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GEARING UP FOR BUSINESS GROWTH

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A frequently quoted statistic is that eight of 10 entrepreneurs who start businesses fail within the first year and a half. Knowing that, we asked several local business owners and entrepreneurs to offer their ideas and advice on a wide range of topics, including how to overcome plateaus in revenue, communicate effectively with others, and motivate employees to care deeply about the business' success. Their answers to these questions and others are below and on the following pages.

What are the most important components to consider when planning for business growth? How far ahead should a business plan?

REGGIE SHROPSHIRE: The most important component to consider for growth is, are you ready for growth? Often businesses get excited when they have initial success and decide to expand when they don't have the proper internal infrastructure to support the growth.

Leveraged systems are the biggest component that, when missing, will prohibit a company's growth. Far too often, the initial success of a business is people-based and relies on the individual talent of its core members: the owner, a good right-hand person, a couple of brilliant technicians. When the business grows to new levels or locations, the talent pool is spread too thin and is unable to deliver its services in the same way that created its initial success. From there, chaos ensues and the business owner generally longs for the "good ol' days" when things were more manageable.

To have sustained (and sane) business growth, you need to make sure you have a business that is systems-dependent, not people dependent. If a business is run by systems, it is much easier to plug people in those systems than to depend on the volatility of people. If a business outgrows its systems infrastructure, chaos starts to grow and consume.

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RENEÉ McNUTT
Reneé E. McNutt, CPA, PLLC

ROB KAISER: First, start with your personal goals. If you are a business owner, your goals should drive the type of company you create. Managing companies with five, 15 or 50 employees are vastly different undertakings. If you work for a business, make sure the goals of that business and your personal goals are aligned. In either case, make sure the business works for you instead of you just working for the business.

Beyond that, make a long list of all the opportunities your business could pursue to grow current offerings and expand into new areas. Involve many members of your team or the entire company in this process.

Once you've assembled a comprehensive list, develop criteria to judge the ideas (investment required, time required, potential short-term and long-term return, and the like). Then ruthlessly cross out ideas. The most important decisions made by an executive are what he or she does not do. Trying to pursue growth in too many areas will likely result in too many failures instead of one or two successes.

It is good to have a three-to-five year vision of what your company will become, but focus growth initiatives on one, two or three projects that can make a difference in your business within the next 12 months.

RENEÉ MCNUTT: Adequate accounting and record-keeping systems along with choice of entity structure are critical components for accommodating growth. Each of these systems should be designed and implemented at inception so they are functional and efficient when volume increases.

By designing your systems early on, you're able to adjust and work out any kinks before maximizing your systems' capabilities. If you wait too long, the implementation stage is much more difficult and business cannot continue in the same manner. Planning ahead is much more efficient than retroactive corrections.

HOOP MORGAN: In working with our global client base, planning for business growth centers on gathering as much critical customer and trending data as one can, particularly from customer-facing individuals and teams. The salient point is not to get analysis paralysis, but rather to understand three to five key data streams and mine them on a consistent basis. Improperly executed and improperly measured, the best business plans or ideas will be unrealized.

Business plans used to be for five years out. However, three years is more reasonable and predictable. The dynamics of the global marketplace can change things overnight, and the planning process should be a moving window.

Why do businesses typically plateau? How can this be avoided?

MCNUTT: Many businesses plateau when resources become stretched or inadequate. For example, there are a finite number of hours in each day. When your workload cannot be accomplished within your specified time frame, entrepreneurs must decide if they want to accept only the engagements that fit into the existing parameters or acquire additional resources.

It can be a difficult decision managing cash flow to accommodate your desired growth. To avoid this plateau, first set your goals for how large of a company you want to build, and then monitor growth by setting smaller, interim goals and adding resources where necessary.

MORGAN: Businesses plateau because they become complacent, or their offerings are stale. Building a rigorous internal and external interpersonal communication process will keep leadership informed of needed improvements. How the products or services serve the customer is the responsibility of the CEO and his or her team. The goal is to keep the product or service as "leading edge" as possible.

