HOW FAST IS TOO FAST?

Yes, you can grow too fast. As a matter of fact, you might be growing too fast right now. Here are some questions you can answer to tell you exactly how fast you're growing.

by Rudd McGary and Ed Wandtke

There is an excitement about having a growing company. That's one of the reasons why many owners point toward growth.

But there are also times when a company should look at consolidating its current position so that the growth to that point is solidified. At times growth—particularly if measured only by revenue—is not the best strategy for a company. The notion that increasing revenue will increase profitability traps many growth companies that fail to look at measurements necessary to ensure profitable growth.

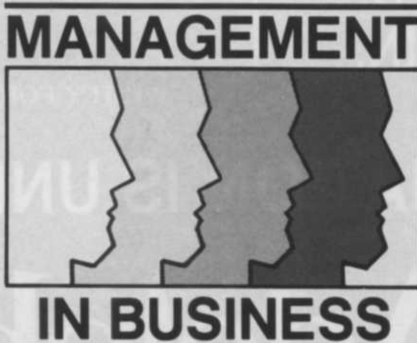
As growth continues, many issues are important to address. Some of the issues are cost-related but are often overlooked due to the company's rapid growth and profitability. Here are some keys:

1. Should you consider growth in profitability as an objective before growth in total revenue? Companies exist to make money, profits. Failure to do so will result in the company going under. For enterpreneurial types, the focus on accountability is not as exciting as growth in revenue. But determining ways that a company can be made more profitable at its current size is more than an exercise...it's a necessity.

We believe that a company should be profitable at any size, with the possible exception of the first year when start-up costs are incurred. Looking at profitability and determining ways to add profits is one way to look at growth.

2. Could any under-used assets add to the company's growth without adding costs? You can look at this question from two vantage points.

First, do you have vehicles or equipment that could be better used to increase sales? Companies sometimes buy an extra vehicle as a sort of insurance policy against down time, but at the same time they might be able to use the same piece productively. The same is true with certain pieces of equipment. Companies buy new types of equipment for specific jobs and then find that they have equipment standing around during part of the year.



Second, are your personnel productive enough? If you have a lawn care company and each of your applictors is doing $60,000 per year, you have a lot of potential in revenue from these people. This under-use should be evaluated as much as the equipment and vehicles.

3. Do you have enough management talent to grow? This is often overlooked. The management talent needed to get you to your current size may not be the same type needed for your next growth objectives. This is particularly true in smaller companies, although it extends to larger companies as well.

Who will become managers in the organization? Do you have people internally whom you can promote? Do you have specialists in different areas who can manage them? These and other management questions aren't asked often enough. Generating the revenue for growth is possible—managing the growth is another question.

4. What is the cost, from a marketing point of view, of growth in your marketplace? As your company grows, it will face more severe competition unless you are fortunate enough to be the only company in your area doing what you do. This is rarely the case. The more severe the competition, the more costly the marketing.

Costs increase in advertising, personal sales efforts, promotion and/or management time. You need to be aware of these when determining your desired rate of growth. You may find that projected growth will, in fact, be too costly for you. That means you must rethink your growth objectives.

5. Finally, what financial needs will you have in order to grow? Will you need equipment, personnel, vehicles, operating space? All of these resources will have costs attached to them. How will you fund these? Can they be funded out of retained earnings, will you need to give up equity to raise cash, or will you borrow to finance them? These are the first questions to ask.

Then you need to know, particularly if you have chosen debt funding, whether or not you will be able to fund the debt that you incur. You need to be certain (or, at least as certain as you can be) that the money you spend will indeed attract new business. If you can't be certain of a growth in customers, you shouldn't be spending money simply because you have a "feeling" about the future.

Summary

If you want to grow—and most companies do—you should look at the reality of your present position:

Are there areas that can be more productive without adding additional costs? Does the marketplace really offer the potential for growth that you want? What is the competition likely to do, and what will this cost you? Do you have the management capacity to grow or will you have to either promote or go outside the organization to ensure profitable growth? Is this the year when you should consolidate past gains and wait until next year for major expansion? And, finally, can you afford to grow?

All of these questions show that you need to do a lot of planning before you go through major growth. With this planning, and assuming that the marketplace offers true opportunities for growth, you *can* grow. Without asking—and answering—these questions, you may be growing too fast. It is a risk that all companies must face. **LM**

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