

Growth: How to Expand Without Exploding

by Les Cunningham

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I heard a great expression once from a person who is a real optimist. "I feel like a mosquito in a nudist colony!" he said. "Where do I start biting first?"

You may be asking yourself if it is possible to expand in an economy where companies are down 40 percent? Would anyone in their right mind be thinking about expanding? Forget right mind; is it possible to expand in this current marketplace? For a few brave souls, I believe it is possible, depending on your plan and your assets.

If I were interested in expanding what would be the first step? If you've read any of Stephen Covey's books, you know that the first thing that you have to answer is the question of yourself, "What do I want to be?"

Let me share a story with you about one of my clients. He was ranked No. 1 in my client base and was doing very well. Life was good and he had his existing business pretty well wired. He was offered an opportunity, as he saw it, to acquire a group with five offices. The five offices as a whole were not doing well; a nice way to say it is that they were in deep stuff and they were not going to make it with their current company management.

He asked some trusted peers what they thought of the opportunity and what would they do if they were in his shoes. Most told him in no uncertain terms that it was not something he should do under any circumstances. Well guess what; he decided to do it in spite of their sage advice.

Not only did he pull it off, but he's grown the business to a level that very few thought possible. What comes to mind is a famous quote: "A true leader has the confidence to stand alone, the courage to make tough decisions and the compassion to listen to the needs of others. He does not set out to be a leader, but becomes one by the quality of his actions and the integrity of his intent."

So where do you start first? That's pretty easy: once you decide you want to grow, you will begin to see all kinds of opportunities around you.

One national company that is corporately owned started out as a small company making awnings. They continued to look for opportunities over the years and they continued to grow. As the second generation of family members joined the business they began to see opportunities, and they pursued those opportunities, one of them being insurance restoration.

The company was later purchased by a large U.S. conglomerate, sold to a large international conglomerate, then broken off and sold to a group of employees. In their last few years, they've done a larger volume in one year than the amount they paid for the entire company. They continue to acquire new companies and open up new locations.

Just so you know that it is not a cake walk, there have also been several large scale failures. One large franchisor purchased a smaller group of companies for a reported nine-figure sum. Very shortly after the purchase, the buying company sold the acquisition for a significantly lesser amount than they paid. Needless to say, a lot of effort, time and money are expended in these efforts. The point to remember is, they are not all winners.

The System



What system do you need to be successful? I can assure you that without one, you will significantly decrease your chances for success. The system needs to be rock solid so that you can keep track of all of your data and have it be immediately available to all of those that need it for their decision-making efforts.

The system needs to be composed of:

- A database to keep track of all of your leads, bids and sales
- An estimating system with a current database maintained by an outside source
- An accounting system that tracks both estimated and actual job costs and shows you the variances
- A scheduling system that schedules both the estimated job and the actual job
- An internal management system that provides feedback to all

concerned in a timely manner

When I review successful companies in the industry, all of them have some variation of this system available to them. When they don't have it available to them, the company begins to lose money and unravel. The speed by which it unravels can be so rapid there is no way to save the company from destruction.

The People

Where do you find good people? I believe this piece of the puzzle is a harder fit than finding the money to grow the business. There are a lot of good people out there, but in order to get them interested in what you have to offer, they have to know what is in it for them.

Most owners are usually good sales and production persons, but they are lousy at administration. They not only dislike administration, they do not understand why it is so important and, worse, they simply leave it to someone who says they know how to do it.

The owner will privately admit that he does not know how to properly administer, but to hear them talk in public, you would believe they invented the concept of administration itself.

One of the keys to getting good people to join you is to let them do what they do best, with you providing the assets they require. For example, most owners start out severely underestimating the need for proper record keeping. Owners who achieve success realize early on that proper record keeping is essential and find the right people to manage it, give them the tools they need and let them go to work.

Owners who do not succeed almost never face the true cause of their demise. If asked, they usually blame it on "dirt bag competitors" who "bid under their costs." The irony is that most failed companies never even knew their costs, before or after their business failed.

(Note: You don't have to go out of business to be a failure. Just keep working yourself harder and harder every year and thinking that "next year will be a better year.")

The Money

So where do you find do you find the money and how much do I need?? Well, let's list some possible sources:



Family This is usually possible, but it's not a free source of money. Even if you are not charged or you pay no interest on the money, you may not like the "family cost" of it. It seems to always be a contentious issue either for the person who's loaned the money, a person who is jealous of you because they were turned down for a family loan, or both of these reasons.

Friends. This type of loan usually has more structure to it, but not necessarily so. This type of loan does not have as close personal ties and as many years of the parties being involved with each other as families have.

Inheritance. This one is everyone's dream answer; you didn't have to do anything for the money and it has no strings attached, not to mention that donor has left the planet and you do not have to deal with them.

Lottery. This one takes some effort and a lot of luck, not to mention that you will have a lot of new friends due to the notoriety that goes with the winning of a lottery.

Operations of Questionable Legality. This is one that I would suggest that you don't even consider doing. If you get caught, you may not like your new roommate, the place that you and your new roommate will be staying, or the duration of the legally imposed length of time you may be incarcerated.

Banks. This is the most difficult place to obtain money. They expect to be paid back, they expect to make a profit on what they loan you and they are very clear as to when and what will happen if you do not meet the terms of the agreement.

They get the bulk of their information as to whether or not they will make a loan to you, from your business's Income Statement & Balance Sheet. They also want to see what you reported to your Uncle Sam and they compare the two. They look at the numbers to see if you have the correct ratios as compared to all businesses and, especially, compare you to your industry's numbers.

Net Profit From Your Business. This is the best source of money for your expansion needs, the reason being that, if you can operate a profitable business, all of the above sources are a lot more likely to consider loaning you money. Remember, the prime reason anyone loans you money is that they know with some degree of certainty that you have the ability to pay the money back.

I would suggest that you not try to expand your business using existing cash flow, but that you have 10 percent of your proposed new total sales volume available to fund the new operation, i.e. if you want to increase your volume by \$1 million, you will have \$100,000 available to operate the new effort.

When is it time to attempt an expansion? Well, that's up to you, but assuming you have weighed the risks of loss vs. reward and you are willing to give it a shot – and some people would still suggest that you have to be a little crazy to try it – then your best opportunity, in any economic environment, is when your current business is going well and life is pretty good.

On the other hand, some people are driven to a certain degree by ego, a desire for more money or just by the next challenge, one they think only they can pull off. Again, it's up to the individual.

If you think that now is the time to expand, remember that the goal is to expand, not explode! I wish you good profits in your endeavors!

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