

CHAPTER SIX

Are You Ready for Growth?

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The future comes one day at a time.

DEAN ACHESON

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After speaking to thousands of entrepreneurs, many who had prepared a formal business plan, I have found that most of them have one comment in common: “The business turned out nothing like my business plan projected—I had to keep changing it.” Funny how life does that to us, always getting in the way of our best-laid plans. ☺

DID YOUR PLAN GO TO PLAN?

The smart entrepreneurs are those who use a plan and are willing to revisit it often. No matter how long you have been in business, planning should be an integral and important part of your management strategy. When it's done correctly, growing a small business is an exciting experience. You know you are taking positive steps toward success while feeling a sense of accomplishment, increased confidence, and greater self-esteem. You have worked hard to come this far and deserve the rewards. Planned growth is exhilarating—uncontrolled growth is chaotic.

For some, growth suddenly sneaks up on them when they are least prepared. Some people prefer to stay at a certain level of operation, while others plan growth that doesn't happen. Too often, a small business is started without a business plan, or the plan is not revisited before growth decisions are made. A good plan incorporates provisions for sudden or unexpected growth. Do you have the resources to expand, finance a larger inventory, or hire more employees? What about the cost of relocating to larger premises?

Many owners don't even think about growth when they start, suddenly finding themselves trying to handle those sixty different jobs. This leads to poor decision-making, and often the failure of a potentially viable business.

Heed the signs of uncontrolled growth

It's easy to bury yourself in the day-to-day operation without really noticing what is happening. Review the checklist in Figure 6.1 and see how many of the warning signs that your business is growing in a disorderly fashion apply to you.

Figure 6.1

Is My Business Growth Out of Control?

1. Your desk is a mess, piled with unopened bills and correspondence.
2. Suppliers are calling for payment of overdue accounts.
3. The money seems to go out faster than it comes in.
4. You constantly feel under pressure, tired, and worried.
5. You can't keep up with all the tedious administrative duties.

6. You mutter when the phone rings and don't return calls promptly.
7. Taxes and other government payments are falling behind.
8. Your books are months behind.
9. You don't know how much is owing by customers or to suppliers.
10. Your family complains that you are difficult to live with.
11. You often find yourself working evenings and weekends.
12. You don't take regular vacations.
13. You are not enjoying your work.
14. You make silly mistakes.
15. You wake up feeling tired and depressed and lose sleep worrying.

Checking off any of these scenarios should warn you that it's time to address some important issues. Your business cannot grow if you are uninformed, overworked, out of control, and depressed. You have to change both your attitude and the way you are operating—now.

USE THE SIX-STEP GROWTH ANALYSIS PLAN

Even if you didn't plan how to grow your business, it's never too late to start—but where to begin? Spend time seriously evaluating where you are, where you want to go, whether you can afford it, and how you are going to do it.

The six steps to planning for growth are:

1. evaluating where you are now
2. deciding whether you want to and are ready to grow
3. setting goals
4. planning how you will grow
5. planning how to finance your growth
6. comparing progress to projections

SIT DOWN AND SET GOALS

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You can't plan for growth until you have set goals. Have you really thought about what you want from your business? How practical are your goals? How and when can they be attained? As you work through this analysis process, you may discover areas in both your business and personal life that need some fine-tuning.

STEP 1: EVALUATE WHERE YOU ARE NOW

The worksheets and checklists in this book are designed to help you assess and pinpoint your strengths and weaknesses so that you can improve. Your business can't grow without your willingness to do something about it.

Review previous worksheets

The first step is to review and complete previous checklists and questionnaires and to decide on a course of action using Figure 6.2 on page 115.

Chapter 1

The “Where Am I Now?” questionnaire (Figure 1.1) should indicate whether you are feeling positive about your business. It should have identified areas requiring improvement or affirmed that you are heading in the right direction. How did you feel when you answered the questions? Do you still feel that way? Are you mentally ready to objectively tackle growing your business?

Chapter 2

Successful growth needs nurturing with a positive attitude and a determination to overcome all obstacles. Revisit Figure 2.6, the “Where Am I Going?” questionnaire, where you noted areas of concern. You should have also noted the jobs you don't like doing, where you need to develop more expertise, and work that could be delegated. Are you willing to take action in these areas?

Chapter 3

Growing requires that you develop refined organizational skills. There will be more of everything to cope with, so organization is critical to save serious errors and confusion. How did you fare on Figure 3.3, “Operation ‘Get Organized’ Checklist”? Are you prepared to reorganize yourself, your systems, and your business so that all operate at peak efficiency?

Chapter 4

The “Twenty-Question Profitability Checklist” (Figure 4.10) notes key areas that contribute to the profitability of a business. Of those you have answered “no” to, are you prepared to investigate some viable solutions? Have you calculated your break-even point yet?

