

When Small Businesses Need to Grow Up

THERE ARE WORSE PROBLEMS TO HAVE THAN RAPID GROWTH, BUT SMALL BUSINESSES OWNERS THAT DON'T SEE IT COMING AND PLAN FOR IT COULD SEE THEIR DREAMS SHATTERED. HERE'S HOW TO SEE THE SIGNS AND ACT ON THEM.





Mark Lehew
is national vice president of strategic growth enterprises at SAG AP.



Steve Niesman
is CEO and president of itelligence North America, a consultancy that provides technology consulting and support services to small and midsize businesses.



Grant Fraser
is CEO of Navigator Business Solutions, a consultancy that serves small and midsize manufacturing, distribution, and professional services businesses.



Karl Stark
is managing director of Avondale Strategic Partners, a strategic advisory firm that partners with investors and senior management teams of businesses on strategic, financial, and organizational management.



Rob O'Regan
writes extensively on media, marketing, and technology topics for a variety of publications and corporate clients.



Q What are the signposts that tell the leadership team of a small and midsize business (SMB) that growth is starting to outpace operations?

Mark Lehw: At some point your business may be growing so fast that you can't add the right people quickly enough, which begins to stunt your growth. You're hiring a lot of people to meet demand, but you don't have good business processes in place. The more you scale up, the more inefficiency you create. And suddenly you can't see across the business, so it's harder to keep control over everything.

Steve Niesman: There are inflection points that are revenue-based and also customer-driven. When you cross certain revenue thresholds, you ratchet up the level of pace and intensity. These milestones impact the supply chain, the accessibility of talent, and the need for technology.

Grant Fraser: Revenue growth is usually the issue. You get to a plateau point – generally around \$10 million – where you have to have middle management. But once you invest in middle management to get to the next level, you're kind of in no man's land in terms of profitability. You've added a layer of management and you're paying the price for that, so now you have to jump from \$10 million to \$25 million [in revenue] to pay for that extra layer.

Karl Stark: When you get to \$20 million and up, you can no longer rely on the CEO to be the key salesperson, operations chief, or a key part of the product delivery. If they don't transition at that point, the business stops growing. The CEO can't be everywhere at once.

Q How do you know when the time is right to make a big capital investment or look for outside funding for a major growth initiative?

Stark: The best source of capital is the money you already have in the bank or cash flow from operations. You always want to use as little outside capital as possible. When you do decide to go outside, you want to find an investor that's aligned with your business. That's why joint ventures can be good: you have mutual interests in growing, rather than an investment banker that just wants a return on capital. Anytime you're raising capital, you're truly selling part of your business. If you don't want to sell your business, then you shouldn't raise equity.

Fraser: Probably the worst possible time to get cash is when you need cash. People think to get to the next level, they can just add managers, expand offices, or add new product lines. But if you're always struggling for cash, then that could be a sign of bigger problems that you need to address first.

Lehw: Different types of small businesses will take different approaches to investment. Hypergrowth companies – those that have a product or a business model that they believe is going to take off very quickly – are much more willing to invest ahead of the curve. They might make capital investments that are much larger than what they need at that particular point in time because they want to put the infrastructure in place to support the growth when it comes. They are much more aggressive because they have a pretty clear vision that they're going to be able to quickly ramp up and hit their growth numbers.

Family-owned businesses are a little different, especially if the original owners are still in place. They tend to be more conservative, making low-risk, incremental investments. They're going to weigh all their options carefully before they invest.



Q How does global expansion impact the operations of an SMB?

Stark: You need to look at what key capabilities you bring to the table, such as customer relationships or specific technical or industry expertise, and how you leverage that into a much bigger part of the world. The key is to take one piece that you're good at and leverage it into another segment.

You can also consider mergers and acquisitions or partnerships for entering new geographies. They may have brand names or customer expertise that you can leverage in other parts of the world. Look for partners who can provide you with complementary pieces of the puzzle.

Niesman: Businesses have to invest in technology if they want to grow and compete globally. Technology doesn't replace people, but it can help you increase the productivity and efficiency of the people you have on board.

Q What advice do you give to business owners who are trying to look bigger than they really are in order to win a deal or compete in foreign markets?

Niesman: Technology solutions can make businesses standardized, which helps them link with customers. You can now speak their language, which reduces the amount of time it takes to produce and fulfill an order.

You don't have to be a 500-person firm to do business globally anymore. You can be a 10-person engineering design firm in Kankakee, Illinois, and you can reach people in Taiwan because you have a specific skill set. We're moving more and more into that type of micro-verticalization.

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How does a business get out in front of all these changes instead of simply reacting to them?

Stark: You want to invest in capabilities that can allow you to change as you go. For example, determine where you can use variable resources – contractors instead of full-time employees or renting instead of buying facilities or equipment – that provide short-term flexibility while giving you more capability to grow. The goal is to limit your downside without limiting your upside.

Fraser: If you're sure you want to make the leap to the next tier of business, then have a clear plan, with clear metrics: will I have enough cash to add new offices and new salespeople? It's a lot easier to define what your metrics should be when you're thinking out in front of the changes. By the time you're going in 17 different directions, you may not even know you're not doing that well anymore. That's how a lot of people grow themselves out of business. You have to have data and systems in place to tell you whether things are going up, staying flat, or going down.

Lehew: In some cases there's not much you can do to prepare. If Wal-Mart places a big order, there may be changes you need to make across the entire business, but there's only so much you can do at any one time. In that case, you start with the biggest demands from Wal-Mart – it could be technology or ensuring on-time shipments or manufacturing capacity – and attack those first.



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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