BUSINESS GROWTH PLAN

Ready to grow your business?

We all know that growing your business is essential. At the very least, you have to bring in new customers to replace the ones that disappear from your roster. Consider some of the reasons for customer turnover:

> Ever fire a customer? I know companies that drop customers who never pay on time, and focus on ones that follow the rules. *This is very empowering and eliminates lots of frustration for your staff.*
>
> How about customers who always demand special treatment and then complain about your high price? *(When did they refer a new customer to you, and why do you keep them? They probably don't buy that much from you, anyway.)*
>
> Did you have any customers close their shop last year? They probably stopped buying from you a while ago, but now you have to replace those numbers.
>
> Can you list any customers who now buy from a competitor or who have switched to a product that you don't carry? (*Yes, we all agree they used poor judgment, but their mistake leaves you with a sales gap that you have to fill.)*

So, if you already have a plan to bring in replacement customers, then you can expand that plan to bring in additional customers. While that takes care of incremental sales increases, what are you doing about significant growth?

I realize that you may be in an unusual circumstance that prevents you from looking at significant growth next year. Some companies limit their expansion to 3 – 5% for the next year because they have some other challenges to resolve.

- They may be restructuring their organization by bringing in new management, new equipment, or new marketing plans
- They may be adding a new plant, or
- They may be adding a second location in a new market

If you're strategy involves a major change to your organization, then it makes sense to limit your growth to a modest level that your sales manager can achieve – *without taking up your time.*

> ***What? Your sales manager always needs your help?***
>
> ***Did you say you don't have a sales manager?***

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Looking At The Big Picture
If you're involved in daily operations each day, then this is a good time to take a step back and look at the Big Picture. In every industry, a growing business must address four key functions. Three of these areas are operational, and one is tactical.

The three operational areas are:

1. Marketing (including Sales)
2. Operations (Taking care of what you do) and
3. Administration (processing payroll, renewing insurance coverage, paying rent, etc.)

The fourth area is tactical , and it's your Strategic Planning function.

So, here's where I put my reputation on the line.

No one is good at more than two of the four key functional areas of business.
(In fact, most people excel at only one of these areas).

Think about it, each of the four areas requires a very different skill set.

- Marketing requires an outgoing personality; someone who enjoys high-energy interaction with people and has trouble following rules. You've head the standard line: *"Leave me alone and I'll make you money."*

- Administrative staff typically work in a very structured environment. Payroll is distributed in the same way each week. Vendors are paid every week. Insurance renews every February. They work in the same way, using the same tools, and *they like achieving the same level of success.*

- Operational people are somewhere in between. Operations staff may like some structure but they also like a little change in their daily routing. *(Yes, I'm generalizing, but stay with me for a bit.)*

  In manufacturing, the production line runs every day and usually stops once a month for maintenance. Sometimes, the line will change when products are improved, but the cycle returns within a day or two. The manufacturing line provides some consistency and some change of routine for workers.

  In another operational area, delivery drivers are consistent in their routes, but the stops are different every day. This gives the driver some consistency and some diversity. *It's the best of both worlds!*

The last key area is the Strategic Planning function. As the owner, you create, implement, and measure the success of the plan. This is your job because:

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- Strategic Plans always involves spending money. *(Who else but you decides how much money is enough?)*
- Staff usually can't sign checks for more than $500. *(So, you must be there to implement the plan.)*
- Staff usually aren't authorized to make changes that other departments implement. *(When you implement organizational changes, you'll probably want to be a part of the hiring, firing, and overtime decisions for new staff required by the strategic plan.)*

For these reasons, only the owner can implement a Strategic Plan.

Now for the ugly truth. If you're are good at no more than two of the four areas (Marketing, Operations, Administration, and Strategic Planning), and you're stuck with Strategic Planning as one of your areas, then:

What's the one other area that you'll keep as your primary focus?
(By the way, strong leaders focus on Strategic Planning
And delegate everything else to qualified staff,
So they don't have to face this limitation.)

Once you pick your lane, you must have qualified staff to fill the other roles. If not, you'll wind up spending excessive time working on activities that you don't enjoy and that you'll always place at the bottom of the your stack of "To-Dos."