Chapter 5

You need optimum administrative efficiency to utilize every dollar of revenue generated. For those areas in Figure 5.5, the “Administrative Efficiency Checklist,” that you checked “needs work,” will you complete the task of streamlining your administrative operations?

Chapter 6

When you have read this chapter and completed Figure 6.6, the “Going for Growth” action plan, add your answer to the checklist in Figure 6.2. Are you ready for all that is entailed in growing your business?

There are other important checklists throughout this book. They will give you further insight as you work toward growing both your skills and your business. Make time to complete those applicable to your needs.

Figure 6.2

“Are You Ready for Growth?” Checklist

	Improvement needed		Willing to improve	
	Yes	No	Yes	No
1. Where am I now?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Where am I going?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Operation “Get Organized”	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Profitability checklist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Administrative efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. “Going for Growth”	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

What is your commitment?

If you checked “no” under “improvement needed” to all six items in Figure 6.2, then you don’t need to read this book. Congratulations! You are on your way to becoming another Bill Gates. If you checked “yes” to most of the six worksheets under “willing to improve,” I congratulate you also. You are truly ready and willing to work positively on growing your business and are obviously

HIRE HELP

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If you are suffering from any of the warning signs discussed on page 110, you are definitely tackling too much by yourself and need help. Many people say, "But I can't afford to hire someone, I'm not making enough money." Often it is a catch-22 situation—if you don't get help to grow, you won't.

aware that it will take time, commitment, and hard work. With this attitude and determination, you *will* succeed.

If you have answered “no” more than three times under “willing to improve” and “yes” more than three times under “improvement needed,” then perhaps growing your business is not the right decision for you at this time. For those willing and wanting to grow their business, read on to the next step.

STEP 2: DECIDE WHETHER YOU ARE READY TO GROW

In most cases, growth doesn't just happen—you have to make your business grow at a pace that you can physically, mentally, and financially manage. If you have completed the Figure 6.2 checklist, then you are aware of the areas that need work. Solutions usually take time and money to implement, but some can be implemented quickly and at little cost.

To grow or stay small?

Some people don't want to grow. They have developed a lifestyle around their business which complements both their family commitments and personal life. This is particularly true of many home-based businesses owned by women that can be operated part-time while raising a family. Unfortunately, there are many women business owners whose home-based businesses could blossom if they had the focused time to devote to growth. For many, although juggling the family works, it doesn't allow the business to reach its full potential.

If you follow this six-step growth analysis plan, you will know better whether you can cope with growth or whether you should just stay small, work smarter, and become more profitable. Let's look at some of the questions you need to ask yourself.

a) Skills

Refer to the sixty different jobs listed in Chapter 2. If you haven't highlighted the ones you hate to do or can't do, go back and complete this exercise. This helps to pinpoint your strengths and weaknesses. You should have solid financial, marketing, sales, communication, technical, and administrative knowledge. If you haven't, you either have to learn these skills or delegate them.

Many of the jobs you highlight will be administrative jobs that encroach upon the time you need to concentrate on growing your business. Which ones could you delegate? How long will it take you to learn the other necessary skills? Can you still grow your business as you learn?

CHECK HOME-BASED REGULATIONS

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Some local government regulations prohibit non-resident employees working from your home, so the choice then becomes to operate illegally—which many people do—or to move the business out, which isn't always financially viable. Before you make any home-based growth plans, check that you fall within the parameters of home-based business regulations.

b) Relocation

Would growing your business mean relocating to larger premises? Can you afford to move? Research the cost of relocating, as it can be expensive. Many home-based businesses are not ready to take the plunge to commercial premises without the in-between step of hiring one or more employees. Others are tied into a commercial building lease for a property that is now too small. Explore all your options to determine the best solution for you.

c) Finances

Growth often requires some financial injection. Answer these questions:

- Is your business stable enough that you could apply for a loan?
- How much income is needed to repay the loan?
- How will you generate that income?
- Is your business paying you a satisfactory wage?
- Is it wise to consider growth if your business isn't yet supporting you?
- How will you convince the bank that growth is your ideal solution?

Study your most recent financial statements. Review the working capital situation and the statement of income and expenses. What are your financial statements telling you? Sit down with your accountant and spend some time finding out.

d) Employees

One of the most difficult tasks is finding the right employees. It's even more difficult to fire incompetent ones. Are you ready to take on the responsibility of hiring and training employees? Do you have the cash flow to ensure that wages and deductions are paid on time? Are you ready for the responsibility of directing and working with someone else? Being a boss doesn't come naturally to everyone.

If you own a home-based business, it is difficult to take that gigantic step straight into commercial premises; you usually need to hire at least one employee to work through the growth stage before making such a large financial commitment. If it is legal where you live, having an employee in the home requires careful thought and planning, as in some ways, they become a part of your family life.

e) Time and energy

You need these two most important ingredients in the success recipe, so ask yourself:

- Am I still enthusiastic and energized about this business?
- Am I feeling overworked, depressed, tired, and a little burned out?
- Will growing the business put undue pressures on me?
- Will my family support these decisions?
- Do I have the time to seriously commit to growing my business?
- Will a well-thought-out plan incorporating hiring staff ease some of these pressures?

