Brief

NO. 13

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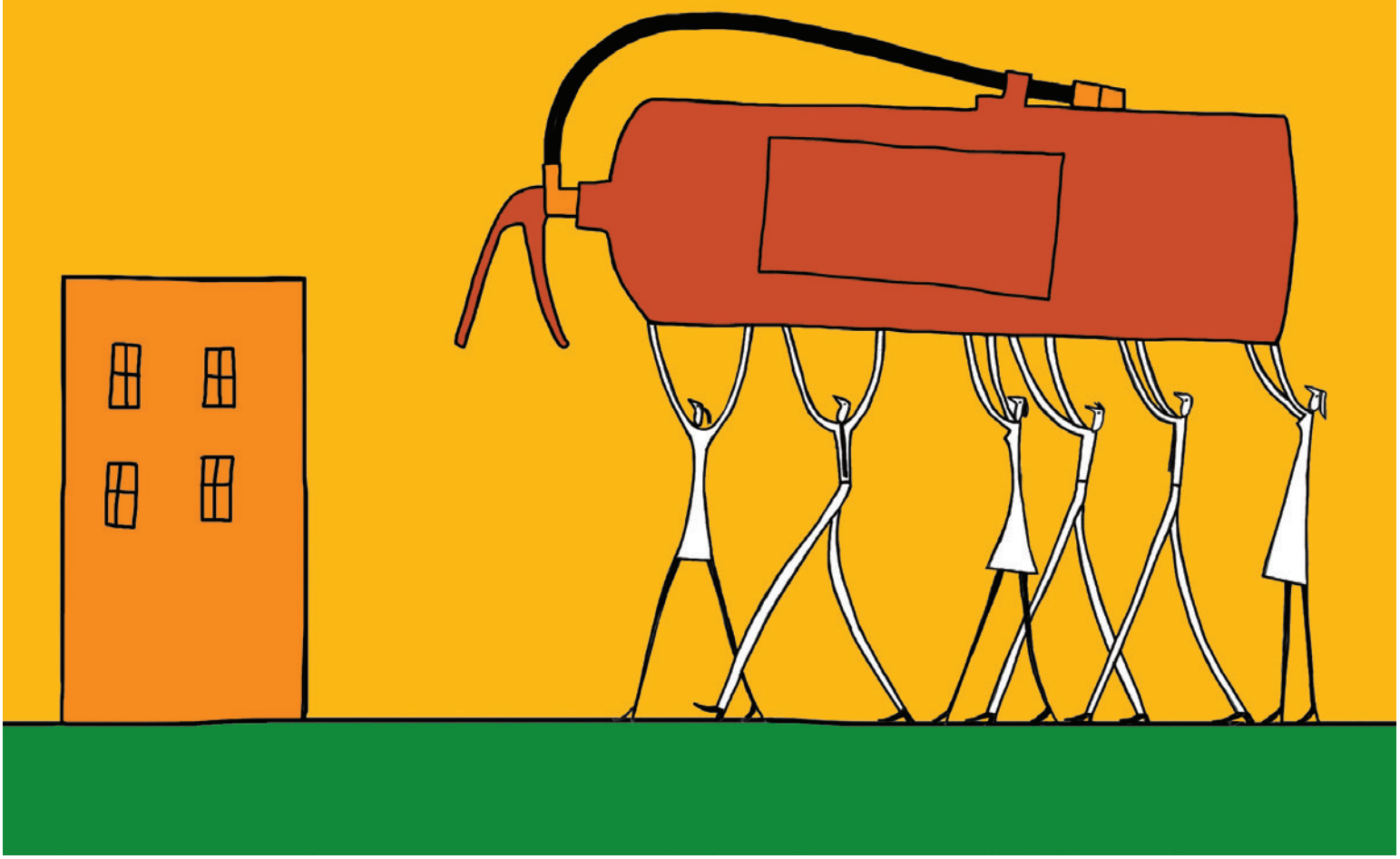
How to End the Fire Drill Approach to Growth

THERE ARE FOUR WARNING SIGNS THAT SIGNAL WHEN SMALL BUSINESSES NEED TO BECOME (OR AT LEAST LOOK) BIG. THE TRICK IS TO RECOGNIZE THEM BEFORE THEY BECOME A PROBLEM. HERE'S HOW.



The Internet and an increasingly global value chain bring new speed and force to a moment of truth that every successful small business faces at some point: the need to start acting like a big business.

The signs of an inflection point can come suddenly: you get an order from Wal-Mart for your widget out of the blue, as Orabrush, Inc., maker of a tongue-cleaning utensil did, beginning a wild ride from an unknown, garage-based business to a supplier of major retailers virtually overnight. Or the inflection point could be a gradual realization, as when your management staff feels increasingly stretched not just in workload but in skills as well. Yet regardless of the catalyst, growth eventually forces management to accept that the next phase of the business cycle will be very different from the previous phases.

Plan, Don't React

This inflection point should not be managed the way most businesses do it – in an ad hoc, reactive fashion. That's a ticket to joining the losing half of all start-ups: the ones that fail within the first five years. The reaction can and should be more systematic.