For example, if you're good at sales, how frustrated are you when you have to pay monthly bills. How much time to you waste trying to get through it? How much money do you lose when you're not selling? *(By the way, selling all week and then working in the office on the weekend is bogus productivity. Just ask your family.)*

If you're not into sales but you like to invent products, then you probably won't want to negotiate a sales contract with a major customer (which is a marketing function), and you probably aren't comfortable hiring new employees (which is an administrative function). *So, if this is your personality, then how much time do you waste trying to fill in for the other functions?*

Finally, if you like the comfort and consistency of an office job, then how often do you venture into the field to see customers? Do the people in the warehouse remember what you look like? Do you know if your production workers like each other? *(This is a critical factor when the line breaks and time is money.)*

So, to wrap up the Big Picture, you're in charge of your Strategic Plan. Others should be in charge of the rest of your business and should report their monthly achievements to you.

Your three options to find other people to help you run your business, from lowest cost to highest cost are:

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1. Hire managers who take responsibility to meet production budgets and profit budgets

2. Take on partners with skills that complement yours, or

3. Outsource areas of your business. (There are many ways to outsource, including computer automation, so be creative in this area.)

Accounting Records
Now that you have the right people in place, your next step is to create your five year growth plan. To get started, use your accounting statements as the basis for your forecast. So, the next question is:

Are your accounting records accurate?

This questions seems simple because you may never have questioned the integrity of your accounting records before now. Here's a short list of some questions you can ask your bookkeeping staff to find out if your accounting records are accurate.

1. When you renew the annual insurance premium, how do you recognize the cost of insurance in each of the next twelve months? (*Booking the expense in the month when the check was written is not a good answer, and booking the expense over the standard 10 month financing term is not a good answer either.)*
2. Do you recognize monthly depreciation expense? Or, do you just take a depreciation expense on your tax return and ignore the effects on your accounting statements? *(Bankers get uneasy when your tax return is different from your accounting statements.)*
3. How do you record the monthly loan payments for both principle and interest? Stated another way, do you compare your loan balance to the bank's calculated balance each month? *(The most common posting error is that the entire loan payment check is posted to either the loan account or to the interest expense. The correct method is to split the total amount into principle repayment and interest expense.)*
4. Do you reconcile your bank account monthly? *(If not, then how do you know that someone is not stealing your cash?)*

If you answered Yes, to these questions, then congratulations, we can move on. If you need to take care of a few of these items, now's a good time to clean up your administration. You'll probably benefit by hiring an independent accountant to help you resolve any of the "No" issues.

Sales & Inventory
If you have good accounting information, the next step is to review your sales and inventory history. Specifically, you're looking for sales patterns for each product over each of the prior twelve months. Here's a few questions to consider:

- What are your standard products that sell all the time?
- What are your seasonal products?
- Finally, which product line is dying on the vine? Are you ready to get rid of the slow selling items?

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Once you get a handle on sales and inventory, you can start to investigate new products that complement your existing successful products to create sales growth.

Budget

The next step is to create a budget. This is critical to your growth plan. Do you have a budget in place? And, do you use the budget to manage sales? If so, you're ahead of most companies in your industry, because most companies run on momentum and rely on sales commissions to determine their growth. This is a mistake, because your sales staff are not in charge. *YOU ARE!*

Without a reliable budget, you can't control your long-term growth. That doesn't mean that you won't grow. It just means that any growth occurs without regard to your efforts. For example, when the economy improves, all existing companies have higher sales because demand exceeds supply until new companies open and absorb the excess customer demand.

> As a side note, profit can be expanded through increased sales or reduced expenses. For this reason, some entrepreneurs believe that they can grow their company by becoming more efficient. This is a mistake because growth comes from increasing your sales. Growth does not come from reducing your costs.
>
> *So, are you focused on more profit or higher growth?*
>
> If you're focused on more profit, you can achieve some profit increase by becoming more efficient. However, this approach has limits. On the other hand; sales growth has no upper limits.

Let's get back to the budget.

To develop your budget, take a look at last year's income statement for each month of the year. That becomes the basis for your budget for next year, and you can adjust any line for anticipated changes.

For the most part, overhead expense will be stable. However, if you expect rent to increase, adjust that line item. If you expect insurance to increase, adjust that line item.

Next, look at your Gross Profit Margin. Gross Profit Margin is a percentage, and it is calculated as Cost of Goods Sold divided by Sales.

- Is your Gross Profit Margin stable each month?
- If not, is your Gross Profit Margin by product line stable?
- If not, is your Gross Profit Margin stable for any of your inventory items?

Typically, Gross Profit Margin is a stable percentage of sales each month. *If not, then your selling price is not consistent.*

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You may have good reasons to let sales staff negotiate the selling price of products for each customer. However, if your company can't predict the average Gross Profit Margin each month, then your selling price is not stable. Typically, this indicates that sales staff have too much authority to negotiate prices.