Think carefully about these five important areas as you continue on to step three. Make notes of those issues which need to be addressed as you set your goals.

STEP 3: SET GOALS

The importance of goal-setting was discussed in Chapter 2, and now it's time to commit those goals to paper. This step is too often missed on start-up. There is no doubt about it—if you set goals, give them deadlines, and stay focused, you will reach them. The only person who puts limits on you is yourself.

A friend of mine refuses to put limits on her goals. Recently widowed and in a wheelchair due to physical problems, she drives herself everywhere, has taken up painting, and is currently running for a political position. The sky is definitely not her limit.

Goals should not be all materialistic, nor should they all be short- or long-term. Your goals should enrich and enhance four distinct areas of your life:

- **Personal goals:** increasing self-confidence and self-esteem, feelings of achievement, inner enrichment, peace and happiness, community recognition, retirement
- **Business goals:** short-term goals, one- to ten-year goals, how long you want to own this business, how big you want it to grow, increasing the goodwill value, “perks” the business can provide, diversification
- **Material goals:** increasing personal assets and net worth—do you dream of a bigger house, a better vehicle, a boat, or travel?
- **Family goals:** Family is the most important asset you have; goals could include improving family lifestyle, developing better relationships, spending more time together, providing children with jobs in the business, having family support, and providing better education for the children.

ELIMINATE FEAR AND LIMITS

I once said to a friend that the sky is the limit. “Oh no, it’s not,” she replied. “Why should you limit yourself?” I thought carefully about her words and had to agree—why set yourself limits? The most common reason for not forging ahead and making those dreams a reality is fear of failure. What could you achieve if you took away the fear of failure? Think about it.

SHARE YOUR GOALS

Don’t rush into setting goals. Talk to successful business people to see how they achieved their goals. Talk to your family to ensure you have their support and that they understand your goals and how you feel. Include them in your plans.

TAKE BABY STEPS

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If you have ever watched the movie What About Bob? with Bill Murray and Richard Dreyfuss, you will have heard the phrase “baby steps.” I use it most days to remind myself to take one step at a time. Try taking baby steps toward your goals—it really works.

Write your goals down in Figure 6.3, then either photocopy this worksheet or rewrite it. Put it somewhere highly visible, like the refrigerator or your office bulletin board. Read and affirm your goals daily. When you reach each one, fill in the date that you achieved that goal and highlight it on your list. You will experience an extraordinarily satisfying feeling of power and achievement.

STEP 4: PLAN HOW YOU WILL GROW

This part of your growth plan may take time to develop. A service business or retail store has certain physical and geographic boundaries, unless you plan to open other locations. A manufacturing company may only be able to capture a certain portion of the market due to cheaper exports or competitors. The goal for any business is to make healthy profits. Bigger isn't always better.

Part of planning for growth is to know *why* you want to grow, *how* you will grow, and whether it will be beneficial. Answer these vital questions:

- Am I filling a need and niche in the market?
- What will my position in the market be?
- What marketing methods will I use?
- What are my competitive strengths and weaknesses?
- How will the weaknesses be overcome?
- What is my projected time frame?
- Will growth increase the net profits of the business?
- Will I require outside financing?
- Where will I obtain that financing?

Figure 6.3

My Go-Getter Goal-Setter Plan of Action

	Goals	Deadline
Personal:	1. _____	_____
	2. _____	_____
	3. _____	_____
	4. _____	_____
	5. _____	_____
Business:	1. _____	_____
	2. _____	_____
	3. _____	_____
	4. _____	_____
	5. _____	_____
Material:	1. _____	_____
	2. _____	_____
	3. _____	_____
	4. _____	_____
	5. _____	_____
Family:	1. _____	_____
	2. _____	_____
	3. _____	_____
	4. _____	_____
	5. _____	_____

Ten Tips

for **Expanding Your Business**

If you use that creativity for your golden box of opportunity that was mentioned in Chapter 2, you may find some unique ways to grow your business. Consider these suggestions:

1. Expanding your line of products
2. Expanding the services you offer
3. Offering consulting services
4. Exporting your product or service
5. Importing products
6. Franchising your business
7. Partnering with another complementary business
8. Opening a second location
9. Buying an existing business to expand
10. Offering seminars, workshops, or training services.

STEP 5: PLAN YOUR FINANCING NEEDS

When you have completed the “Going for Growth” action plan (Figure 6.6) at the end of this chapter, you should have identified where additional funding is needed to meet your needs. Research these costs and incorporate them into your projections.

Many of these steps are similar to those required in the preparation of a business plan. What you are now preparing is a strategic growth plan that

incorporates a research and development component, a marketing plan, and cash flow, income, and expense projections. No lending institution will entertain the thought of a loan without this information.

