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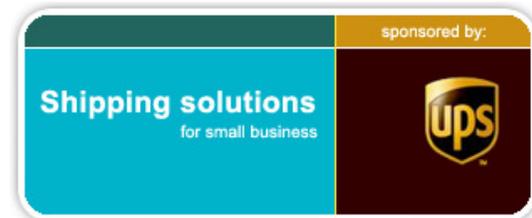
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Magazine

Overcoming Challenges that Prevent Small Business Growth

By Julie King
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Growth is often the bulls eye businesses aim for, yet ironically enough, when it arrives the sudden surge can cause a company to falter or even fail.

James Phillipson, a chartered accountant who provides strategic financial management skills to small and medium sized businesses (SMEs), has a good grasp of the "growth challenges" smaller companies face. For the last twenty-five years he has helped companies use financial systems and processes to grow their business.

While successful firms will normally take care of routine accounting requirements, explains Phillipson,

quite often their staff and management both lack the experience needed to meet the challenges of growth.

"When a business is successful and grows, particularly when the growth is rapid, management is almost always operating with limited resources and one of those is limited financial management expertise," said Phillipson. "This is not surprising if the owner does not have any financial training."

"A SME cannot justify a full-time, suitably qualified Controller until it reaches a certain point and so it often continues to utilize the same staff as was necessary when the business was much smaller. Often this Accountant is capable of preparing the necessary compliance

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referred to above. However, that person often does not have the experience to effectively manage the slightly more complex challenges that success and growth entail."

Success inhibitors ... and what you need to do to overcome them

Phillipson has identified eight major challenges that a company must overcome as it grows. Here is his advice on where the problems lie and what you can do to resolve them.

1. Lack of capital

Lack of capital is often the most critical challenge that a successful SME faces as its very success creates this and it quickly becomes a vicious circle.

Without very diligent cash flow management and/or raising of more capital, including debt, the business often is constrained by capital as it grows. Often the profit in one operating cycle is insufficient to fund the extra working capital required for the next operating cycle.

This is especially the case where a business is either inventory or receivables intensive and/or the operating cycle is a long one. (The operating cycle is the average time that it takes from the first receipt of inventory to when the customer pays for the goods sold.)

This can be made even worse where capital goods are required to process the goods and the company cannot finance the acquisition of these capital assets. Many capable entrepreneurs cannot overcome the obstacles in their businesses cash flow cycle and cannot understand why bankers and other lenders often cannot provide the financing as the SME often does not have the security to support the debt.

The solution is often easier than most entrepreneurs realize. It often starts with a plan to see what your cash needs are and when your cash needs arise. Then one is in a position to manage it and focus on the cash management techniques most likely to be successful in your business.

2. Lack of management skills

Lack of management skills is a problem that is very difficult to deal with in most SMEs as the size of the senior management team is necessarily limited. These areas of weakness could be in finance, human resources, marketing ... any area where the current management does not have the expertise, or the time to deal with the issues.

The solution is to determine what those areas of weakness are and then to develop a plan for dealing with those challenges. Once you spend the time to recognize a weakness -- as long as it is not in a core area for the specific business -- it often can be compensated for without a lot of time, effort or money.

Solutions can be as simple as assigning the responsibility to an existing manager with a requirement to watch for the obvious pitfalls, to hiring a person part-time or a consultant. The solutions are often obvious if one spends a little time planning and assigning responsibility. And yes, it often is effective to assign that responsibility to yourself as you then know that you have to deal with the issues rather than waiting for an issue to become a real problem.

3. Lack of information about what is - and isn't - working

Lack of information about what is working, and what is not working, in the business can be an issue. Often companies do not measure their results and when something specific causes a blip (positive or negative) in results they do not know what has caused the success or problem.

Implementing a process for measuring and tracking key performance indicators (KPIs) on a weekly, or at least monthly, basis is key to enabling management to react to challenges and opportunities alike. The old saying that you cannot manage what you do not measure is so true. If nothing else, it often alerts you to a change from the norm much sooner than waiting until you otherwise become aware of it.

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Once awareness is established, solutions are easier to find.

4. **Lack of a plan**

Lack of a plan is often a fundamental problem for many SMEs. The arguments for planning are many and irrefutable and yet this is a very common failing for most SMEs except those that are enjoying very rapid growth.

In my opinion there are three very fundamental reasons for implementing a planning process:

- a. If your plan sets out certain objectives you are much more likely to achieve - or exceed - them than if you just keep barreling along. Research has often shown this to be true and it stands to reason that having a plan will enable you to often think through and implement the steps necessary to achieve that plan;
- b. Most SMEs spend so much time dealing with the "alligators" that are snapping at their rear end that it is difficult to recognize the steps necessary to achieve your long-term objectives. A plan disciplines you to look "beyond the weeds" from time to time; and
- c. A plan can often alert you to inconsistencies that need to be managed e.g. a lack of capital or other resources necessary to fund the growth projected. Once recognized you are in a position to better manage the limiting factor.

5. **Poor procedures**

Poor procedures are a constant challenge for a SME trying to manage with limited resources. Most entrepreneurs do not realize that the procedures in place for managing the business need to be well designed to reduce the incidence of errors. Error correction is often a major waste of time and particularly management time.

Good procedures with a little time and effort invested up front will usually pay enormous dividends in time and cost savings on an ongoing basis.

6. **Ignoring risks in their assessment of alternatives and opportunities**

Many entrepreneurs ignore risk in their assessment of alternatives and opportunities. A business is about taking managed risks and one cannot insure for or avoid risk if one is in business. However in my experience few, once they have chosen a course of action, pause to consciously think of ways to manage the risk and determine procedures or steps that can be taken to reduce the risk and increase the chances of success.

Often, this is as simple as "diarizing" to follow-up on an issue so that it does not get forgotten or having a second person review something to reduce the risk of error.

7. **Lack of focus**

Lack of focus is often a real challenge for an entrepreneur in a SME as there are constant changes in priorities, issues that need attention and other fires to be extinguished. Often opportunities present themselves and it is difficult to say "no" to a short-term opportunity that will distract you from your long-term goals.

Be clear on your long-term objectives and the opportunities that will facilitate your achieving this. Then evaluate other opportunities by the extent to which they draw resources away from your ability to achieve those long-term goals.

8. **Failure to plan for issues absorbing the majority of your time**

Each of the above potential mistakes are common and are often encountered in businesses that could do lot better. However, the greatest failing that I encounter is an owner/manager not pausing to plan for the issues and solutions that are absorbing so much of his/her time and energy.

Probably the scarcest resource in most businesses is the time of the owner/President and a little time developing a strategy can often free up the opportunity to focus on real priorities.

Author Information

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