

Business Bullet ~ When and How to Expand Your Business

You've seen it a hundred times. A local store begins to catch fire. For years, it had one location and was high on word-of-mouth buzz for its quality goods. The proprietors were making profits hand over fist. Loyal customers considered the store their valuable little secret. Suddenly, the owners open two new outlets. Their advertising is everywhere. Six months later, you see another two locations pop up and even more advertising. Six months after that, all stores are closed down. Even the original store posts the sad sign on its familiar door: For Lease.

Success and expansion can kill a business faster than the long, slow drag of lackluster sales. Business success rarely occurs in a steady, predictable march toward higher revenue and improved profit margins. Companies tend to grow in unexpected fits, starts, jerks and snap-backs. Fast growth can destabilize a business, giving its owners a false sense of well being while the additional revenues eat up more operating dollars than expected.

Keep your overhead low. The biggest danger in expansion is the erosion of a low overhead structure. I've seen business owners work for years to keep their overhead low, but when they expand, all of a sudden they buy new furniture instead of the flea-market variety that served during the start-up years. Long-delayed gratification often explodes into extravagant spending at the moment of expansion.

Avoid grow or die business models. Try to avoid the trap of running a business that must continually grow to avoid demise. I've seen business plans that project 10 to 15 percent growth per year in hopes of hitting a breakeven moment in the third or fourth year. Start-up funds, of course, are always projected to last just until that moment. But, what happens if you're getting 8 percent annual growth? You quite possibly end up with a perfectly good business that's walking a death curve because it's not growing fast enough.

Watch your margins. Just because you have doubled your sales doesn't mean your additional revenue is as profitable as your original sales. In most businesses, each additional sale comes with a slightly improved profit margin, since overhead is spread across a greater number of sales dollars and because your cost of goods goes down as you buy in greater quantities. But, this is not automatically the case. Additional sales often come with unanticipated costs that can actually decrease your margins.

Watch the sharks! There are hungry vendors out on the street that can smell business expansion. They come in nice suits and expressive smiles. They also come with pricey spending proposals that are cloaked as no-risk opportunities to gain even greater levels of revenue. They will try to convince you they are here to help. What they really want is their own private piece of your success in the form of an advertising retainer or a long-term copier lease. You succeeded perfectly well without this crowd. Don't take their appointments.

Keep your focus on your success. The need to expand comes from your success. In the urge to expand, don't lose the focus that brought you success in the first place. If you're good with customers, don't delegate that activity in the interest of expansion. If you're good at closing the sale, don't hire sales people to take over your most valuable asset. Instead, fortify it with support. Hire marketing staff that can do the prospecting so you can put more effort into closing. The most frequent mistake during expansion is the owner spends less time in the activity that brought success in the first place. Instead, expand in such a way that you get to do more of your success-producing work.

