



The evolution programme

Challenges to growth – avoiding the road to ruin

The profile and market presence of a mature business often attract opportunities, many of which appear to be too good to be true.

These could be an unexpectedly large order, an approach from a competitor to buy their business, or the chance to buy an ailing company cheaply. Such distractions can represent dangerous challenges to growth rather than opportunities for it. Failure rates from over-trading, acquisitions and taking on major projects are worryingly high.

This eighth information sheet in the evolution series explains the dangers of being lured away from your core competencies by a chance to “double your money”. It also offers advice on how to achieve enhanced shareholder value through sustainable growth.

A key evolution theme is that you should always stick to your vision and business plan. If your business plan has continually evolved, then it should still provide the right framework, strategic direction and assumptions to keep you focused on your goals. It can help you decide whether opportunities have a realistic chance of success. If they are not compatible with your business plan, then think very hard about pursuing them.

On top of this, listen to the marketplace and to protect your reputation and brand. All successful businesses are responsive to the marketplace and adapt their products and services accordingly. They are also aware that their reputation and brands are their most valuable non-tangible

assets, ones that can take a lifetime to build – and a moment to destroy.

The five main areas to remain focused on when facing the challenges of growth are funding, customers, leadership and management, people, and organic growth.

Funding – the lifeblood of any business

However tempting it may be to take on a large order or project, the reality is that over-trading is the death of many growing businesses. Do not commit yourself to a project that you cannot resource from a cash, staffing, time or skills perspective.

The adage that “cash is king” is always relevant. Ensure that you know what you have in the bank today and where the cash will be coming from tomorrow. The amount of cash in the business determines your growth rate – you can only take on orders and projects that you can afford to fund from cash reserves. Consider whether new business could be made self-funding through payment up-front.

Always maintain a dialogue with banks, backers and suppliers, as the bigger you get the more important you become to them. But never take a current strong situation for granted as you may need them to be understanding if you require additional funds or wish to extend payment terms. Also, make sure that you understand their requirements and the rules they are working within.



Customers – if you don't look after them, someone else will

In the drive for new customers, it is easy to forget that existing customers can be your easiest and cheapest source of growth. Investment in customer relationship management (CRM) is money well spent, particularly if it is part of a genuine customer-focused culture. A structured approach to CRM will also ensure that the relationships with customers – and hence the risk – are shared by more than one member of your team.

Managing customer expectations is key. Unhappy customers not only spread dissatisfaction far wider than happy ones spread your good name, but can also withhold or delay payment.

On the other hand, very satisfied customers can be your best advocates – recommendation is a far cheaper and more effective endorsement than advertising or self-promotion. However, beware of over-reliance on key customers. If they provide more than 20% of your revenues, their hold on you becomes as much of a risk as an asset.

Inevitably, the initial address book that supplied your early customers becomes exhausted, and you will have to look further afield. This is much harder and more expensive than selling more to existing customers, and has a much longer timeframe.

Companies can only expect to win one in three tenders, which can be dispiriting for an inexperienced sales team. Research also reveals that you have to contact people, on average, seven times before you have a chance to win business from them.

PKF Top Tip – 98% of unhappy customers will not bother to complain before taking their business elsewhere. However, just a 5% increase in customer retention can double profits.

Management – how much do you want to let go?

As businesses grow, the owner-manager's approach has to shift from a hands-on approach to one where certain management functions are devolved. But is that what you want? Do you really want the responsibility of employing more people to manage your business? If you don't already have a team to delegate to, remember that the most difficult part of being in business is employing the right people.

Controls are needed to monitor the business. Whilst systems and processes are necessary, they should be a good servant, not a bad master. Don't let systems strangle creativity and initiative. It's too easy to adopt the risk-averse approach of "let's analyse the numbers again before doing anything".

The effort of managing human resources, such as compliance with ever greater regulation, needs to be balanced against the benefits of a larger management team. Also,

having additional managers will not absolve you of responsibility to lead and inspire. Another challenge is that all growth must be controlled. It is dangerous to be perceived as "rapidly growing" as this is a warning sign to customers and suppliers to treat you with extreme caution.

Employees – how many is enough?

Owner-managers say that decisions about your growth strategy must be made when you no longer know every staff member by name. The "magic" number of staff for personal, face-to-face management is supposedly 52, and a middle management layer is needed for businesses with more than 60.

If staff growth is inevitable, you must ensure that communication is maintained by reviewing and improving existing channels to ensure that the ethos and values of the business are known by everyone.

Controlled organic growth

For many, rapid growth involves an aggressive acquisitions policy, but the reality is that 70% of acquisitions do not deliver the expected benefits. Failure can almost always be blamed on the acquirer not thinking through the implications of the purchase.

Some of the most common mistakes are:

- *Lack of understanding of the market.*
- *No integration plan to ensure that the merged businesses can work together effectively.*
- *Failure to realise that, if the business owners are retiring, the customer base may disappear.*
- *Lack of understanding of the ownership structure and the business.*

Controlled organic growth can be much more sustainable, profitable and less risky. Ways of achieving this include:

- *Partner with like-minded businesses to share resources and capabilities to target new business. A tactical or strategic alliance can bring many of the benefits of an acquisition, but without the outlay.*
- *Use your contacts – everyone understands the concept of "no such thing as a free lunch".*
- *Think about what can be outsourced to spread risk and reduce overhead costs.*
- *Encourage entrepreneurs within your business. Owner-managers often forget that others may also have creative ideas for developing the business. Don't be afraid to take on and reward so-called "intrapreneurs" – they can drive new areas of growth. If you don't, either they will set up on their own or join the competition.*

Don't close your mind to unexpected business opportunities, but always ask yourself the questions you asked when you wrote the business plan. Is there a market? Have I got the right resources? Will this take my eye off the ball? Will it prevent us from meeting our existing customers' expectations. Don't let your critical thinking become clouded. To survive the challenges of growth, always think strategically not tactically and focus on long-term strength, not short-term benefit.



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