

## **Expanding and Growing Your Business**

### **1. Should You Expand Your Business?**

So you want to expand and grow your business? Why not go for it? Why not risk it all, take the chance of a lifetime and see your bank account overflow with cash? If only it were that simple!

One of the most common issues that I see with entrepreneurs is the desire they have to expand in every area – sales, profits, capacity, etc. Their zeal for growth is contagious.

However, be careful to not head down the expansion road too quickly. Over half of the business failures in Canada can be traced to the growing pains associated with expansion.

Growing your business through expansion is often seen as the only way to achieve higher profits. Believe it or not, you are better off to have lower sales with higher profits than higher sales with lower profits. Although this may sound obvious, too many entrepreneurs' head down the growth and expansion path without first taking stock of how their business could be improved upon now – independent of expanding anything.

A key component of this taking stock analysis is taking a closer look at your businesses profitability. Based upon my profit improvement experience, I suggest that the following critical questions be answered as an integral part of your growth and expansion decision:

- How well do you understand your businesses profitability now? I am not talking about traditional financial statements or accounting. The real question is which products or services are you losing money on? How do you know if you have never performed a profit audit by product or service?
- What projects are underway in your company that specifically target profit improvement opportunities? Does your business have an ongoing profit enhancement process?
- What key indicators of performance do you now use to measure and manage your business? Can these key performance indicators be improved before you expand?
- How critical is expanding now? Can you wait until the company is in a better financial position and still not miss the market opportunity?
- What are the key risks of expanding? Are they really acceptable to you and your team?
- What new skills are required to manage and execute the expansion that the current management team does not possess? How will you deal with these skill gaps?
- What viable alternatives to expansion exist? Have alternatives such as outsourcing, forming strategic alliances/partnerships, etc. been thoroughly considered?
- What is the real business case for the expansion? What are the cash flow implications and the payback period? What is the incremental increase in sales and profits required to break-even on your expansion?

It is important to remember that even the best businesses with the strongest cash flow and the most supportive bank, can make critical mistakes in analyzing an expansion decision. Be patient, do your homework and treat expansion as if you were starting a new business venture.

You may decide to not expand or to simply proceed more cautiously. Remember that failing to expand may avoid your business expanding only to fail.

## 2. How Should You Finance Your Business Expansion? (506)

Last week we reviewed the question of whether or not it is wise to expand your business. This week we will focus on the question of how a business expansion can be financed.

In financing your expansion it is important to prepare a solid business plan, investigate your financing options thoroughly and properly match your specific business context to the proper financing vehicle.

Whether your business is small or large, here are some financing ideas. Review the list and determine which sources apply directly to your business context:

- Home equity loans – if you have equity in your home, this can free up significant cash;
- Leasing key assets – if key assets are required to expand, consider leasing and its costs;
- Factoring accounts receivable – consider selling your receivables to a factoring firm – it is expensive but may generate enough cash for working capital requirements during expansion;
- Term loans – the federal Small Business Loans program has made term loans between \$100,000 to \$250,000 “government guaranteed” to banks;
- Franchising – you may be able to franchise your idea and use the upfront franchise fee and ongoing royalties as a key financing tool;
- Government sources – there are two main sources of government financing – The Business Development Bank of Canada (BDC) and Industry Canada. BDC offers a variety of specialized financing programs designed to fit each stage of a business’s growth. Industry Canada offers the Program for Export Market Development (PEMD) for small businesses trying to break into exporting;
- Mezzanine debt – after exhausting avenues for secured financing, this is the next logical source of term financing. Lenders are willing to accept a higher level of risk and a lower rate of interest in return for a share in the success of the business.
- Private sources and Angels – this would include more informal sources of venture capital with investors taking equity positions in your company. Sources could include friends, family, individual employees, employee share ownership plans, other successful entrepreneurs, etc.
- Formal Venture Capital firms – this usually involves between \$100,000 to \$500,000 in potential financing where the venture capital firm takes a minority equity position in your company. They perform a grueling analysis of the company, demand a say in running the business and view that their only security is in the management team and its performance;
- Private placement – usually a minimum of \$500,000 and involves your stock being placed with a handful of institutions with an underwriter or broker involved. Frequently a deal too large for a venture capital company will end up becoming a private placement with many firms participating.
- Going public – usually a minimum of \$1 million and involves a costly, lengthy process to get to market. Liquidity is a major plus with full disclosure and unpredictable stock performance being major disadvantages.

My best advice is to take your time, evaluate all viable financing alternatives and listen to your closest advisors. Often the advice of your spouse, closest friends and professional advisors can help you make the most rational financing decision.

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