Research loan programs

The next step is to estimate the amount you require, based on your projections. It may be as little as \$5,000 or as much as \$100,000. Which financing product best suits your needs? You may be able to secure a government-funded loan for expansion or export. The U.S. Small Business Administration offers loans to suit most businesses' needs, including the Microloan Program. Their Basic 7(A) Loan Program caters to new and growing businesses looking for capital to purchase assets and fund expansion projects, long- and short-term working capital, and capital for refinancing and export production. Another option is the Export Working Capital Program (EWCP), which provides exporters with short-term working capital. Visit www.sba.gov/financing/sbaloan/snapshot.html.

What do banks offer?

As comparable and competitive financing products are available, you need to do some homework. Try your own bank or trust company first, as you should have built a relationship with them and they can put a history to your name. Hopefully this is advantageous to you.

Lenders are becoming more small business friendly, with some offering small business loans under \$15,000. Finding the financing you need can be frustrating, but there are many options including:

- overdraft protection and small business credit lines
- business credit cards
- business operating lines of credit
- small business loans
- term loans
- export financing and letters of credit
- business leasing products
- secured lines of credit

BE PROFESSIONAL

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Be well groomed, positive, and well armed for your loan application appointment. Take your past and most recent financial statements, business plan, a statement of personal net worth (personal assets and liabilities), any promotional material, articles relevant to your industry, or anything else that will help to inform and project a professional image. Carting in your set of accounting books is not acceptable.

How do banks view your business?

Be well prepared for your appointment at the bank with a professional presentation. Review the contents with your accountant and discuss any potentially weak areas. The bank will examine these key application factors:

- the overall viability of the business
- the viability of the business plan
- the business's ability to repay the loan
- what security is offered
- how much the owner(s) have invested in the business
- past and current credit history
- available management expertise

The three crucial questions

Apart from assessing your overall knowledge plus all of the above, the bank wants to be sure they are investing money wisely. They will perform a variety of calculations from your financial statements to find answers to the following:

1. ***Is this business currently "liquid"?*** If current assets and current liabilities were liquidated, could the assets pay off the liabilities? Are the owners drawing a satisfactory wage?
2. ***Is this business currently profitable?*** Are profit margins consistent? Can the business absorb growth costs? Does it have the ability to repay the loan?
3. ***Do the financial statements reflect a relatively financially stable business?*** What is the debt to equity ratio? Can this business cope with growth? How has it performed during previous growth periods? What would be the financial effect of a downward trend?

If you pass these stringent tests and your growth plan reveals a viable investment for the bank, you should obtain the finances you need to put your plan into action. Read about how one enterprising couple financed their new business in the Real Life example “Tailoring the Formula for Success.”

Real Life

Tailoring the Formula for Success

How does an out-of-work couple become the proud owner of a 100 percent financed failing menswear store? This story is all about miracles. Turning the store around and growing it by 30 percent in one year wasn't a miracle—this couple has all the right ingredients for a successful partnership.

Derek and Lisa Rickwood wanted to purchase a 44-year-old menswear store. Derek had worked in the men's clothing industry for twenty-three years, many of them at this particular store. His talented wife Lisa had seven years' advertising experience, plus a fashion and writing background. Both are highly creative, artistic, and possess many necessary business skills.

They needed \$150,000 to purchase and revamp the store. The whole amount was eventually funded by working with the local small business development center, and with a credit union loan, plus funds from friends. Knowing that he was the only one who could sell the concept, Derek insisted that he be present when his business plan was reviewed by the committee that approved the loans for small businesses.

“Had Derek not been there, we wouldn't have got the loan,” explained Lisa. “He knew that this wasn't all about facts and figures on paper. He had to sell himself, which he did.”

Rickwood's Menswear Inc. became a reality. Catering to men from head to toe, it offers dry cleaning; shoe and leather repairs; tailoring; alterations; personal after-hour appointments and delivery; affordable, quality clothing; and exceptional service—and an in-house art gallery featuring works by Derek.

The couple kept in constant touch with their accountant, who was thrilled when the store reached break-even point and generated profits in under one year. Even through tough economic times, the store grows steadily each year.

continued

Employing only a bookkeeper, one full-time, and one part-time sales staff, Derek and Lisa wear many entrepreneurial hats. Overcoming obstacles that would frighten most people, their combined talents, expertise, passion, and persistence have turned a struggling store into a success story.

STEP 6: COMPARE PROGRESS TO PROJECTIONS

Once you have a viable growth plan in place with the funds to accompany it, review your financial figures and projections each month. If you borrowed money, it's even more important to see if the investment is reaping the expected returns.

Consult your plan then update financial figures and projections before making any financial decisions—that's why you plan in the first place. By regularly monitoring your progress, you can more readily identify concerns and remedy the situation. Perhaps you didn't achieve your sales projections or your marketing isn't producing the expected results. This information will be reflected in your financial reports.

