GROW your business

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MEMORABLE QUOTATION

It has been my observation that most people get ahead during the time that others waste time

– HENRY FORD

Growing Pains: The Perils Of Unplanned Expansion

When sales are increasing and new opportunities can be sensed, many a business owner's thoughts turn to expansion. But unplanned expansion can be as detrimental to your business as no growth at all. 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. If expansion is on your agenda, keep these things in mind.

WATCH YOUR OVERHEADS

The biggest danger in expansion is the erosion of a low overhead structure by unjustifiable purchasing or from simply being too busy to keep track of what is happening. Overhead expenses that were under control in the stable business situation now grow rapidly to cover extra expenses associated with a bigger scale of operations – transport, inventory, rental on larger storage space, and all the rest will deplete precious capital.

TRACK YOUR MARGINS

While it might be expected that more sales would return the same profit margin, or even better since overhead is spread across a greater amount of sales income and because the cost of goods goes down as you buy in greater quantities, this is not automatically the case. Additional sales often come with unanticipated costs that can actually decrease your margins. Margin analysis will tell you if you are really growing or just running faster to stay in the same place.

EMPLOY STRATEGICALLY

With extra production needed it seems natural to hire more people but a sudden influx of new employees can introduce problems ranging from changing the dynamics among the old team and creating morale problems to markedly increased insurance and employee benefits costs.

Consider alternatives that pose less of an administrative burden for the business such as retraining some of the existing employees to pick up new tasks, taking on freelancers and temps or maybe even outsourcing some of the work. Balance your use of temps against the training investment they require and the skills you will really need to have on tap in the business because these people will take their knowledge and skills with them when they leave.

DON'T UNDERESTIMATE FUNDING REQUIREMENTS

Typically, most small business owners will seek a business loan to expand operations. But the danger here is that if the expansion doesn't go according to plan then the business can very easily end up in the red and acquire a bad credit record. Look for cheaper sources of funds from accredited providers such as government small business agencies and have a detailed and realistic projection of income and outflows when making the request for funding.

KEEP CUSTOMERS LOYAL

Good customer service is often a significant component of small business success, but ironically it is also one of the first things that tends to be lost sight of when businesses go into expansion mode. Employees get caught up in the ramping-up activities and lose track of what is happening with customers. So the very customer service that was the springboard for growth in the first place becomes difficult to sustain and customer defection occurs. Securing new business through the growth phase can also be hard to factor in to activities. The key to retaining customers is to maintain adequate staffing levels that ensure current customers continue to receive the attention and service that has made you their supplier of choice.

FORECAST CASH FLOW

Sudden expansion can involve heavy investment to handle production of new orders that won't translate into cash in the bank for some time. In the meanwhile the business still has to pay its creditors. Poorly managed or inadequate cash flow is a major cause of expansion failure. Building strong cash flow when going into a period of rapid growth will make the process much less dangerous to the business' survival.

AVOID DISAGREEMENT AMONG OWNERS

Multi-ownership can pose its own threats to the success of an expansionary drive. As business issues become more complex the views of different owners on such things as how to run the business and their vision of where it should be going may diverge and introduce a conflict at the very top level.

When this happens the departure of one or more partners may be necessary to establish a unified direction for the growing company.

Businesses don't fail because they grow. They fail because they don't manage their growth or grow their managers.

The Power Of Numbers: Efficiency Ratios

Every business has assets of some kind and for some, such as manufactures and retailers, they can represent a very large investment of cash – cash that is tied up until the finished product or item is sold. Efficiency Ratios (also sometimes referred to as 'activity ratios') measure how effectively your business is utilizing its main assets such as inventory, accounts receivable and fixed assets. This article restricts itself to just one ratio related to each type of asset but keep in mind that your accountant can run a number of others using the figures on your financial statements. In conjunction they will give you a more rounded and insightful assessment of how effectively your business is performing.

RATIOS FOR INVENTORY ANALYSIS

How efficiently inventory is managed will have a significant impact on cash flow and, ultimately, your business' success or failure.

Inventory Turnover Ratio: shows how often a business' inventory turns over during the course of the year.

