

Talking Technology

Expansion: Increasing your business's bottom line

By Steve Burns, Capital News contributor

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 to do everything all at once. Their zeal for growth is often contagious, however, it is often not well thought out.

These days, no matter what type of business you are in, be careful to not head down the expansion road too quickly. It is astounding to think that 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 business's profitability. If you would like to increase your bottom line performance, ask yourself the following critical questions as an integral part of your growth and expansion decision:

How well do you understand your business's profitability now? I am not talking about traditional financial statements. The real question is which products or services are you making money on? Which are you losing money on? Do things need to change in your mix of products and services? I suggest that you do not know the answer unless you have 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 performance indicators (KPIs) do you use now to measure and manage your business? Do these KPIs need to be created, expanded or changed? Can these KPIs 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 your team does not currently 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? If you considered expansion as a separate investment opportunity with an expected return, would you still decide to expand?

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.

Once you have done your homework, take the time to write your thoughts down in a new business plan. I say new because over 73 per cent of small businesses do not have a business plan and over 92 per cent do not use their business plan to manage their business's performance. Taking the time to write your thoughts in a structured plan and then measuring and managing to the plan, can be critical in your expansion decision.

After doing your homework and writing your new business plan, take a step back to think it through. This will help you to decide if you want to focus on increasing your profitability first, if you would like to proceed more cautiously, what the timing of your expansion will be and if expansion is a good fit for you. With the high failure rate of businesses these days, a well thought out expansion decision can be critical to your survival.

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