ANALYZE EXPECTATIONS

When you sit down and analyze where expectations were not met and why, you become more focused on those areas in the future.

Compare spreadsheets

The best method for reviewing your progress is to compare actual results to projections. Study each area of your analysis to determine why the figures vary, and then decide how to resolve any problems. Figure 6.4 shows a one-month comparison for a small woodcraft manufacturing business. Reviewing these figures is a step that not enough businesses take.

Figure 6.4

One Month Financial Comparison

CREATIVE WOOD ART INC., AUGUST 31, 20__

	Budget	Actual	Variance
Sales	\$13,000	10,500	(3,500)
Cost of sales			
Materials	2,600	2,415	(185)
Packaging	260	230	(30)
Labor	1,950	1,890	(60)
Freight	<u>130</u>	<u>110</u>	<u>(20)</u>
	4,940	4,645	(295)
Gross profit:	(62%) 8,060	(56%) 5,855	(2,205)
Overhead expenses			
Accounting fees	150	175	25
Advertising	260	240	(20)
Bad debts	50	0	(50)
Bank charges	45	50	5
Employee benefits	890	880	(10)
Fees, licenses & taxes	50	0	(50)
Insurance	100	100	0
Loan interest	300	310	10
Management salary	2,000	2,000	0
Marketing & promotion	400	780	380
Office salaries	500	500	0
Office supplies	100	230	130
Promotion – meals	50	75	25
Rent	700	700	0
Repairs & maintenance	100	420	320
Security	50	50	0
Seminars & trade shows	60	90	30
Shop supplies	100	60	(40)
Telephone	150	185	35
Utilities	110	95	(15)
Vehicle – gas	100	120	20
Vehicle – repairs & maintenance	150	120	(30)
Workers' compensation	<u>175</u>	<u>170</u>	<u>(5)</u>
	6,590	7,350	760
Profit/loss for month	1,470	(1,495)	\$(2,965)
Actual gross profit deficiency			<u>2,205</u>
Overhead increase/decrease			<u>760</u>
Profit/loss variance			<u>\$(2,965)</u>

What happened?

Sales were \$3,500 below projections and cost of sales increased by six percent as materials and wages both increased by three percent, a gross profit reduction of \$655. Why did both these costs increase? The gross profit for the month was \$2,205 less than projected.

An increase in marketing and office costs and an unexpected breakdown of equipment increased projected overhead by \$760. The business suffered a net loss of \$1,495 instead of a projected net profit of \$1,470, a difference of \$2,965. If projected sales were met with the 56 percent gross profit margin, the business would have lost only \$70 for the month.

This example clearly demonstrates how easy it is for profits to be affected, sometimes by uncontrollable situations. The message is to use your figures to keep growth plans on track and under control.

GROW YOUR BUSINESS BY EXPORTING

Business has gone global. The world marketplace is now open all day, every day, unrestricted by distance, technological barriers, or country of origin. The entire world is within our reach in ways that were not possible before. Like any business venture, entering the global trade arena presents both opportunities and challenges. At first, you may not even be sure how exporting can help your company, or what the drawbacks may be.

What are the benefits of exporting?

Experienced exporters have a pretty good idea of both the benefits and problems of international trade. Let's look at the many benefits.

- **Increased sales:** If domestic sales are good, exporting is a way to expand your market and take advantage of demand around the world. You may also find foreign niche markets where your product is rare or unique.
- **Higher profits:** If you can cover fixed costs through domestic operations or other types of financing, your export profits can grow very quickly.
- **Economies of scale:** When you have a larger market base, you can produce on a scale that makes the most of your resources.

- **Reduced vulnerability:** If you diversify into international markets, you avoid depending on a single marketplace. A domestic downturn will be less damaging if you have other markets where demand remains high.
- **New knowledge and experience:** The global marketplace abounds with new ideas, approaches, and marketing techniques. You may find them very successful locally, too.
- **Global competitiveness:** The experience your company gains internationally will help keep you and your domestic market competitive in the global marketplace.
- **Domestic competitiveness:** If your company succeeds in the global marketplace, it means your product can compete with the best the world can offer. This ensures your resilience when faced with local and foreign competition at home.

What are the challenges of exporting?

Of course, there are also challenges that accompany these benefits. The good news is that you can surmount them with careful preparation.

- **Increased costs:** An exporting venture means you will have to meet many short-term costs, such as extra travel, production of new marketing materials, and perhaps hiring additional sales staff. You may have to modify packaging, or your products or services, to adapt them to markets abroad.
- **Level of commitment:** It takes time, effort, and resources to establish and maintain yourself in foreign markets. While exporting holds great economic promise for most companies, expect months or even several years to pass before you see a significant return on your export investment.
- **Cultural differences:** You will need to familiarize yourself with the differences in language, culture, and business practices in your target market. If you don't, you risk inadvertently offending your potential customers and losing sales.
- **Paperwork:** You will have to get used to it. Most federal governments require a lot of documentation from exporters of products and services.
- **Accessibility:** You have to be easily available to your foreign customers, which can be difficult due to time and language differences.
- **Competition:** You must thoroughly research the competition in your target market.