You can fix this by setting upper and lower price points for each product.

Once you know your overhead costs each month and you know your gross profit margin, you know your break even point.

Break Even Sales Level is Overhead divided by Gross Profit Margin.

To figure the sales you need to generate a specific net profit, consider this:

Divide the desired profit by the Gross Profit Margin and
add that amount to your break-even sales point.

So, here's an example. It's all about the numbers, so bear with me for a bit.

Assume that last year's Income Statement showed that we sold $2,750,000 of product, we had a Cost of Goods Sold total of $2,200,000. This results in a Gross Profit Margin of 20% and a Gross Profit of $550,000. Now, assume that we had $400,000 of Overhead Expense, so we were left with $150,000 in Net Profit. *(Trust me on the math, I worked this out in Excel.)*

Next, assume that we want to earn a modest profit increase of 17% so that we will move from $150,000 to $175,000 of profit. We can easily calculate the required sales volume as follows:

Anticipated Net Profit is $175,000. Net Profit divided by 20% Gross Profit Margin is $875,000
Overhead is $400,000. Overhead divided by 20% Gross Profit Margin is $2,000,000
$2,000,000 plus $875,000 is $2,875,000 and is the total sales needed to generate a profit of $175,000

If you want to test your math, you can also see that $175,000 in profit plus $400,000 in Overhead equals $575,000 for Gross Profit. Divide the $575,000 Gross Profit by 20% Gross Margin to get to the same $2,875,000 in required sales. (*But, we can leave that step to the accountants to play with.)*

So, now that we know that in order to reach $175,000 in Net Profit, we have to sell $2,875,000 in sales. That means that in order to earn $25,000 in more profit, we have to generate $125,000 in more sales. *A tough goal, to be sure.*

Marketing Strategy
Once you know the target sales volume, the next step is to adjust your marketing program to achieve this increase in sales. This is the area that requires some creativity on you, the Leader of your company. If you have a strategic plan in place, then you're prepared to address this marketing issue. For example, you have:

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- ☞ Reviewed your options for adding new products, or
- ☞ Updated your commission structure to a tiered approach so that you pay higher commissions for higher sales volume, or
- ☞ You're ready to add inside sales staff to handle existing customers so that your field sales staff have time and monetary incentives to find new customers.

A word of caution is appropriate here. Once you develop a budget for the desired sales goal, <u>do not attempt</u> to increase the sales budget mid-year. *This can cause difficulties that you don't need.* Here are three specific reasons to leave your sales budget in tact throughout the year.

1. Your sales budget determines the amount of inventory you need to keep product on the shelves. This drives the amount of bank financing you need to pay for inventory and the amount of deliveries you'll receive from suppliers each week. Change these amounts mid-year and you create unnecessary stress on warehouse employees and on your banking relationship.
2. Change your sales goals and you change sales quotas for each sales person. This frustrates sales staff and that reduces their productivity because they believe the new goals are unrealistic.
3. Change sales goals mid-year and you may fall short of your sales target. Less sales means less profit, less money for bonuses, and reduced credibility in your leadership ability.

What's the up side? Small profit gains that may or may not materialize!
(High risk with low reward is not the right combination)

To re-cap, the steps to growing your business are straight forward. *(That's straight forward, not simple.)*

1. As the leader of your company, focus your efforts where your skills are most effective. If you're not comfortable in developing a strategic plan, hire a consultant to help you gain those skills.
2. Verify that your accounting records are accurate.
3. Study your inventory and sales history to identify which products are selling and which products should be dropped.
4. Prepare a budget that reflects the desired growth in sales.
5. Develop marketing strategies that allow you to increase sales up to your budget.
6. Manage the budget to ensure that you achieve your targeted sales and profit.

So, now that you have the secret formula for achieving significant growth for your company, here's the sales pitch. *(You know one was coming…so here's the soft sell.)*

If you're ready to take on the six steps to growing your business, then you don't need an outside consultant. However, if you believe that you lack the time, or that you staff are not ready to provide you with the information you need, then it's time to call in an outside consultant. The consultant can help you get your business organized for growth.

That's what we do.
Give us a call at (504) 780-9091 and let's talk.
What do <u>you</u> need to take your business to the next level.

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If you need our help, we're here to provide whatever level of service we can. If we can't answer your question, we'll refer you to the best people we know who can. We don't keep up with politics, and we can't name the SuperBowl winners of the past ten years. But, we know how business works, and we're ready to help you take your business to the next level.

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