SHROPSHIRE: A business typically plateaus when it outgrows the knowledge, experience and comfort zone of its leader. It is easy to grow to what you know and have experienced in the past. Once you hit the limits of your expertise, you either need to grow or you will stagnate.

More often than not, when an owner has hit his limit, he looks around and says, "Well I guess this is as good as it gets." From there, the blame and excuses set in: "Must be the best you can do in …Wilmington, the South, in this economic climate." If the owner looks around, he will often find businesses that are outperforming his in the marketplace.

These plateaus can be avoided by growth of knowledge, skills and beliefs. The business owner needs to continue learning through books, seminars, coaches, mentors, conferences and from others who are ahead of them on the growth curve. Every time I put myself in an environment of my business peers, I come away with shifts in knowledge, skills and beliefs that push me to new levels. Many great athletes have said you have to do it with your mind before you do it on the field. The same is true with growth in your business.

Are there things that help or impede business growth that are specific to Wilmington?

MORGAN: Clearly, Wilmington and southeastern North Carolina offer an ideal place to live, raise a family, or retire. There is more industry here than people realize. Tourism will continue to have prominent growth. With an increasing retiree population, health care services will expand.

Supported by a progressive community and regional leadership, business growth is limited only by the availability of land for a longer-term expansion. Wilmington is becoming known as an incubator for high-tech startups. Not having a competent work force is always a limiting factor, no matter the location. Yet with UNC Wilmington, Cape Fear Community College and other institutions locally, education and training are close at hand.

SHROPSHIRE: There are a lot of things that help the business climate in Wilmington. The primary one is the magnetic effect that the coast has on people. As a result, we have a community of smart and affluent people who have chosen to live and visit here, and they bring their talents and cash with them. It provides business owners with a stronger talent pool to hire from.

When I am in other towns in the region, I am amazed at the difference in caliber of employees who work in the service industry. If you go to a Wilmington restaurant, most of the employees are college-educated and have decided to work under their level of capability to "live at the beach." This creates a great opportunity for businesses to acquire more talented employees than they could in other communities. I also think that Wilmington has done a great job of establishing itself as a diverse year-round community instead of being solely dependent of tourism.

Overall, we are a great magnet for great people who need the products and services that business owners need to provide.

KAISER: Our local workforce is among our region's greatest assets, but can impede growth for certain functions.

The talent coming to Wilmington seems to never end. Sharp graduates from UNCW and Cape Fear Community College offer a steady stream of employees for many local companies. A wealth of talented executives and previous business owners semi-retire in the Wilmington region, and many of them are looking to stay in the game and are willing to share their experience and contacts with the lucky local companies that snap them up.

An area of concern for our region (and many other parts of the country) is the shortage of technology talent. Many fast-growing companies need engineers, developers and other technical specialists who are in short supply.

Recruiting people to our area may not appear challenging, given all of Wilmington's lifestyle advantages, but such efforts can be stymied if people perceive a lack of other opportunities in the region if one position doesn't work. Often an even bigger factor is whether a recruit's spouse is also able to find a good fit in his or her field.

What should business owners consider when initially structuring a business?

SHROPSHIRE: Determine a destination and exit strategy, or as Steven Covey says, "Begin with the end in mind." Most businesses are started as a conversion from employment to self-employment. In these scenarios there are often limited capital resources, and the goal is simply financial survival. With that being the goal, it also often becomes the destination.

While self-employment often brings a moderate increase in income, it typically comes with a boatload of extra roles, responsibilities and tasks to complete on a regular basis. In a perfect world, a business owner needs to have clarity on what a business looks like when it's finished and a realistic exit strategy that can be used as the "north star" for the business. From there, a business owner needs to determine what knowledge, resources, skills, funds and support he or she will need to get to that destination.

The most important factor is determining the kind of person that he or she needs to become to have that kind of business. The person it takes to run a $200,000 business is a lot different than the person who can run a $3 million to $5 million business. Operating and growing a bigger business requires you to grow and become bigger. Most owners neglect their need to grow and stagnate short of their potential.