SMALL CAN BE BIG

To succeed in international markets, you don't have to be a big-name firm with lavish resources and an entire department devoted to exporting. With the amount of government assistance available to small businesses, exporting either your services or products can be a viable option to diversify and grow your business. As an example, the latest statistics available show that by 1998 statistics, small businesses accounted for 95.7 percent of U.S. exporters, contributing 29.5 percent of the value of exported goods.

Exporting goods versus exporting services

Exporting goods and exporting services present quite different challenges. The former must deal with packaging, customs, and physical delivery, for example, while the latter confronts issues such as work permits, communications infrastructure in the target market, and travel to and from the market.

Are you ready?

What makes a business export-ready? Simply put, the business has a marketable product or service as well as the capacity, resources, and management commitment to compete on a global scale. Figure out whether this is true of your company—and if it isn't, how to make it happen.

First, think about the resources and knowledge your business already has. Take a few moments to answer the questions in Figure 6.5.

If you answer “yes” to most questions, exporting may well be a profitable and viable strategy for growing your business.

Figure **6.5**

Are You Ready for Exporting?

	Yes	No
1. Your expectations: Do you have...?		
• clear and achievable export objectives	<input type="checkbox"/>	<input type="checkbox"/>
• a realistic idea of what exporting entails	<input type="checkbox"/>	<input type="checkbox"/>
• an openness to new ways of doing business	<input type="checkbox"/>	<input type="checkbox"/>

- an understanding of what is required to succeed internationally

2. Human resources: Do you have...?

- the capacity to handle the extra demand associated with exporting
- a senior management committed to exporting
- efficient ways of responding quickly to customer inquiries
- personnel with culturally sensitive marketing skills
- ways of dealing with language barriers

3. Financial and legal resources: Can you...?

- obtain enough capital or lines of credit
- find ways to reduce the financial risks of international trade
- find people to advise you on the legal and tax implications
- deal effectively with different monetary systems
- ensure protection of your intellectual property

4. Competitiveness: Do you have...?

- the resources to do market research on the exportability of your product or service
- proven, sophisticated market-entry methods
- a product or service that is potentially viable in your target market

Resources, resources, resources

This information only touches the surface of your exporting options. If you need more in-depth information, visit www.sba.gov/oit/info/index.html. The SBA and partners are your best resources for more clarity on exporting. These partners and resources are described in detail in the SBA's publication, *Breaking Into the Trade Game: A Small Business Guide to Exporting*, which can be downloaded from the above Web page. It walks you step-by-step through the export process, and includes an

International Business Plan to help you carefully evaluate your goals, analyze the industry, and determine the pros and cons of market expansion.

Export advice is also offered through the U.S. Export Assistance Centers, located in many major metropolitan areas. Their locations can be found at www.sba.gov/oit/export/useac.html. Professionals from the U.S. Department of Commerce, the U.S. Import-Export Bank, and other public and private organizations can help you reach your export goals.

THE BENEFITS OF INCORPORATION

“Should I incorporate?” ask many sole proprietors planning for growth. For well-organized micro-businesses, perhaps incorporation isn’t necessary, but in most cases, it is a practical solution to assist in planned growth. Incorporation has considerable benefits, so read this and discuss the various incorporation options with your accountant. You may take on a whole new perspective when you become Coastal Charters Inc.

Incorporation allows you to:

1. **Plan wages and personal finances:** Once incorporated, you can draw a regular salary and make regular income tax, Social Security, Medicare, and unemployment benefit contributions, which greatly helps in planning cash flow. As an employee of the company, your wage is a corporate expense—which it isn’t in a sole proprietorship. You can vary the wage that you take from the business according to cash flow and still be paying the appropriate taxes and employee benefits. At year-end, you receive a W-2 for filing personal taxes.
2. **Structure profits, dividends and bonuses:** Sole proprietors can only make certain deductions from their businesses. When you are incorporated, your accountant can suggest various tax alternatives, including paying more wages, bonuses, or dividends—more money into your pocket and less paid in corporate taxes. Banks understand lower corporate profits when they see healthy management salaries. What they don’t like is corporate losses created by top-heavy management salaries or “perks.”