Formula: cost of goods sold / average value of inventory

Because inventory is the least liquid form of asset a high inventory turnover ratio is generally a positive – you are retrieving the dollars you have invested in inventory quickly through sales and inventory is not sitting around on the shelf. On the other hand, an unusually high ratio could mean your business is losing sales because turnover is so rapid you experience stockouts. If inventory is turning too slowly it could indicate an impending cash flow problem. The best way to assess whether your turns are too high, too low or about right is to compare it with that of other businesses in the same line of operations. Hardware stores for instance average 3.5 turns p.a. and grocery stores 12.7 on a national basis.

There are two ways to increase your Inventory Turnover Ratio, by reducing inventory level and/or increasing sales. Since reducing stock too dramatically can lead to stockouts, the call you make must be a matter of judgment. Your judgment can be improved by carrying out the analysis on each individual stock line. You might decide to not buy in any more of the slow moving items until their stock level diminishes or even discontinue stocking the item altogether.

RATIOS FOR RECEIVABLES ANALYSIS

Accounts receivable represent sales for which payment has not yet been collected. Depending on the extent to which you sell on credit, the payment of accounts receivable could represent your single most important source of cash inflow.

The Average Collection Period Ratio: measures the length of time it takes, on average, to convert sales into cash. A longer average collection period means a higher amount tied up in accounts receivable (customer credit) which means less cash is available to cover cash outflows such as paying bills.

Formula: current accounts receivable balance / average daily sales

A longer than industry average collection period may mean your payment terms are too lenient or that you are not doing a good enough job on collecting what's due. Improving collection activities and tightening your credit policy will help. Though tracking

HOW TO MAKE THE MOST OF YOUR NEWSLETTER

Be sure to read each article with the mindset "How could this apply to our business?" Thinking of it that way will guarantee that you get value. Better yet, take notes as you read and commit to having the ideas implemented by the time the next edition arrives. Also, make copies for each team member. To really make sure something positive happens, work with your business development specialist to talk your team through the ideas and how to set a schedule for getting them implemented. We're here to help you get started.

AN IMPORTANT MESSAGE

and collecting overdue accounts is, for many small business owners, an unpleasant task, the speed at which bills are collected has a significant impact on cash flow.

RATIOS FOR FIXED ASSET USE

Some firms rely heavily on their fixed assets in order to carry out their business operations. For these capital intensive firms the Fixed Asset Turnover Ratio indicates how well the business is using its fixed assets to generate sales.

Formula: sales / fixed assets

Generally speaking, the higher the ratio the better because a high ratio indicates that the business has less money tied up in fixed assets for each dollar of sales revenue. Heavy spending on capital equipment to push ahead of the competition may be necessary but eventually that investment has to result in increased sales value, and an increasing ratio over time indicates that that is what is happening. A declining ratio may indicate that you've over invested in plant, equipment, or other fixed assets.

As a business owner/manager you're concerned with making the best use of your assets and keeping down production costs. You can determine how efficiently your business is utilizing its assets, and where there's room for improvement, using Efficiency Ratios.

Play It Safe With Your Home-Based Employees

An increasing number of employees work exclusively or part-time from their home – but home is where most accidents happen. Employers still retain some duty of care responsibility for their home-based employees so it becomes an essential part of any at-home work agreement to factor in a safe workspace that minimizes the chances of accident and compensation claims.

In general, while the expectation is that an employee should be exposed to no more risk than they would be in the office or workshop, in reality an employer has little control over the home situation. Nor is it entirely clear just exactly how occupational safety and health or compensation laws cover this subject.

Employers need to take action to protect themselves from litigation arising from home-based accidents but just how are they to ascertain the real risk situation prevailing in the home such as the presence of young children or pets, unsafe electrical outlets and equipment, poor ergonomics, ineffective lighting, lack of security and any number of other potential hazards that could be present? Inspections would be valuable but they present privacy issues because of their invasive nature and legal issues because an employee's home is private property and employers may only visit the premises with an employee's permission.

