

A photograph of a lighthouse with a black base, a red middle section, and a white top section, situated on a rocky outcrop overlooking the ocean under a blue sky with scattered clouds.

Viewpoint

Business advisory services

..there are some clear steps that you can take to refocus your organisation and get it back on the path to growth.

Taking the next step: When business growth plateaus... it's time to take the next step!

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Identifying when your business has hit a growth plateau requires taking an objective assessment of your business performance.

There are a number of indicators that highlight when business growth has stagnated. Consider the following:

- turnover is up, however profits are not increasing;
- you're making profits, but there seems to be no cash in the business;
- you have lots of ideas regarding growth and how to grow, but never have the time to implement them;
- you are not sure whether you are ready to take the risk and expand, although everyone around you wants you to do so;
- you have achieved what you originally set out to do – but are unsure of the next step;
- there are many proven business models for growth and there are some clear steps that you can take to refocus your organisation and get it back on the path to growth;

There are no single defining characteristics for a growth business. If we consider companies from the BRW Fast 100 list in 2005, we find that these companies:

- operate across a broad range of industries – from retail to information technology, health, manufacturing, finance, property, culture and recreational services;
- originate from states and territories across Australia;
- can have less than 50 employees (72%); and
- are not necessarily listed on the stock exchange (90%).



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Identifying where growth can be achieved means revisiting your current business strategy and may require implementing a significant change from the current way you do business – needless to say, this change can take many forms.

Growth through strategic change

Other areas where growth may be achieved include introducing better business practices, such as, improving your distribution channel, conducting more effective marketing or focusing on greater client satisfaction; or through growing your market and diversifying, such as increasing your market share, geographical area covered, entering new markets or introducing new products.

Growth through changing structure and developing business alliances

Introducing new products and services or expanding into new markets presents a strategic challenge for successful businesses. Once you've established the direction you would like to see your business grow, there are four basic options to achieve this growth:

Organic growth – ensures that you keep control and can be achieved by increasing production, volumes, number in sales force etc. Organic growth may mean developing alliances and partnerships, including partnership building within the community.

Acquisition of a competitor or an organisation that provides a complimentary capability.

Online recruiting internet site, SEEK Ltd, purchased online training software providers Dynamic Web Solutions and SelfCert to expand their service offerings to prospective job-seekers.

Australia's multi-beverage company, Fosters Group Ltd, acquired the wine producing competitor, Southcorp Ltd, thereby expanding their range of wine products to the market.

Merger – where synergies can be gained for both parties who offer complimentary services to the market.

Two Australian owned and family operated companies in the petroleum and environmental industries merged to form JFTA petrochemical services. The success of the merger can be attributed to the complimentary business offerings and a common culture of vision, values and beliefs.

National Foods Ltd (a subsidiary of San Miguel), specialise in fresh dairy products and merged with Berri Ltd, one of Australia's national fruit juice manufacturers to provide a wider product range to market.

New people in decision-making positions can introduce new expertise – better processes

Franchise – an effective way to manage and build a brand while ensuring individual franchisees have ownership in running the business.

Ella Bache's CEO, Karen Matthews, also Telstra's NSW Business Women of the Year (2004), introduced the concept of franchising to skin care products as a means of enforcing product standards across Australian beauty salons.

Diana Williams is the founder of the Fernwood Women's Health Club and used franchising as a mechanism to expand Fernwood gyms and ensure that they were managed by owners who are as passionate about the health and fitness industry as she is.

Organisation Change

Growing your business may mean introducing new directors, owners and/or managers to the business. New people in decision-making positions can introduce new expertise – better processes; access to new and different networks; or someone who has just done it before and can offer advice in negotiating the growing pains.

Establishing a company board is an effective mechanism for introducing expertise to your business. Of 2005's BRW Fast 100 companies 34% have external directors on their board and 69% acknowledge corporate governance in contributing to the growth of their business. Andrew Buxton, Managing Director of MAB Corporation – a firm that specialises in property development, construction and investment – attributes the discipline of committing to corporate governance and the board as an important component of their growth.