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There four warning signs that small businesses should not ignore:

- **You find structural cracks.** Many businesses cruise right past the 20 – 30 employee count or the $5 million – $10 million revenue signposts without slowing down to consider whether the business's structure should change from its start-up model. It's around this point that you need to "build a real organizational structure," says Karl Stark, managing director of Avondale Strategic Partners, a firm that advises high-growth business clients.

- **You receive a manna-from-heaven order.** Wal-Mart's Orabrush order was a surprise, but it doesn't always have to be that way. Sometimes you may fight for years for the big order, in which case, winning the deal becomes the focus rather than building the processes, systems, and infrastructure necessary to fulfill it.

- **You're suddenly big overseas.** Who knew that a foreign market would be wild about your widget? If the Internet starts buzzing about your new product (as it did about Orabrush's tongue-cleaning gizmo), you could get as many orders from overseas as you do at home. You need to be prepared to think about new distribution models and supply-chain implications, among other things.

- **The capital well runs dry.** Perhaps you've heeded the warning signs and are planning to open a new factory or warehouse. Receivables and the bank account won't be enough. It's time for more sophisticated financial management and a plan for securing new levels of funding.

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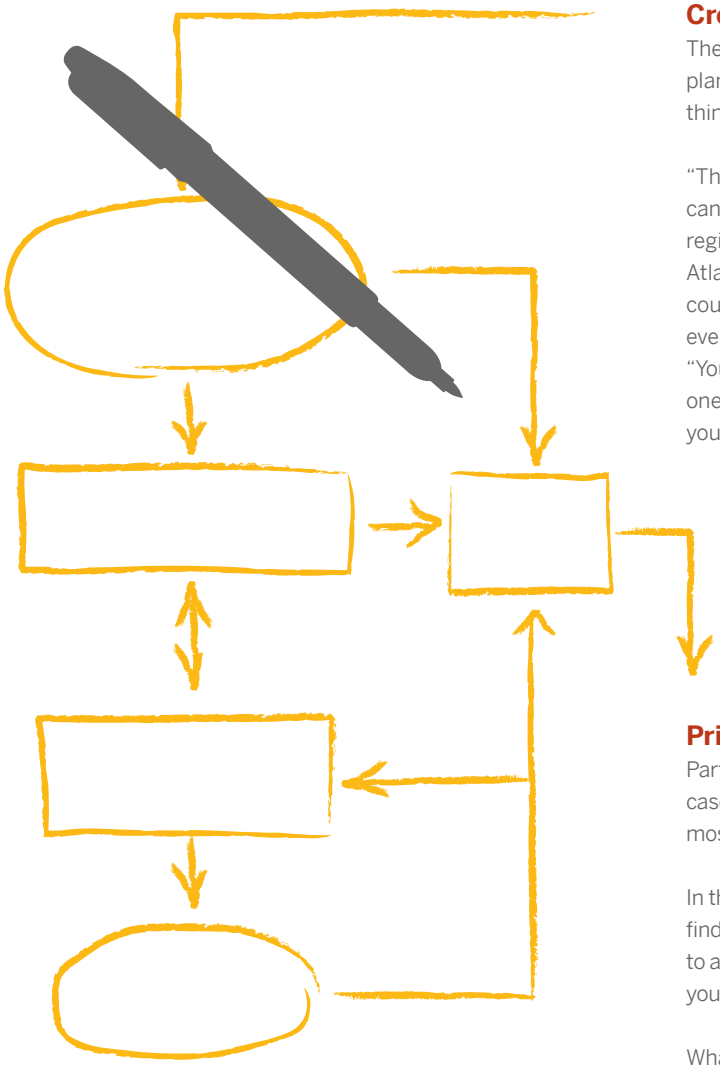

Create a Planning Process

The consistent thread in all of these warning signs is that they require a planning process. As the business succeeds, someone must always be thinking about when and how it will get big. Otherwise, you risk chaos.

"The worst thing any executive team can do is try to grow faster than they can handle," says Bill Ballou, former CFO of Bob's Discount Furniture, a regional chain of 43 retail furniture stores across the Northeast and Mid-Atlantic United States. "You have to understand the critical points that could be problematic downstream." These potential challenges involve everything from staffing to systems capabilities to warehouse capacity. "You have to make sure you have the lead time required to address any one of these issues so that you can satisfy the growth requirements when you get there," adds Ballou.

Prioritization Is Key

Part of the planning process should be prioritizing the next moves. In the case of a sudden big order, leadership teams need to identify the areas that most urgently need additional resources – such as manufacturing capacity.

In this case, it's rare that you are totally prepared when the growth hits. You find that there are lots of leaks in the boat that need plugging fast. You need to attack the biggest roadblocks to meeting the customer needs first. Then you can start working your way down the list.

What warning signs have you experienced in your small business? How have you dealt with them?

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There's **more.**

TO LEARN MORE ABOUT HOW SMALL BUSINESSES ARE RESPONDING TO GROWTH CHALLENGES, READ THE IN-DEPTH REPORT *INFLECTION POINTS: A GUIDE TO GROWTH.* PDF

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