Presently the most effective course of action is to clearly set out your expectations with regard to the safety standards you expect to operate in your employee's workspace in a contract. Since actual inspection to check that they have upheld their part of the agreement may be impractical, some alternative arrangement must be agreed to. Checklists or photos of their work area could be required to demonstrate that equipment is suitable and in good repair, that they have been child and pet proofed, that smoke alarms and extinguishers have been fitted and so on.

The checklist approach can benefit the home worker as well. If they have customers, suppliers, or other employees of the firm visiting their home workplace all reasonable steps should be taken to make sure their visits are safe ones. Because home-based workers are familiar with their residence they may simply be negotiating various hazards without ever noticing them. Visitors may not be so lucky. Having them perform a check against a set list can highlight any dangers that need correcting. Home workers should, whenever it is feasible, be required to attend workplace safety training to keep them up to date and their skills as well honed as those of employees who work on company premises. Finally, ensure that you carry liability coverage in case there is an incident. Have the proposed worksite checked by your employee's insurance agent to assess what extra cost is involved in protecting them.

Employers need to take a more considered approach to allowing home-based work arrangements in the first instance. Permission to work from home should be predicated on a cost/benefit assessment to establish just what is in it for your business. If approval is granted then the arrangement needs to be formalized in a company work-at-home policy that includes specific safety requirement guidelines. A home safety self certification checklist must form part of the work-at-home policy along with some mutually acceptable way of checking compliance.

Combine the facts that the number of employees working from home is increasing, that the home is a prime location for accidents, and that there is a lack of clearly delineated responsibility between employer and employee for safety in the home/work area, and the result is a very uncertain situation for employers. The answer to providing protection to both you and your home-based workers must involve imposing (justifiable) controls while also encouraging employees to accept that they too carry a degree of personal responsibility when working from home.

Helping Customers Online

Finding just what you want on a website can be tricky. Even when it's designed to be as shopper friendly as possible with clear navigation, lots of different ways to search for just the product wanted and a simple checkout process, there are still times when a shopper really wants to ask a question about the product before making that final commitment.

Providing your telephone number and email is good but they involve delay in getting a response, sometimes stretching out to several days, and that means the shopper is likely to give up on the purchase. Online customer chat to the rescue!

Online chat software (also referred to as 'Live Help') gives you the ability to have a link on your site go directly to a customer service rep with whom the customer can discuss any question or query they have about the product – immediately. Do they want to know just what a particular code number means? How to convert a shoe size? Do these wheel rims fit a particular automobile model? It's unlikely you'll be able to think of every question a shopper is likely to come up with and yet just that little piece of information may be critical to their decision to buy.

Live help can provide that customer with an answer in seconds or a few minutes. Even if you are a one-person operation you can use an audio alert to let you know if a customer is online and wants to talk to you. That means you can provide your customers with answers to their questions faster than many a larger competitor. Online chat software can monitor shopper behavior by tracking where they have been on your site. If you think it won't be intrusive then you can proactively request a chat session with the customer rather than waiting to see if they will begin a session – it's like a live salesperson approaching a customer who looks lost and asking can they provide assistance.

Online chat adds the personal contact that many customers like about shopping in a store. It increases their confidence to buy from you and improves your chances of closing the sale.

Some service providers offer just text chat, others are based on voice contact using Voice over Internet Protocol (VoIP). You'll need someone to be available to answer online chat inquiries over the hours when you have advertised the service is open – unattended help desks don't win customer kudos. Outside those hours the message button on your site provides an 'out of hours' notice so there is no frustration at not getting a response.

What you find out about shopper behavior on your site can suggest ways of improving its design to make things even simpler for customers. You'll likely discover issues that customers have that you may not have thought about. Perhaps you should add a description of what the codes mean or provide information on delivery time to different places. If some questions come up regularly then adding an FAQ section may be the answer to helping shoppers.

According to Jupiter Communications, if the product you are selling is inexpensive only 8% of shoppers seek sales help. By the time the product cost has risen to over $100, one in three shoppers want online help. That's a lot of shoppers looking for help and the business that can provide that help right when it is needed is the business that will get the sale.

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