

TIPS FOR SMALL GUYS TO SURVIVE AND THRIVE

Small businesses could realise their visions if only they would plan their growth, writes James Dunn – July 25 2008

ACCORDING to the Productivity Commission, about 7.5 per cent of small businesses go out of business each year. The Australian Bureau of Statistics says that 68 per cent of small business operating today won't be around in 10 years.

While that attrition rate may be daunting, business coaches say there are some key tips that should ensure that businesses not only survive — but grow.

Planning

Dr Greg Chapman, managing director of **Empower Business Solutions** and author of **The Five Pillars Of Guaranteed Business Success**, says the reason most businesses fail is that they fail to plan. "Every small business owner has a vision, but it's a dream without a plan.

"The plan puts in place strategies for marketing, funding and growing the business — the actual steps you're going to take to grow the business," he says.

Planning the funding

Mike Reddy, principal of Shape Your Business, says a small business should never attempt to fund growth out of working capital, which by definition is the business' immediate cash flow.

"There's going to be enough stress on your cash flow funding those stock purchases when you're increasing stock to grow the business, without the logistical side of things — whether that be transport or machinery — to support that growth."

Reddy says a business must plan its growth with regard to its funding sources. "Too many businesses don't understand from the start that growth requires more inventory, more space, more staff; they try to fund things out of working capital, and they just run out of cash.

"Funding is the main issue — growing businesses are very thirsty for cash. But it shouldn't be coming from working capital — it should be from appropriate term funding. If your growth is planned over three to four years, that should be the term of your funding.

"If you're buying a piece of plant that's going to produce for five years, you should be funding that on five-year finance terms, not just pulling it out of the bank account because there's money there."

Establishing systems

Chapman says the establishment of systems is critical, because it enables others to be brought into the business, to free the owner up from the day-to-day running of the business. "Absolutely vital to this is that the business owner must learn to value their time. If they don't do that, they will end up micro-managing — as the cliché says, 'working in the business, not on the business'.

McDonald's is a great example of a "multi-million-dollar business run by high school kids", he says — because it has "very thorough systems in place, for everything. You don't see the owner and you don't need to".

People systems are also critical, says **Chapman**. "You have to motivate your people. You have your own goals, but you have to align the objectives of your staff with those, so that they're not just picking up the pay cheque. It could be incentive programs, training or staff development, but you must be developing your staff"

Smart goals

Paul Smith, managing director of Carnegie Management Group, says everything the business does — marketing, operational or financial — must be realistic and measurable, and it must have key performance indicators. "That means it's measurable, monitored, reviewed — and above all, someone is accountable for it."

"It's not enough to say 'we intend to grow our sales by 20 per cent'. This means you have realistic goals and you're keeping track of whether you're meeting them," says Smith.

Phil Daly, principal at Pinnacle Business Systems, calls this having "smart goals". He says it's important to take into account the changing environment "Goals must be specific, but they must be flexible.

"For example, it's quite different in this financial year — things are tighter, there's not so much finance around, people are watching where they spend their dollars. Saying 'I'm going to increase my sales by 20 per cent' might not be realistic, and that target might have to be wound back to 10 per cent."

Effective marketing

Marketing is critical — knowing who your customers are and why they should buy from you. "If you don't understand that, you don't have a business," says **Chapman**.

All businesses must understand effective marketing, says Reddy. "Straightforward generic marketing will usually get you a lot of unprofitable customers. Too many businesses say 'right, we've got a whole lot of product to sell, let's go out and sell it'. So they discount it, and sell it to customers who don't pay for three or four months — they go for sales instead of common sense.

"Effective marketing is saying, 'we have a particular product available for a particular industry, here are the key players in that industry, this is how we'll market the product to them'. That takes planning and discipline, but it must be done," says Reddy.