MCNUTT: When initially structuring a business, owners should first consider what legal entity they'd like to form. The legal structure will determine the liability protection for owners, as well as taxation of the entity and its owners. These are critical considerations, as tax is typically a large expense and an area of interest for strategizing. Treating your business as a separate entity is necessary to maintaining the structure and avoiding common accounting and legal missteps.

MORGAN: Retain an attorney who specializes in business. Retain a certified public accountant. Interview and select a banker who seeks to understand your business and is growth-minded. If you plan to turn your hobby into a business, make sure that you can monetize it. There are many legal and tax considerations, but the most important is building a reasonable projection of net income to support the many surprises and unintended consequences that starting a new business entails.

Your advisers should play an active role in this initial structuring. Hiring right the first time provides many early advantages for the business. Mis-hires are very, very expensive.

What do top performers do differently in growing their businesses?

MCNUTT: Top performers know their industries well, constantly look for areas of improvement, thoroughly research each option, and set a tone of integrity and work ethic that starts at the top.

MORGAN: We find top performers are typically the best listeners, thus the best communicators. When you truly focus on what the customer, client or patient wants or needs, growth is a natural result. This may be a fortuitous natural skill set, yet it can also become an acquired skill.

In addition to being good listeners, top performers understand the value of mutual respect and rapport, and reflect it in everything they do. Top performers are people with whom other people want to do business.

"To achieve goals and maintain growth for a sustained period often requires you to become someone different."

REGGIE SHROPSHIRE
ActionCOACH

SHROPSHIRE: True top performers are those who maximize the potential that exists in their business by making an investment in growing themselves and their team so that the business can follow along. A business that outgrows its owner and team is a chaos monster that ends up retracting back to the level of human competency of the team.

Habits of top performers in business include learning regularly, attending conferences, using time wisely, seeking training, leading balanced lives, stretching their comfort zones, attracting and developing top talent, creating plans, and executing strategies and tactics. Most importantly, top performers are able to handle and learn from their failures. Anyone who has achieved anything worthwhile has faced setbacks and failures. Top performers are those who learn and push through their failings; many of their competitors use those failings as excuses to play it safe and remain in the average zone.

What is the best way to set sales goals and achieve them?

MORGAN: We all like to see big numbers, and with experiential instincts and planning, they are achievable. The trap one can fall in to is merely looking at the top line, and not seeing our "most profitable" sales versus sales volume alone. Then, how do we differentiate the products or services in ways that meet customers' needs and our net profits? Days become weeks, weeks become months, yet quarterly measurement of the organization's key performance indicators is a minimum measurement. Measurements that are important today may be less so tomorrow. Heed the Hawthorne effect – whenever measurement is used, performance tends to improve. Be sure you are measuring the things that are driving your sales goals, and at the right times, so that you recognize and can take advantage of trends.

SHROPSHIRE: Setting goals is easy and achieving them is hard. To achieve goals and maintain growth for a sustained period often requires you to become someone different. It's the same reason why most broke people who win the lottery or gain a large inheritance are broke again in a few years. Just because they received a big pile of money doesn't mean that they can maintain wealth.

Let's look at the converse. If you set growth goals that stretch you from where you are now (sales, health and fitness, relationship), then you must have the knowledge, support, planning, accountability and deadlines that will help you achieve those goals. To assist you with that, I would highly advise getting a manager, mentor or coach who will grow you into your goals. Most people need external guidance and accountability to reach their true potential. If you truly and organically grow into your goals, the chances that you will go back to those lower levels in the past are highly unlikely. So along with your sales goals, make sure you have a growth plan to go with them.

MCNUTT: In my practice and in life, I begin by determining the desired result first. Once I've clearly determined the "final" goal, I can make smaller goals along the way that create the path to success.

Your "final" goal may change during the process, but it provides you with direction and motivation for the desired results. Each of your interim goals keeps you on track and provides that sense of accomplishment we all crave.

How should a company set its marketing budget and decide what marketing avenues to pursue?

KAISER: Start by looking at the best-performing peers in your industry. What percentage of revenue do they dedicate to marketing? Also, calculate the long-term return on investment of acquiring one new customer, including how many referrals you can expect a current customer to make to bring in new customers. Knowing this figure will help you measure the value of a specific marketing investment.

