FinancialDirector

In Your Business Series: Expanding businesses

In the fourth of a series of articles looking at companies from every phase from start-up to exit/sale Gary Jesson looks at the replicating business success

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By Gary Jesson, e-FM Network

REPLICATING business success is the dream of many entrepreneurs. For some others, driving sustainable growth through expansion can be a nightmare, as expansion can be risky and in some cases, unsuccessful. Business owners often face a dilemma in deciding when the right time is to grow the business. Rapid expansion or attempted growth in the wrong market may be disastrous, causing huge losses, especially if the business is not financially strong. Expansion should often be avoided if a business is in trouble or not financially stable, as this will only magnify its problems.

A certain level of intuitive reasoning combined with strategic planning would be required for the analysis. Identify the inherent risks associated with the growth process in order to choose the right time, the right market and the right expansion route. In the case of mergers & acquisitions, it is important to be aware of the time and resource required to run the project - prior to, during and following the deal to enhance the chance of success.

Planning: Assess growth options based on your industry, availability of funding, the skills required, product and service offering. Also assess your goals and the possible risks of expansion. SMEs are usually more at a disadvantage because they lack the marketplace leverage that their larger counterparts enjoy by virtue of their size, but can often respond quicker to growth opportunities, as they would normally be more agile and quicker in decision-making when finding new markets to expand into.

Devise a business plan that is flexible enough to allow the business to capitalise on emerging opportunities. Establish a dedicated growth team with focus on a finance person who will be key in budgeting and projecting future cash flow, and will help understand the financial risks of the expansion strategy.

The Right Route: There are many options to consider - some of which include new physical locations, licensing, franchising, joint ventures, product diversification, globalisation and online growth. Do not underestimate the complexity of integration if you are considering collaborating. Likewise, when looking overseas, cultural fit and local law can have a significant impact on your planning. Some of the risks you may encounter during expansion include loss of key staff, incompatible technology, growing too soon and having to shut down some outlets/branches, funding crisis, and in the worst case scenario, losing your once profitable company.

Evaluate each route carefully and speak with appropriate advisers who have experience with similar businesses. Can you demonstrate proof of concept via a pilot, orders or signups for the new offering before the official launch date? This will validate your offering and its sustainability.

Organic Growing Pains: The greatest disservice any business owner can do is to grow too quickly and then subsequently collapse because the business is ill-equipped to handle new market demands. Incorporating contingencies into the business model will help in minimising to minimise some of the less palatable symptoms of change and reduce the risk of failure. Some of the problems that may occur during expansion include chronic understaffing or under-resourcing, high staff turnover resulting in low morale, system crashes, running out of cash or poor organisation due to increased responsibilities. To address some of these issues:

- Get flexible support until the job or role becomes clear and certain.

- Create systems and processes that are scalable and replicable. If you do invest in machinery and equipment, endeavour to use these assets to their full potential and focus on the aspects of your offering that advance your core competence and strategy. Delegate or outsource the rest.

- Do not lose sight of your strategy. Your business plan and budgets will keep you focused when demanding routine activities distract you and temporarily disturb your plans. Keep a core team of supporters and advisers to provide creative ideas, legal, financial and marketing support.

- Knowledge is power. Find out everything you possibly can. Background information will assist the business in leveraging the key steps for achieving a successful transaction, as either the purchaser or the target of a deal.

Mergers & Acquisitions: Many businesses would normally gravitate towards physical locations and new product development for growth, so it is important to focus on this delicate route here. Strategic mergers and acquisitions can be a quick and effective way to attract talent, market presence and income for a fast growing business. However, risks abound for the negligent. Management teams need to fully understand the mechanics of M&As to be effectively involved in the lead-up to, during and after the deal, transaction and integration stages.

Is there a cultural fit? Are there any skeletons in the closet? Are there any troubling press or integrity issues? Review every aspect of the business including the asset values (balance sheet), team quality, contractor and supplier agreement, liabilities, compliance, pay structures and contracts. Don't forget invisible items such as intellectual property, strength of customer, order book, websites and domain names.

For the strategy to work, effective communication is key as this it will facilitate integration and promote trust. Do not underestimate the time required to complete mergers and acquisitions- it could take up to a year. To minimise staff disruptions and deal with their fears, have clear organisational goals and share them to get cooperation and support. Bring in flexible additional resource to help over this period.

This is a very strategic route and should only be embarked upon with careful planning, research, support and advice. If this plan fails, what is your backup plan?
Obviously, there are inherent risks and these potential threats cause many businesses to choose to stay small. However, careful planning and precise execution will guarantee the success of any growth plan and help to optimise value, mitigate potential risks and implement the new business line effectively.

Gary Jesson is MD of the e-FM Network. The company is a network of finance directors and specialists providing financial management services