3. **Project a more stable business image:** Incorporated businesses are viewed more seriously by suppliers, customers, investors, and banks. Incorporation usually indicates that management has thought seriously about growth and profitability. It projects an image of a “real” business as opposed to a “mom and pop” operation. Obtaining financing as a qualified incorporated business is easier than as a proprietorship.
4. **Enjoy the security of limited liability:** Because incorporated businesses are a separate entity from their owners (shareholders), suppliers understand that if an incorporated business goes bankrupt, they may not recover their money. Directors and officers are still personally liable for certain debts, such as personally guaranteed loans, and fiduciary payments such as excise taxes and employee withholdings.
5. **Grow in a more structured environment:** As your business grows, you may want to add partners or shareholders—a board of directors who can give valuable input. To keep a controlling interest, you must maintain at least 51 percent of the shares. If you are considering “going public” on the stock exchange, the basic corporate structure is in place. If this is your long-term vision, talk to your lawyer so that your incorporation structure makes adequate future provisions.
6. **Benefit from additional tax deductions:** Incorporation allows tax deductions and benefits for both you and your employees that are not available to an unincorporated business. These benefits include business trip and entertainment expenses and even recreational facilities. Contributions to approved pension plans are not only tax-deductible, they earn investment income and grow tax-free until retirement or until

COVER ALL BASES

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If a business goes bankrupt, shareholders could immediately start another business. If a proprietorship fails, the owner is personally responsible for all debts, with personal bankruptcy sometimes being the only alternative. This not only leaves a black mark on your credit rating, but also makes personal assets, including your home, subject to liens or seizure. Incorporation allows for safer future planning—particularly if the business fails.

they are withdrawn. Even a one-person incorporated business can deduct health insurance, so for a growing business, incorporating may well save you money while providing attractive taxable benefits.

7. **Corporations have authority:** Incorporated businesses have the authority and power to carry on a variety of transactions that sole proprietors often cannot. They continue to operate after the owner(s) die, and grow and succeed more rapidly than unincorporated businesses.

THE DOWNSIDE OF INCORPORATION

Although incorporation is an obvious choice for a growing business, be aware that it involves more detailed accounting and expenses including:

1. **Incorporation fees:** Ranging from \$100 for a Web-based incorporation to hundreds or thousands of dollars for incorporation through a lawyer, costs depend on the complexity of the share structure and whether you register in other jurisdictions.
2. **Increased accountant's fees:** A rollover from a proprietorship to an incorporated business is prepared on incorporation, moving the assets to the new entity and including the share structure. At year-end, detailed financial statements and corporate taxes are prepared. Depending on how complete and accurate your books are, once again, the cost will vary from hundreds into thousands of dollars.
3. **Payroll deductions:** As a company employee, you must maintain payroll records, prepare year-end summaries, have a Federal Employer Identification Number, (EIN) and make monthly remittances to the appropriate tax agencies.
4. **Extra reporting:** Most states send you or your registered office an annual corporate report to file. In some cases, you can now file online. Either you or your lawyer should maintain a record of company minutes in the corporate minute book. The share register should be updated with any transactions.

5. **Other costs:** You may have to print new stationery and business cards or change signs and website information to reflect the incorporated name. If you are rolling personally owned vehicles into the incorporated business, a transfer of ownership is necessary.

“GOING FOR GROWTH” ACTION PLAN

Any change in your operation should be carefully analyzed to identify the causes, effects, and benefits of that change. Many questions have to answered; it’s not just a matter of generating more dollars. Research the ten areas in Figure 6.6 to determine the causes, effects, and benefits of change on other areas of operation. Check the areas applicable to your business to formulate your guide for growth.

There is a lot of information to digest here, so you may have to read this chapter a few times if you are going for growth. Of course, you will need help to lighten your workload, so read Chapter 7 to learn how to hire the right person, as there are a variety of hiring options. The following chapters will help you with increasing your communication, marketing and sales skills.

Figure 6.6

“Going for Growth” Action Plan

	Action needed	Completed
1. Research and development: research and know...		
• the time needed to research the complete growth plan	<input type="checkbox"/>	<input type="checkbox"/>
• the time needed to develop new products or services	<input type="checkbox"/>	<input type="checkbox"/>
• the cost and time involved in registering any patents/copyrights	<input type="checkbox"/>	<input type="checkbox"/>
• that you are not infringing on other patents or copyrights	<input type="checkbox"/>	<input type="checkbox"/>
• you have the qualified staff available to complete the research	<input type="checkbox"/>	<input type="checkbox"/>
• how you will market new products or services	<input type="checkbox"/>	<input type="checkbox"/>
• that you have a complete marketing plan in place	<input type="checkbox"/>	<input type="checkbox"/>

