

Growing pains:

Expansion strategies for small firms



A smaller budget, a smaller staff, a smaller IT department—managing a small company isn't easy. Managing for growth only multiplies the challenges. Hard work and good ideas are essential, but to drive sustainable growth, careful planning, specialised expertise and technology support are also necessary. Managers of smaller firms aiming to expand their businesses need to remember some essential guidelines.

- Develop a strategy. Growing without a game plan is like driving cross-country without a map. A strategic blueprint outlining goals, methods and milestones can help keep your company on course. Don't let the hectic pace of daily operations prevent you from regularly revisiting this plan. "At least every month, you need to carve out time to think about the strategic positioning of the business," says entrepreneur David Bain. Keep your strategy high level and flexible, and don't get bogged down in detailed tactics or try to spell out every contingency. Such detail can stifle emerging opportunities, cautions Mark Lipton, a professor of management at New York's New School University

and author of "Guiding Growth: How Vision Keeps Companies on Track".

- Find a niche. Rapidly growing businesses know their market and strive to anticipate and meet their customers' needs. Exploiting a niche—a product or service that's brand new or targeted to meet a demand that's ignored by larger rivals—is a proven way to expand a business. Accessories manufacturer Oakley, for example, designs high-quality sunglasses, apparel, watches and other products worn by celebrities. "Each category is fairly compact compared with our competition," says President Colin Baten. "We produce a limited line that's very meaningful in the marketplace." Once you develop an offering that is indeed unique, move to capture market share quickly before your competitors do. "If you're lucky enough to be in virgin territory", says Mr Bain, "you should take whatever steps you can to drive rapid growth."

- Move quickly. Such nimble footwork can be critical for small and mid-sized businesses. Most

big firms have plenty of marketplace leverage and therefore can be reluctant to move quickly on emerging opportunities. FedEx—once a modestly sized company—was able to grow quickly by filling the need for overnight package delivery that larger shipping services were slow to provide. But remember always to keep moving with the market, reacting to sector shifts as they emerge. “You have to keep in mind that the growth of the business is not just the headcount or the money coming in,” says Mr Bain. Remember the dotcom fiascos. “To maintain a high valuation you have to make sure your business remains in an area that is lucrative and growing,” he adds.

- **Be choosy.** Selectiveness is an important consideration for many service-oriented businesses, such as law firms and architectural and engineering companies. Contrary to the prevailing belief, a bad client is not always better than no client at all. “By weeding out demanding, lower-paying customers and taking on easier-to-work-with, higher-paying customers, it’s possible to be more profitable using the same resources,” says Eva Rosenberg, a California tax consultant. To deal with particularly difficult clients, try telling them that your fees have gone up, and offer them a choice of paying a year in advance at current rates or a higher monthly fee. Either you won’t have to worry about late payments for a year or you’ll gain compensation for clients’ lack of punctuality.

- **Watch the books.** Large companies can expect to be paid on time, but smaller firms often don’t get the financial respect they deserve. “As a small business, you have much less leverage in getting clients to pay on time,” notes Joshua

Greenbaum, principal at California-based Enterprise Applications Consulting. Having a financial buffer “gives you a certain psychological peace of mind you really need”, he says, so calculate a few months of income into your business plan to keep yourself running even when clients are slow to pay. If you do need to press clients for past-due payments, use a soft touch, because the people you work with are seldom the ones responsible for payment. “My contacts sign the contract, but not the cheques,” says Mr Greenbaum. Impeccable accounting records will help your case if a client balks at a bill.

- **Let clients drive expansion.** Small businesses can’t afford to spend a lot of time establishing credibility before finding a market or clients for new products or services. So it’s best to expand into areas where you have demand from existing clients who already trust your reputation. Better still, sign them up for your new product or service before you launch it—thereby gaining a much needed “proof of concept”. “I find a client to pay for the pilot project” when launching a new service, says Mr Greenbaum.

- **Build a growth-oriented team.** More so than at a large company, every hiring decision can be critical, so seek out employees who complement existing skills and are likely to stay put. “Especially in today’s job market, it’s important to get people you think will be with the business for the long term,” says Mr Baten. “It’s entirely possible that the person you think is best qualified will get a better job offer and will be gone at the first sign of improvement in the economy.” Look within the company for skills before going outside for expertise. “Very often, small-to-mid-sized





enterprises don't tap the creative assets within their own business," observes Mr Bain. "As a manager, you need to ask for people's input. And for the first 15 seconds of their answer, bite your tongue. Just let the ideas float around and percolate. You may discover the gold mine of your business."