It should be noted that a company board can only be effective where there is a strong commitment by owners and managers to abide by decisions made at the board level.

In addition to industry representation, it is desirable to have board members with the following mix of qualities, which may or may not be found in the one director:

- experience in an organisation at a similar growth stage;
- legal expertise;
- media and marketing experience; and,
- networks with customers and suppliers.



There are many challenges regarding stepping back from some of the operational elements of your business, but this will provide you with more time to focus on the strategic priorities of growing.

An important part of growth is ensuring your management team has the operational capacity to grow. However, there are some real challenges that entrepreneurial businesses often encounter when they wish to expand their management team. These are:

- getting outsiders into the 'inside';
- understanding that in practice the real decisions are made around the dinner table or the 'Golden Fleece' rather than in the boardroom;
- specialists threaten existing staff who may have been there since the company's inception;
- new staff expect too much power or are over-sold the job;
- the founders talk a good line about 'letting go' but can't manage to keep their nose out of the day-to-day operations;
- the founders don't have the capacity to make the change.

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Access to expansion capital

Accessing expansion capital is a popular method to fund growth and is becoming easier as capital providers shake off the memories and implement some of the lessons learned from the 2001 'Tech Wreck'.

However, prior to committing to a decision to 'raise more capital', there are some practical implications to consider.

Identify the reason why you are raising funds so that you can determine the required amount of funds and the term for which you need those funds (ie. short-term, long-term or permanent).

The funding mix—what is the debt to equity ratio that you feel comfortable with and that your business can afford? Many start-ups who are cash-poor choose to offer equity to investors. This is an attractive option for funding new initiatives, but this may mean diluting your control and decision-making capabilities. Business debt can be a cheaper source of funds. You need to identify the form of funds most appropriate to your needs and circumstances.

Do your research – what is the cost of raising equity? The benefits of raising capital need to outweigh its expense. Make sure you understand the scope of the legal and accounting costs, financial reporting requirements, due diligence preparation, underwriting costs and marketing preparation required for your equity offer.

With whom would you share ownership in your business? Understand who would be your best source of finance and on what terms. Also consider the cultural compatibility of your funding source when this means dilution of your control.



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The two primary sources of accessing expansion capital are as follows:

Private – this can be via a venture capitalist, business angel, sophisticated private investors and also includes banks in the form of business loans.

Carsales.com.au is an internet business that sells cars for dealers and individuals and achieved significant growth through seeking expansion capital within the automotive industry. Originally, Carsales.com.au formed an unlisted public company that provided car sales advertising. Greg Roebuck, CEO of Carsales.com.au, identified the strategy of selling shares to automotive businesses to provide car dealers with the opportunity to own the new classifieds media – providing an attractive alternative to supporting Australia’s media barons, Rupert Murdoch and Kerry Packer.

Realestateview.com.au Ltd is a successful online listings portal that provides sales and leasing marketing for real estate agents. Start-up funds were raised by seeking private equity solely within the real estate industry – issuing shares to ‘sophisticated investors’.

Public – Listing on the Australian Stock Exchange (ASX) or an alternative stock exchange market, such as the Bendigo Stock Exchange (BSX) or National Stock Exchange (NSX) enables you to raise equity via a public company listing.

Of interest, the BSX and NSX have been tailored to accommodate small to medium sized businesses and have more cost effective listing fees. Brumby’s Bakeries is one such company that has listed on the BSX. Thirteen out of 2005’s BRW Fast 100 are planning to list within the next two years. The turnover for these companies ranges from \$2.8m to \$171.8m.

Regardless of the nature and terms of the capital that you want to raise, accessing it often requires demonstrating a strong trading history and evidence of plans for growth, including how you intend to apply your newly acquired capital to those growth plans. Developing a business plan is a good first step in demonstrating how you plan to grow your business. A well-drafted business plan can be used to support loan applications, equity proposals and also grant applications.

For more information

Phone 1300 138 991 or visit www.bdo.com.au