Growth Pains of a new Business

Starting up a new business requires a great deal of patience, energy and navigation. The statistics are pretty dismal. A very high percentage of new businesses fail or get into serious trouble in the first five years. My SCORE mentor colleagues and I have the opportunity to assist new and existing businesses as they deal with these growth pains during those first few years. In today’s column I will share a smorgasbord of helpful advice that I have heard being given by SCORE volunteer mentors.

✓ **Have a plan.** We always like to see a new business start out with some kind of a business plan that shows that the new CEO has gone through a solid process of starting the business. In fact, I often say that it’s the process of planning that is more important than the formal plan. But there is another aspect to this process and that is being prepared with a set of strategies for doing business. Some like to say that there is a difference between a business plan and a strategic plan. They point out that a business plan is sometimes seen as formal and only a collection of facts, forecasts, and assumptions and risk assessment. On the other hand the strategic plan component is your vision, your core values, your purpose in having a business and its goals. The important factor is that your vision and your plan have to match. In other words, the strength that will get you through those initial challenging months comes from a personal vision, not a business projection on a piece of paper.

✓ **Check your forecasts regularly.** If you have prepared a business plan and financial forecasts, don't put those in a drawer and forget about them once you've gotten funding and started your business. Your plan needs to be thought of as a living document. It's a fluid document and you need to evaluate it at predetermined times and ask the question: Am I on target? What adjustments do I have to make in order to succeed?

✓ **Make sure you're capitalized.** The biggest problem for start-ups is undercapitalization. Most often they don't start with enough. They never planned for start-up costs and the day they open the door they're in trouble. They're worried about bills and they devote their efforts to that instead of marketing and running the business.

✓ **Be prepared for sudden growth spurts.** Sudden growth can be the worst thing in the world for an undercapitalized company. That may sound goofy, but consider an example of a given business that may be able to deal with a growth of 8 to 10% but a growth surge of 40% may cripple the company because too much cash is required to handle this growth.
✓ **Avoiding long-term borrowing.** Dramatic growth is not going to be solved by long-term borrowing because the company’s debt to worth ratio is going to get way out of whack. That is you'll owe far more money than you own. Instead look to your bank for a revolving line of credit. That way if growth causes a dip in cash, you can still pay your bills.

✓ **Have sufficient people, equipment, and floor space.** Growth consumes everything in its path. You need to assess (hopefully with financial projections) how much 'front-loading' you'll need to do so that if you do borrow, you've asked for enough.

✓ **Credit cards and lines of credit can help bridge key growth spurts.** Sometimes dramatic growth can best be managed by tapping credit cards and lines of credit, both of which offer flexibility and additional options.

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Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Mentor and District Director of SCORE Minnesota