The Keys to Managing Rapid Growth

One of our partners, Tom Siders, recently had the privilege to be a panelist for a Club Entrepreneur and Upsize Magazine joint event in Minneapolis. The topic was "Managing Rapid Growth." We often advise clients on how to grow the value of their business. But what happens when growth starts accelerating rapidly? Let us share with you some insights Tom shared with those in attendance.

The Importance of Planning During Rapid Growth

Thomas Edison once said, "Good fortune is what happens when opportunity meets planning."

Consider how much planning it takes to commute from your office to your home on a clear Sunday afternoon. Not much, if any. You know the route from memory, can set your cruise control, and Sunday afternoon traffic isn't too complicated. So you don't have to check the mirrors much; you could almost make the drive in your sleep.

Now consider how much planning and attention to detail is required to fly a private aircraft from here to an airport in rural Georgia? Different story, right? I have flown a plane, but never solo, and I don't have a pilot's license. On top of that, I have never been to rural Georgia, so it's not like that's familiar territory. Now, let's assume your family is on board and your entire net worth is at risk for completing the flight safely.

With so much at stake, most of us would study, plan, plan again, and consider every possible bad contingency – weather, mechanical issues, speed, safe altitude, route, etc. We would learn what to do in the event of a problem, have a plan to avoid bad weather, and know what course corrections to make. Pilots file a flight plan – departure point, destination point, intended flight path, and planned altitude.

Given the risk and stakes involved, I would also hire a very capable co-pilot (who has accomplished similar flights before) in the event I need help along the way. I would learn what each of those airplane instruments are working and exactly what they are telling me – air speed, altimeter, attitude, etc. I would pay close to those gauges and compass and make corrections if I strayed off course. Lastly, I would make sure I had plenty fuel to get to my destination.

It's no different when planning and managing a business in a period of rapid growth. Everything is on the line. You have to plan. Your planning should consider what might go wrong, and what you will do in the event things aren't going as originally intended. And remember those gauges on an airplane? You need the same for your business. You have to measure and monitor your actual data to know if you are on course. You need an accurate dashboard that gives you timely information.

You should consider hiring a capable co-pilot or two (management team) who have been through this high altitude environment before. Oh, and yes, realistic cash flow projections as well as a good banker to assure you have enough fuel to actual get to your destination.

Ultimately, a disciplined process of planning and regularly reviewing your execution of that plan will help you stay on course. A business owner who can demonstrate a track record of planning the work and working the plan is much more likely to get top dollar when exiting the business.

So, How Do I Plan in Periods of Rapid Growth?

In periods of strong growth, it can be difficult for owners to focus on the bigger picture. We constantly remind our clients to work on, not just in, their business.

Growing Your Business Isn't the Same as Growing the Value of Your Business

Orders have started pouring in. Revenue is skyrocketing. Your hard work and dedication are starting to pay off. Your business is growing, but is the value of your business growing? Top-line revenue growth doesn't tell the whole story. Is the *value* of your business also growing, or are you just churning more dollars without a commensurate increase in profit, cash flow, and business value?

When growing rapidly, don't overlook these six important value drivers common to all businesses, across all industries.

1. Stable, motivated management team

   Consider two companies, identical in almost every way. They have the same revenue, are in the same industry, same geography. The difference is Company A relies on its owner to make all of the decisions, etc. The owner of Company B, on the other hand, vacations six weeks out of the year, has a freezer full of walleye, and plays 100 rounds of golf each year. Which company would you rather own?

   As an owner, one of the best things you can do to add value to your business is to make yourself obsolete by creating a solid management team.

2. Operating systems that improve sustainability of cash flows

   It's important to develop, document, and continually improve business systems that generate recurring revenue from an established and growing customer base. Even in periods of rapid growth, you must not lose focus on good systems and processes, including how customers are identified and retained, how products and services are delivered, and how employees produce intended business results.

3. Solid, diversified customer base

   When growing quickly, pay attention to who your customers are and how much revenue each generates. As a general rule, no single customer should account for more than 10% of total sales. If most of your revenue is from one or two already large customers, you are becoming overly dependent on them and risk losing your ability to control your own destiny.

4. Realistic growth strategy

   How will you continue to grow? Saying that you plan to grow x% over y number of years isn't convincing to a banker, investor, buyer, unless it is tied to a realistic strategy. Strategies can be based on things like industry dynamics, increased demand for your products, new products or new product lines, marketing plans, growth through acquisition, and/or expansion into new territories. It is important to have a realistic plan and the plan needs to be committed to writing.

5. Effective financial controls

   Financial controls are not only a critical element of business management, but also safeguarding the company's assets. For most business owners, their business is their largest single asset and the primary source of their retirement income. Good financial controls help businesses achieve consistent profitability. Consider getting audited, or at least reviewed, financial statements from your CPA. Seek help from your CPA to assess your controls and strengthen them appropriately.

6. Stable and increasing cash flow

   Ultimately, all value drivers contribute to stable and predictable cash flow. It is the cash flow that determines the value of your business. A buyer is purchasing the future cash flow he or she believes will be generated by your business. You may be emotionally attached to your business, as one of the founders, but your prospective buyers are not.

Consistently Measure, Monitor, and Improve Performance

Just having a general idea, in your mind, about where you want your business to go is not a strategy. Good strategy defines, with specificity, what you want your business to achieve and what it should look like in 3 years or 5 years or even further out.

The plan should include specific, measurable goals and you should have a process in place to monitor progress towards achieving them.

Knowing how you're performing, especially when growth is rapid, is vital. Rapid growth means things are moving quickly and it increases the chances that you could fall off course quickly, requiring you to adapt and make adjustments.

A great place to start is to develop metrics around the six value drivers listed above. Metrics will be unique to your business. Create processes for gathering and analyzing information, as well as implementing those inevitably needed adjustments.

Exit Planning is Still Necessary

When your business is growing rapidly, leaving it is probably the furthest thing from your mind. But unless you can predict with certainty when you will die, become disabled, get divorced, burn out, get approached with an unsolicited offer, technology obsoletes your business (remember video rental stores?), or the economy deteriorates, you may want to consider starting your exit plan now.

You will leave your business. It may not be today or tomorrow. It may or may not be by choice, but you will leave your business. Do you have a plan? When you leave, what would that look like? If something tragic happens and your exit is premature, what happens to your business, your employees, your customers, and your legacy? What effect will it have on your family? An exit plan not only provides context and the basis for adapting to unanticipated events, it also provides alternatives based on assumptions about your goals, objectives, and resources.

For more information or to learn how L. Harris Partners can help you grow your business:

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