

The Six Pitfalls of Growth

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It may seem counterintuitive, but it is possible for companies to grow themselves out of business. The U.S. economy is beginning to move toward recovery, in spite of the most recent spell of unrest caused by the credit downgrade. So as our economy begins to turn around, an increasing number of manufacturers are starting to see an uptick in their business. Now is the time they should consider potential pitfalls of growth.

If growth isn't well managed, it is, quite simply, a risk. "It's important to find the right level of growth and make sure it's profitable," said Bob Shapiro, CEO of GCS Packaging Inc., a contract packaging company serving the food industry. The risks of growth come in a variety of shapes and sizes; however, there are six in particular of which growing companies should most often be aware.

Balance Sheet Management: It may seem simple, but for a business to fund growth successfully, a company must responsibly manage its cash flow and inventory. In order to grow a manufacturing business, you have to be able to add inventory and receivables as it is growing, which requires either cash or debt.

"The biggest lesson I have learned is to focus on margins rather than volume. I learned this through the fails," Shapiro said. "We grew too fast or took on business that wasn't a good fit, and ended up losing money and not being as profitable as we should have been. These fails helped to get me more focused as the business matured, and I learned to make sure margins were protected more than volume."

To overcome this pitfall, it is important to have trailing 12-month historical data. Just as critical is to have a projected 12-month budget forecast of the balance sheet and P&L statement to manage accurately and project payables, receivables, inventory and tax needs, ensuring growth will not take the company to a position

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where it runs out of money.

Lending Relationships: A successful growth strategy for any manufacturing business requires having a strong and sufficient lending relationship. Trust and communication rise and fall together. Both play a major role in this relationship. Communicating with the lender will provide a high level of trust that the company is going to do what it says it is going to do. Creating and sharing historical data and the budget forecast will ensure the lender is on board with the growth plans and is aware of what future needs will be by providing them with a realistic picture of the business.

People: A company's employees are critical to successful growth. Companies need to take inventory and evaluate whether or not they have the right people in the right roles. Do these people possess the correct skill sets and knowledge necessary to take the company where it needs to be? Companies must be honest and realistic. If the company does not possess the right people, then changes should be made sooner rather than later.

Business Processes: Whether it is in the back office or on the manufacturing floor, business processes are the backbone of any company. It is the responsibility of company leaders to maintain best practices in the industry. Are companies using the right methodologies to meet customers' requirements for quality and delivery time? The pitfall to growth exists as customer orders change, be it size, frequency or type. In these situations it is best to work smarter, not harder. Identify the right external resource with expertise in the industry or within a specific vertical to make sure they are ready for new growth.

Client Management: Retain and attain. Nurturing client relationships is often tricky, yet it is one of the most important parts of growth. The pitfall exists when companies do not successfully manage quality relationships with historically loyal clients in addition to brand new customers. Additionally, when taking on a large client, manufacturing companies must not become reliant on that large customer. Having a diverse client base while growing is imperative. The best way to overcome the client management pitfall is to be actively engaged in the relationship and understand the cost structure of the company and how that client fits into that structure. If the company lost its biggest client tomorrow would it survive?

Legal Implications: While attaining a new, large client is thrilling, manufacturing companies should be cautious. Early in the relationship the company should identify all possible risks and determine if the company is protected. Is the company protected and indemnified appropriately if the customer downsizes? Getting a letter of credit, guarantee, or another legal remedy early in the relationship will protect the company. This is particularly important in the food manufacturing industry in which a manufacturer may have specific materials they use solely for one large client.

As Shapiro says, "You can't sit still in business, you're either growing or moving backward. If you don't have some focus on growth then you can't continue and be successful."

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