	Action needed	Completed
2. Revenue: research and know...		
• how revenue will be generated	<input type="checkbox"/>	<input type="checkbox"/>
• in what time frame revenue will be generated	<input type="checkbox"/>	<input type="checkbox"/>
• if gross profit margins are acceptable and consistent	<input type="checkbox"/>	<input type="checkbox"/>
• if the pricing structure is competitive	<input type="checkbox"/>	<input type="checkbox"/>
• the life of the product(s) or service(s)	<input type="checkbox"/>	<input type="checkbox"/>
3. Direct costs: ensure that...		
• materials are readily available as needed	<input type="checkbox"/>	<input type="checkbox"/>
• you can meet supplier payment terms	<input type="checkbox"/>	<input type="checkbox"/>
• adequate room is available to store raw materials	<input type="checkbox"/>	<input type="checkbox"/>
• there is enough room to manufacture the product	<input type="checkbox"/>	<input type="checkbox"/>
• equipment meets your production needs	<input type="checkbox"/>	<input type="checkbox"/>
4. Labor: you will need...		
• staff in place for increased production	<input type="checkbox"/>	<input type="checkbox"/>
• to hire the right person with the right credentials	<input type="checkbox"/>	<input type="checkbox"/>
• cash flow to meet extra wage requirements	<input type="checkbox"/>	<input type="checkbox"/>
• to allow for training time and costs	<input type="checkbox"/>	<input type="checkbox"/>
• to factor wage benefits into cash flow	<input type="checkbox"/>	<input type="checkbox"/>
• a contingency plan if employees are absent from work	<input type="checkbox"/>	<input type="checkbox"/>
• to design a reporting system to monitor and evaluate staff performance	<input type="checkbox"/>	<input type="checkbox"/>
• to assess productivity level and capabilities of each employee	<input type="checkbox"/>	<input type="checkbox"/>
• to assess each employee's potential for promotion	<input type="checkbox"/>	<input type="checkbox"/>
5. Overhead expense increase: plan for...		
• extra help to cope with more paperwork	<input type="checkbox"/>	<input type="checkbox"/>
• potentially upgrading the accounting system	<input type="checkbox"/>	<input type="checkbox"/>
• equipment requiring regular maintenance	<input type="checkbox"/>	<input type="checkbox"/>
• more space for extra staff	<input type="checkbox"/>	<input type="checkbox"/>
• extra telephone lines, cell phones, pagers	<input type="checkbox"/>	<input type="checkbox"/>
• incidental cost increases, such as stationery	<input type="checkbox"/>	<input type="checkbox"/>
• upgrading facilities to house extra staff	<input type="checkbox"/>	<input type="checkbox"/>

**Action Completed
needed**

6. Asset purchases: analyze...

- the cost and availability of new equipment
- how you will finance asset purchases
- how each asset will contribute to profit centers
- the life span and maintenance cost of each asset

7. Distribution: be sure you...

- plan how the product will be distributed
- have sufficient warehousing space
- know costs involved with increased distribution channels
- assess necessary staff to service expanded areas
- assess increased costs involved in packaging or shipping

8. Management: you will need to...

- review the business's current management structure
- identify current areas of weakness
- identify whether extra management staffing is required
- analyze who you need to fill in the gaps
- know where you will look to find the right person
- ensure you can offer a competitive salary
- prepare job descriptions to ensure each person can competently manage the workload
- design a wage increase and incentive bonus system
- list the benefits and perks and their cost to the business
- design employment contracts that clearly outline job responsibilities and ramifications of unsatisfactory work
- have a lawyer review and advise on the contracts
- prepare detailed cost analysis for each area of the business
- prepare cash flow, income, and expenses projections
- develop a system to monitor marketing strategies

	Action needed	Completed
9. Operational structure: you may need to...		
• design detailed written company policies and procedures	<input type="checkbox"/>	<input type="checkbox"/>
• ensure insurance policies are upgraded with adequate coverage	<input type="checkbox"/>	<input type="checkbox"/>
• ensure your staff has the necessary technical expertise	<input type="checkbox"/>	<input type="checkbox"/>
• cope with expansion	<input type="checkbox"/>	<input type="checkbox"/>
• know how to control extra staff and production loads	<input type="checkbox"/>	<input type="checkbox"/>
• develop quality control systems	<input type="checkbox"/>	<input type="checkbox"/>
• know how you will deal with equipment breakdowns	<input type="checkbox"/>	<input type="checkbox"/>
• know the cost of each hour of downtime	<input type="checkbox"/>	<input type="checkbox"/>
10. Logistics: be sure to...		
• assess your location and how it can cope with growth	<input type="checkbox"/>	<input type="checkbox"/>
• see if your lease allows for modifications to buildings	<input type="checkbox"/>	<input type="checkbox"/>
• analyze the costs involved in expanding the current facility	<input type="checkbox"/>	<input type="checkbox"/>
• know when you may have to move to larger premises	<input type="checkbox"/>	<input type="checkbox"/>
• research alternative affordable premises	<input type="checkbox"/>	<input type="checkbox"/>
• research the cost of having to move	<input type="checkbox"/>	<input type="checkbox"/>
• know how you are going to pay for the move	<input type="checkbox"/>	<input type="checkbox"/>
• assess whether you would lose customers if you moved	<input type="checkbox"/>	<input type="checkbox"/>