EXPANDING YOUR BUSINESS

Growing your business is a side effect of success, but the hassles don't need to multiply with the expanding operations.

BY **LOUIS WHITE**

Trying to decide when to expand your business is never an easy decision. After all, there are a range of decisions to consider, some of which will be forced upon you with little or no warning.

There will also be issues closer to home, such as whether to expand your range of services or products. Should you expand your outlets, employees or even move into franchising? It almost gives you a headache thinking about it.

But the reality is that it doesn't need to be that difficult to make a decision about when to expand your business.

"If you have a strong cash flow, good systems and people, and sound money management, then you should be right to expand," says Geoff Golding, founder of Your Business Mentor.

Golding, who started the business in 2001 with his wife Carol, believes businesses often forget one key component when they talk about expansion plans.

"You must be aware of what your competitors are doing. There is no point moving to an area that your competitor has just moved into or expanding into the exact same product or service range that they are undertaking," he continues. "There will always be federal and state government decisions that will affect your business, but you are best to focus on the things you can control."

There are those, however, who believe in acting in the moment – seizing the opportunity and venturing forth into the unknown to thrust the business into a new era.

KINGDOM OF FEAR

Rhondalynn Korolak, founder of Imagineering Unlimited, believes a business owner can easily get paralysed by worrying about the right time versus the wrong time.

"I'm not convinced there is ever a right or best time, there is only [right] now. The best thing a business owner can do is to identify an opportunity, analyse the pros and cons, lay down some targets and a clear strategy, and then implement that strategy. Rest assured nothing will ever go exactly to plan. It's about being prepared, yet being flexible enough to respond to the changes when they happen."

A former senior business executive, Korolak founded Imagineering Unlimited in 2007. She believes that cash flow can be the biggest killer for small businesses trying to expand.

"The owner should consider how the business will manage the increase in receivables and payables," she says. "Managing the cash gap between the number of days the business has money in the bank account before it has to pay out creditors is often the number one factor which will influence success."

"Businesses need to examine ways to time the delivery of stock in order to prevent carrying it for unnecessary periods. Look for opportunities to renegotiate terms with suppliers, such as discounts and rebates for large volumes. Often suppliers are tight about pricing and flexible on terms. Due to the time value of money, an extra 30 days worth of credit can result in huge improvements to cash flow."

IMAGES: iStockphoto

"Your competition could expand and go over the top of you. It is important to breakthrough the glass ceiling."

Cash flow seems to be the main issue associated with the risk of expansion. Many businesses manage growth badly because they go into it without adequate funds, while working on a philosophy that they will be fine.

When small businesses start to expand, it is often through securing a big contract with a big supplier. While this is great in the interim it often can mean a change to payment terms. So, instead of being paid in 60 days, they get paid in 90-day terms and this can result in huge problems in paying staff and keeping the business afloat.

"The reality is that banks aren't set up to help small businesses," says David Hechter, NSW/ACT director of the Interface Financial Group. "When payment terms increase, there is always the risk that a company doesn't have adequate working capital."

SEEKING STRUCTURE

Hechter believes many small companies also have the wrong organisational structure in place when it comes to expansion. "As the business starts to grow, the owner needs to be able to delegate and trust others in their role. It is a big issue with letting go," he adds.

"The right time to expand is when the right people are in place. This, combined with identifying a gap or opportunity in the market, and sufficient working capital, should see you through your business growth."

Knowing when your working capital is sufficient is a difficult question to answer. The minimum would probably be three months with no income to

TOOLBOX

Businesses to help you

Your Business Mentor
yourbusinessmentor.com.au
Imagineering Unlimited
imagineeringunlimited.com/
Interface Financial Group -
interfacefinancial.com.au/home.php
Carrera Partners
carrerapartners.com.au/

Success stories

Morffew Photos
morffewphotos.com/aboutUs-Morffew-Photos.html
Bunnings
bunnings.com.au/contact-us_who-we-are_history.aspx

Worth checking out

Business Queensland
tinyurl.com/5tobrmg

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survive. Six months would be safer.

Christine Koh, founder of Carrera Partners, explains how she looked at making no profit or drawing revenue for an entire year when looking to expand.

"This may sound extreme, but it is best to plan for the worse case scenario and be pleasantly surprised, than plan for profit and be disappointed."

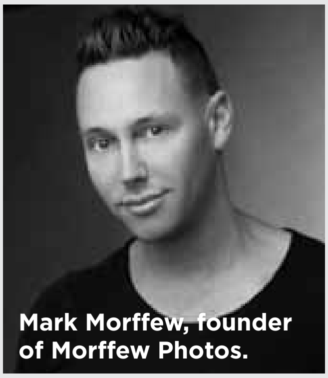
While there are many risks to business expansion, there is also an even greater risk if you don't expand.

"You could go broke," says Your Business Mentor's Golding. "The competition could expand and go over the top of you. It is important to break through the glass ceiling. Only move into a bigger office space when you have the employees to fill it, not when you think you will. Only employ people when you need them, not when you think you do. Just because the business has grown 15% doesn't mean you need 15% more workers," he adds.

There are many different ways of expanding a business but the most important is being cost effective while you do it.

"No matter what the size of the current business is, the aim is to grow the business while keeping fixed costs as low as possible as a percentage of sales," says Imagineering Unlimited's Korolak. "Think of ways to partner with others to expand sales without actually having to open another office. Launch another retail shop or hire more full-time employees. Selling online is another way to increase reach without increasing fixed costs," she adds.

"Manufactures can get more production out of their existing space by tidying up and rearranging the layout of machines, and clever planning. Making better use of time is another way to increase production with minimal impact on fixed costs."


Mark Morffew, founder of Morffew Photos.

CASE STUDY

MORFFEW PHOTOS

Mark Morffew always had a passion for photography, and that passion soon turned into a successful business shooting A-List celebrities for consumer magazines.

With the advent of digital photography, Morffew knew that he had to either change his preferred method of taking pictures with film, or ultimately perish.

"The reality was that digital was becoming cheaper every day and I knew I had to adapt," Morffew says. "I also realised that when I wasn't working there was no income so that needed to change."

Like one of his lightbulbs going off, Morffew had an idea that he could capitalise on the digital revolution and decided to start Morffew Photos.

In August 2004, Morffew created Morffew Photos after borrowing $500,000 from the bank, enabling him to open his first retail outlet in Bondi Junction offering various photography services and a 30-minute turnaround for completed pictures.

He now has six outlets, which he intends expanding upon. "I have decided to start franchising because I believe it is a great motivator for someone to have their own store," Morffew says. "I still like to shoot and get outdoors, so having a franchise business will enable me to do that."

"I believe the franchisee will be able to build up relationships with the customers and I will hopefully expand to 20 stores in the next five years."

While Morffew has no regrets about going with the franchising model, he does say that site selection is crucial to its success.

"The business has been a success since day one, but the key is to be in retail outlets with a lot of foot traffic," he says. "It is too hard out on the street. I need to be around other children's retail outlets to ensure I am in the thick of it."