth of the business.

Growing pains

Every business wants to grow. What happens is, the business starts to flourish, the cash starts to flow in and the profits appear to be increasing. People start saying how great the business is and it just appears that the owner can’t put a foot wrong and that things are going extraordinarily well without any threat to the success in the near future. This is a reasonably common situation with many businesses, so the temptation is to keep doing what you’ve been doing in the past.

The problem arises when the business continues to aggressively expand at a very fast pace without monitoring the progress and following controls that should have been put in place in the first place.

Any decision to expand the business should be taken very carefully because there is a fine line between growth contributing to success and growth resulting in failure. With every growth there will be growing pains and these should be recognised and correctly managed.

Some of the questions that will need to be asked to determine whether your business success will continue if you are expanding include the following:

- Is it possible to replicate the success if you conduct new business in another area? There is no guarantee that just because success has been achieved in one locality that it will continue in another locality.
- Is there much change necessary to stocks and services to accommodate the expansion?
- Is the success in another area dependent on the demographics of the area and the type of customers and customer behaviour in that area?
- Will the business be able to afford the expansion or will it drain from resources which are needed elsewhere?
- What will happen with staffing requirements? By expanding, will this thin out current staff and what new staff will be necessary to be trained to continue the success of the business.

All these things must be considered before expanding the business because growth is fine as long as you have it under control.

The signs of "too rapid" growth

In all the excitement of growth and success, it is very easy to miss the fact that the business may be growing faster than what present resources can cope with. Growth cannot be allowed to run uncontrolled. It is far better to keep a business running on a conservative basis that has proven to be successful than to expand without running along guidelines that have been preset under predetermined targets and expansion policies.

Here are some of the signs that should be looked at by managers because they point to the fact that perhaps the business could be growing faster than what it should:

- The premises become too small and there is little space for everyone to operate efficiently.
- Staff appears to be worn out and morale is low with productivity decreasing sharply. These are telltale signs that perhaps your staff are not able to cope with the extra workload and there may be a necessity to look at additional help.
- The business starts to take on more and more larger contracts because it finds itself in a situation where it needs to continue generating high income to fund the expansion.
- The business always seems to be operating on the basis of running from one crisis to another. When the business is under management by crisis, it is time that things are looked at before they get any worse.
- Where you find that staff is increasing, but most are on a temporary basis and not permanent.
- When the owners find that unfamiliar staff are working in the business and they have not had time to meet and assess their personal needs and whether they are enjoying the work that they do.
- Where you find that there is a constant shortage of cash in the bank to meet costs. This could mean that the working capital resources are being overstretched because of the expansion program.
- Where there appears to be a far greater number of complaints coming from customers either as to the quality of the product or poor service. This can easily show that the resources have been well and truly extended beyond what the business can cope with.

The lesson? Grow slowly

Growing a business too quickly is a very dangerous situation. If the business lacks the capital, manpower, time and other resources to deliver good quality products on time and to service the customer requirements properly, then there will be a loss of reputation to the business. The business must put in measures to prevent rapid growth and turn that more into planned growth.

A good manager will know that it is vital for the company to be built on a steady and strong foundation at all times. Even though management may be tempted to grow the business because the demand is out there for the products, it must be remembered that the business needs to put money back into its operations to fund this expansion. It is good to get a high turnover, which is growing, at speed, but uncontrolled growth can set the company into dire straits.

The lesson to be learned is that growth is fine as long as it is done sensibly and slowly. In that way the extra resources that are needed, the monitoring of every area, the continuing service to customers and the extra space needed to accommodate good staff can be sorted out quite easily without a lot of stress to those involved. It is far better not to take anything on, than to take it on and find that you cannot finish it off well.

Further information

The following fact sheets provide further information on these issues:

- Business management tips
- Business planning
- Business process improvement (BPI)
- Change management
- Control your expansion
- Financing your small business
- Increase your customer base
- Leadership – introduction
- Location and premises
- Staff training