- **Seek advice.** However deep the internal talent, no growing business has the in-house expertise necessary to make critical decisions in all areas. That's why it's important to assemble a team of key advisers in such strategic areas as law, finance, marketing, taxes and technology. "Talk to someone at another business who has a broad network of contacts and clients, so you can grow together," advises Ms Rosenberg. And find partners who can collaborate with you to meet client demands. Mr Greenbaum often takes a finance expert to client meetings, to provide the financial acumen he lacks in his technology consulting business. "Especially for a services company, it's extremely important to have collaboration partners who can do things I can't, and who can add value," he notes.

Using technology to drive growth

In today's cost-conscious environment, technology may be the best partner of all for smaller firms. Whether an effective website, a good piece of business management software or a powerful new computer, technology can support a host of core activities. But just as with staffing questions or strategic shifts, technology needs to be carefully considered and managed to generate a maximum return on

investment. Here are a few tech-savvy maxims to consider.

- **Use technology to ease your load.**

Technology alone can't ignite growth or solve all your growth problems. Yet as part of an integrated expansion strategy, it can provide the extra edge a growing business needs. "Software is designed to automate, simplify and expedite the things you want to accomplish," says BZ Riger-Hull, a Massachusetts management consultant. Lean on technology to make quick work of time-consuming manual processes, such as number crunching, cheque generation and database publishing. Use it to capture and manage often-elusive data on customer contacts and habits. And put it to work to spot trends that aren't evident in day-to-day routines.

- **Choose carefully.** Small-to-mid-sized businesses can get carried away with automation. "It's a fallacy that all processes need to be automated," notes Mr Greenbaum. "Small businesses can do themselves harm by focusing too much on technology." Choosing the right tools from among the many technology options available is crucial. "Too often, businesses choose the wrong software and paint themselves into a corner," says Ms Rosenberg. Comparison-shopping is important, as is looking for vendors that offer interoperable, expandable and scalable products that can grow with your company.

- **Consider simple solutions.** Not every business challenge requires a full-fledged technology hammer. If an accounting package is beyond your abilities or budget, for example, try using a single credit card for all business purchases. With most

credit cards today, you can download spending data from the Internet and then analyse them.

- **Practise smart computing.** Whether you buy software or build your own tools in-house, don't overlook the basics of good computing. Technology is only as reliable as the people using it. Outline a set of technology procedures for securing your data from outside eyes and equipment failure. Ensure that all employees are familiar with the procedures and follow them. "If you're going to rely on technology and you don't have the discipline for multiple back-ups—including back-ups kept off-site—your ability to survive is limited," warns Mr Greenbaum. "One hard disk crash can put you out of business."

- **Look at outsourcing.** Rapid growth often leaves little time for managing a technology department. That's why some companies consider outsourcing. "Very small businesses tend to err on the side of doing too much in-house," says Mr Bain. Even if you think it makes financial sense for in-house personnel to write an essential piece of software, you may not have factored in the cost of maintaining and updating the software as the years go by. Ask yourself two questions: will it take you less time, effort and cost to manage the outsourcing relationship than it would to complete the task in-house? And is the product or activity you are thinking of outsourcing so far outside of your

business that mastering it won't advance your core competence and strategy? If you answer "yes" to both, advises Mr Bain, then outsourcing is likely to be the right answer for you.

- **Drive a hard bargain.** Much technology doesn't come at a set price, particularly when you need customisation or installation services. Don't be afraid to shop around and then press vendors for a price that suits you. "Always be a good consumer and get multiple quotes," suggests Mr Bain. "Say how much you are willing to pay for something. If an offer is not accepted, you can always call back and say, 'OK, I will pay your full price.'"

- **Use what you buy.** Once you've paid good money for a new software application or industrial-strength printer, use your investment to its maximum potential. Get to know the capabilities of the technology you've bought, and use them to help you grow. Take accounting software. Not only does it keep the books; it can also discover trends in customers' payments, allowing you to predict cashflow in the near future, says Ms Rosenberg. As this example suggests, your IT acquisitions need not only to adapt as you grow, but also to identify emerging patterns and red-flag operational problems, providing you with the information you need to keep your company's growth strategy on course.

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