Four Strategies for Sustained Business Growth

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Most Los Angeles and Southern California business owners and entrepreneurs aspire to grow their companies. Growth is usually a sign of progress and it's far preferable to the alternatives — stagnation or decline. In addition, growth can result in financial rewards, new challenges, and new opportunities for owners and employees. Growth can also help small and mid-sized companies keep pace with their larger competitors or fight off new competitors entering their territory.

Growth can present many challenges for executives, including the significant impact on a company's finances as it takes additional cash to fund the incremental increase in working capital, receivables and inventory that result from growth. Companies must also be prepared for the logistical challenges that accompany growth, like hiring and managing more employees, moving into larger facilities, and dealing with greater customer service demands.

Your Business Growth Strategy

The key to smart growth is to devise a business growth strategy that details how your company will grow and, just as importantly, how this growth will be funded. As you develop your plan, remember that your growth doesn't have to be monumental or rapid — in fact, this is the kind of growth that often gets small and mid-sized firms in trouble. However, it does need to be steady and sustained. Growing inconsistently, in fits and starts, can be worse than not growing at all.

Your strategy for sustained business growth should specify whether you plan to grow organically (e.g., by increasing existing products and services or adding new product and service lines) or by acquiring other businesses, like your competitors or suppliers. It should also detail how you will fund growth: via retained earnings in the business or by obtaining outside financing, whether this is debt or equity.

Debt is a loan, typically from a bank, that is repaid with interest. Term loans, lines of credit, equipment leases, construction loans and commercial mortgages are a few types of loans that can be used to finance business growth. Equity is the sale of ownership interests in your business to outside investors that may include private equity firms, venture capitalists and angel investors.

In most instances, debt is preferable to equity for funding business growth if you can obtain a loan. This is especially true in today's low-rate environment. While equity financing doesn't have to be repaid like a loan does, it can end up being much more expensive in the long run if your business is successful and you give up a healthy chunk of ownership. Also, equity investors may want to exert a degree of control over your business, thus limiting your autonomy and decision-making ability. However, if the growth is expected to be substantial and involves acquisitions, owning a smaller piece of a much larger pie may make the other issues worth bringing in the equity, which in turn supports more debt for future expansion while utilizing less debt for the anticipated acquisition.

Grow Organically or By Acquisition?

Growing organically is usually a slow and steady strategy that requires long-term patience and discipline, while acquiring another company can result in exponential growth literally overnight. This isn't to say, however, that the acquisition process itself is fast or easy. It requires a tremendous amount of research and due diligence on acquisition candidates, as well as planning for how potentially divergent corporate cultures will be meshed together to ensure that synergies between the merged companies are realized.

There are four main strategies that are typically utilized to achieve organic growth:

1. **Create new products and services.** Be sure to conduct extensive market research before launching any new product or service lines to determine which ones your customers really want — and which ones will be the most profitable for your business.

2. **Enter new markets and territories.** Are there untapped customer niches and/or new geographic areas you can exploit to grow your market share for your existing products or services? Again, you'll want to research these carefully before committing resources to expansion efforts.

3. **Penetrate deeper into your existing markets.** Can you sell additional products and services to the customers you already have? Also known as cross-selling, this is often the easiest way to grow revenue and expand your business without making a big investment in new product development.

4. **Tap new sales and delivery channels.** Can you use the Internet or another alternate delivery channel to sell more products and services? This might involve building an online store or making an investment in e-commerce software and systems.

An outsourced CFO services provider can help you determine which of these growth strategies is best for your situation and devise an appropriate business growth strategy. By utilizing the services of an outsourced CFO, you'll benefit from the experience and expertise of a professional business advisor who has helped other firms like yours plan growth strategies. This will also help keep you from becoming too distracted by your growth initiatives and thus lose focus on your existing business — thus killing the "goose that lays the golden egg."

Concluding Thoughts

Most owners aspire to grow their companies — after all, growth is preferable to the alternative. But growth can present many challenges for businesses, both financial and logistical. The key to smart growth is to devise a business growth strategy that details how your company will grow and how growth will be funded. An outsourced CFO services provider can help you devise such a strategy, including determining which type of growth strategy is best for your situation.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.