

Business Growth

Why grow?

This is the fundamental question. For listed companies it's a forced necessity. If a listed company is generating large profits, then returning the bulk of this to shareholders it is seen as a poor reflection on management. Why? Because it shows that they can't find any means of using the money to invest and grow the business for even greater returns and capital growth. This can reflect negatively on the share price and in turn on the executive of the business.

For privately owned businesses, the issue is different. There is no forced necessity as you are the shareholders and the executive. However, the common imperative for both listed and privately owned businesses is – what's the end game? This is the critical question for all businesses yet is rarely if ever asked.

The end game isn't to be confused with the purpose or objective of the business, which is to make a profit which equals a high level of return on time and resources. The end game is about what you want to do with your business long term. For privately owned businesses this is very much about:

1. How big can I make this thing?
2. How big do I want to make this thing?
3. Who around me is capable to help take it to the next level?
4. Who around me wants to help and is highly committed?
5. When do I want to start slowing down?
6. Who in the family can succeed me?
7. Who in the family wants to succeed me?
8. Do I need to bring in others to make the business less dependent on me?
9. Given all of the above, when I retire am I looking to hand the business on, sell it, float it or close it?

Privately owned family businesses can be very profitable, but like kids sparklers on cracker night, they tend to burn very intensely and then they're gone. When the sparkler starts to fade it is usually too late to find new energy to keep it going. The idea is to know how you're going to keep it going and when you're going to hand it over before you even light it.

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What is the opportunity?

Growth is a dangerous road. It promises so much, but the price you end up paying often falls way short of the returns. Why? Because growth often happens by default.

When you start a small service based business the early customers are usually those from your existing networks. You know them and the ones you should do business with and the ones to avoid. If you provide a good service your business grows. A growing business has a growing cost base and more fixed costs that have to be provided for each month. Suddenly you've got this hungry beast that chews up money every month and demands to be fed no matter how much work is available.

Now you start doing an increasing amount of business with people who are at the perimeters of your network and in some cases with people you know are dubious. Payment becomes an issue which puts pressure on cash flow and now you're into an overdraft.

The first problem. Is the business now running you, or are you running the business. Have you remained in a position to be able to make choices about which companies and jobs you want to work with and do, or have you felt forced to do jobs because the business needs to be fed?

So before you grow by default you need to ask yourself:

1. What is the opportunity?
2. How big is it, and what share do I think I can get?
3. What business environment has created this opportunity and how long will it last?
4. Does anybody exploit this opportunity currently, how well do they perform and what's their ability to compete?
5. How does it fit with my end game?

What's the downside?

If the growth opportunity stacks up and it's something you decide to pursue by choice, then it's about knowing the negative impacts on the business and limiting these.

The classic downsides are:

1. New opportunities divert management time away from the business that pays the bills today

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2. New opportunities tend to suck up cash reserves as cost is added to the business before revenues can be generated
3. The opportunity is usually always over estimated and the cost and time to achieve it under estimated
4. Staff and employee problems tend to escalate because management is distracted, and the pre-existing issues in the business such as lack of systems and procedures, lack of performance management and lack of clear responsibility and accountability come to the surface
5. Generally the business becomes confused about what it's about and where its going so service levels drop and customers start to go elsewhere

What new capabilities does the business need to grow?

Growth often comes off the rails because not enough is done in the beginning to understand the difference in the capabilities the business will need. Running a critical eye over your business' current capabilities and comparing these to what will be required for the growth opportunity often results in:

1. Finding that the existing capabilities in the business even fall short of what is needed to sustain existing business
2. That a number of changes are needed in the existing business before new capabilities can be added
3. That new capabilities need to be added at the rate they are needed and can be absorbed financially, therefore the order in which they are added needs to be well understood
4. Which capabilities need to be internally owned and managed and which can be externally owned and contracted

What's the plan to manage the growth going to consist of?

Businesses crap on a lot about what their greatest assets are. People have risen to the top of this list and for good reason. However, people are an asset in the business that most businesses complain about. They complain about how much of their time is taken up with dealing with people issues.

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As an asset people are just like plant and equipment. If you don't maintain them and throw them around, then they'll soon turn from an asset into a liability. And just like plant and equipment there are some bad brands out there like cheap power tools from China which are going to let you down when the going gets tough.

Having a plan for your business, means you're managing your assets. People need to know where they are going and why. They need to know that you know where you're going and that you know how to get there. They need to know what you expect them to do as part of their contribution to achieving the plan. They need to know that you are willing to have them contribute where it's appropriate for them to do so in the development of the plan. And they need to know there are consequences for not getting it right for both you and them. And they need to be kept constantly informed.

This all takes time. However, it takes no more time than dealing with random people issues that are distracting and destructive. The time you spend managing people according to your plan is far more positive and productive and has most of them following you down the same path. Those that aren't can be more readily identified and moved on quickly.

So that's the justification for the plan. That out of the way, what's it going to consist of:

1. Situation Analysis – what's the business look like now, what's it capable of and what's the opportunity look like
2. Financials – what do the numbers show us about how the business performs now versus plugging in the growth
3. Critical Issues – what are the most important things that will impact our financial success
4. Objectives – what measurable things do we need to do to make sure that we address our critical issues
5. Actions – what actions clearly support our objectives and who is responsible for these
6. Performance – how and how often will we review our performance against the plan and what disciplines will we follow to amend or change the plan

For businesses trying to achieve their end game, the planning process is not a one off event. Success is driven by three key attributes:

1. Focus – knowing where you are going and why



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2. Commitment – being committed to the vision of where you want to be
3. Persistence – having the ticker to get there

Focus won't happen without a plan. Commitment won't exist if people don't know where they're going and persistence won't be displayed without the discipline of reviewing performance.

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