



# The evolution programme

## Coping with rapid growth – staying in control by sticking to your plan

The cut and thrust of managing a rapidly growing business is difficult and time-consuming. Often there simply isn't time to formulate a strategic plan that develops your business in a structured and planned way, so that you can safely manage the next growth phase.

Rapid growth opportunities can demand fast reactions to take advantage of the market situation and to develop the product or service ahead of the competition. This can mean the strategic planning process is brushed aside in the white heat of innovation and enthusiasm, particularly if the new venture does not require substantial funding.

When the business is riding high, a more structured approach really is necessary. Without a focus, you will inhibit your ability to achieve further growth. A clear set of goals helps you know how to react to new circumstances and where the boundaries lie.

### The challenges to further growth

Companies that merely struggle to cope with rapid growth rather than actively managing it may experience several organisational growth problems such as: pressure on financial resources (e.g. cashflow or investment); inadequate systems (e.g. information, planning and control); or over-stretched people resources (e.g. staff and management quality and quantity).

### Pressure on financial resources

In this second stage of the lifecycle of a growing business, entrepreneurs will be focusing on a number of business objectives which may include increased sales and market share, better margins, increased shareholder value and personal wealth, and aspirations of flotation.

**PKF Top Tip – keep asking yourself the following questions.**

Do I have the

- *inclination to take on added risk in order to grow?*
- *cash or borrowing power to support rapid growth?*
- *systems in place to support a larger business?*
- *will and ability to delegate to other directors and managers?*
- *right quality and diversity of people?*

If the answer to any of these is "no", then think twice as hard about planned expansion.

However, don't forget that rapid growth usually involves risk and additional external funding. A profitable company that tries to grow too fast can run out of cash even if its



products and services are successful. One of the main challenges is to strike a balance between consuming cash and generating it.

### Inadequate systems

Rapid growth will hopefully mean more customers, more suppliers and more staff who in turn will generate more transactions and communication. Will your existing systems be able to cope? Is your accounting system computerised? Does it generate the management information that will be required to monitor and control the business? How do you communicate with your staff when you cannot fit them all into your largest meeting room? Does your contact management system capture all the information that you need about your existing and potential customers?

When a company is rapidly expanding, you will need adequate systems to take the strain. It will be time to start thinking about quality management processes (such as ISO 9001 or Investors in People), workflow systems and integrated customer relationship management (CRM) programmes to help you to communicate with and control your relationships with customers and suppliers.

## Over-stretched people

Other challenges emerge during rapid growth, of which one is likely to be the founder's ability to cope with expanding operational responsibility (selling, inventing, producing and managing). This could be because either the volume of activity is too great for the existing management team or because growth demands the next level of expertise.

**PKF Top Tip** – never make assumptions about your staff's motivation. Some may share your ambitions and appetite for hard work, but others may have more limited ambitions. Periodic discussions with each employee will allow you to assess where their priorities and ambitions lie – and match your expectations accordingly.

Both imply the need for a wider management team – which will only work if the existing team has the willingness to delegate and to manage others. How can you recognise when this is happening? Here are several indicators:

**Difficulty in decision-making:** Existing informal communication methods are no longer adequate, leaving some people unclear about their roles, authority and responsibilities. Above all, you may find that there are too many decisions to be made and, as a result, some are made erratically and some are completely avoided.

**Some jobs outgrow people:** And that might include you. Not all staff may share your ambition for growth, and may not want to, or be able to, cope with extra responsibility. Management can compound the problem by being hesitant in its handling of these situations. There may also be obvious skills shortages.

Similarly, the introduction of new personnel and expertise, without clear lines of authority or a clear remit, can bring other problems which you need to watch out for.

**New versus old guard:** Newcomers' specialist skills, although essential to the business, may make it hard for them to integrate because the "old guard" feel defensive or threatened. A mutual lack of understanding may also be aggravated if newcomers exploit the need for their skills as a reason to build a powerbase.

**Staff alienation:** Some staff will see the arrival of new management levels and experts as a barrier to their personal development and promotion. This too can lead to a sense of alienation unless clear management communication maintains the workforce's active involvement.

The factors above are symptoms or indicators of the strain that rapid growth places on companies. As long as you are content just to tolerate these issues, rather than manage them, they may well constrain the growth potential of your business.

Rapid growth therefore needs to be supported by careful planning to ensure that you have the financial, people and systems infrastructure in place to cope with the pressure of growth.

## Frequently asked questions

**Q.** How can I improve my cashflow?

**A.** Here are six tips:

- **Sell assets** – raise cash by selling under-utilised assets and leasing them back. Do check whether it will result in a profit or a loss, otherwise you risk generating cashflow at the expense of your profit and loss account.

- **Trim your inventory** – to release cash. Take the time to plan any stock reduction programmes.
- **Renegotiate your credit limits** – adjust payment dates and credit limits with your main suppliers.
- **Factoring** – sell any outstanding invoices to factors.
- **Bill promptly and regularly** – to ensure a more steady flow of cash into the business. Negotiate for regular payments across the lifespan of any long-term contracts – and chase up money owed to you before they become bad debts.
- **Avoid overtrading** – don't accept orders if you don't have enough cash to fulfil them. It's as simple as that.

**Q.** Is it easier to raise finance for acquisition or organic growth?

**A.** There are no hard and fast rules, but potential funders will be looking for the same criteria of success regardless of what you plan to do with the money. They will need the reassurance of a track record of profitability (probably three years' accounts) and a rock solid business plan for your expansion plans.

Although organic growth may appear to be the safer option, the capital costs are likely to be higher because you will need to fund any start-up losses that may arise as a result of expanding your business without having a ready-made customer base. Your costs may include the lease or purchase of a new site and all the associated costs of staff, systems, sales and marketing.

If you already exhibit some of the symptoms in this sheet, grafting an acquisition on to your existing company may compound the problems.



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