The world of marketing is becoming increasingly complex with new options popping up constantly. You should seek to set a tone of consistency, with experimentation. Companies that jump around to different marketing channels that serve different audiences often waste money and limit their exposure to potential customers. You should dedicate the bulk of your budget to a few marketing channels that reach the right audience, and plan to stick with those channels so your message repeatedly reaches these potential customers. However, save a portion of your budget to dabble in different channels to see if you find other effective options.

Finally, it's important to distinguish between marketing that builds your brand and direct response marketing. If you find a marketing vehicle where you can invest a $1 and instantly get a $5 return, invest heavily in that option. However, such silver bullets are rare. In most cases, it is important to balance marketing that builds your brand and the value of your company with efforts to quickly snap up new customers.

SHROPSHIRE: You have to start with the mindset that successful marketing is profitable marketing. As a small business owner, you can't rely on branding, image building and "getting your name out there" to be the goals of marketing. Those things can have a trickling benefit over time, but that needs to be your gravy, not your meat and potatoes.

Also understand that there are marketing avenues that make sense for your industry, for you as an individual, and for right now based on your current resources (time, money, team, skills). When growing a business, the first thing I look to capitalize on is connecting with people who are already searching for a product or service. From there, I look at the avenues that will profitably connect me to my target market at the lowest acquisition cost possible. Good marketing should be profitable and bad marketing is an expense. You also must continually look to lower the cost of customer acquisition and raise lifetime value. If you will do this, you will have an unlimited marketing budget. This simple mindset has produced life-changing results for many business owners in Wilmington.

"Companies that jump around to different marketing channels that serve different audiences often waste money and limit their exposure to potential customers."

ROB KAISER
Greater Wilmington Business Journal/WILMA magazine

MORGAN: There is "push marketing" and "pull marketing," and most businesses have a combination of both. Industry standards for what percentage of revenue should be allocated for marketing can vary. Products or services that fall in the "push" category (you want to sell) will require more budget, while products or services in the "pull" category (customer wants to buy) will require less. Marketing avenues should follow where your most-likely buyers can be reached. Social media plays an important role in this mix.

What mistakes do owners make when it comes to cash management?

SHROPSHIRE: First, they confuse sales success for financial success. One saying that I learned from a conference a few years ago is that "Sales is vanity, profit is sanity, and cash is king." Often a successful growing business is led by an aggressive entrepreneurial type who is great at promotion and sales but isn't good at budgeting and finance. Once that person starts to bring on heavier fixed expenses and longer cash intake cycles, his or her business ends up with cash flow issues.

Also, not reporting and reviewing financial reports on a regular basis are common mistakes. Most business owners use their accountant and financials for cash flow and to stay in compliance with the IRS instead of using them as tools to measure business performance. Businesses should review their financials for performance on a monthly basis at minimum to make course corrections and business decisions. Most business owners don't follow that practice, and it results in serious financial consequences such as inflated expenses, low margins, wasted resources, and in many cases fraud and embezzlement.

The other major mistake that business owners make is not getting their money as quickly and easily as possible. Moving from invoicing customers at net 30 and dealing with serious cash flow and receivables issues to pre-payment by auto-draft can create a life-saving cash swing. As a business owner, you have to have the mindset that getting your customers to pay as quickly as possible means commitment, security, strength and control for you as a business owner.

MCNUTT: Many business owners mismanage cash for several reasons. It takes time and money to organize and implement a business plan. Some owners haven't done the necessary research to know how much capital they need to properly structure their new business and provide enough cash for the owner's personal needs. This lack of knowledge can lead to inefficient funding and can have a negative impact on the health of the company if growth doesn't exceed the cost of financing.

Another common mistake is not properly planning for tax obligations. The entity structure you choose will have a direct effect on your income tax obligation. Beginning a business is so time consuming, we tend to focus on the immediate cash needs to continue operations and forget about the more distant requirements, particularly when it's only determined once a year. Understanding your obligations beforehand may impact your choices for spending money on capital improvements or additional resources.

MORGAN: Cash is king, yet we often underestimate what it takes to cash flow a business, particularly a rapidly growing business. If you are able to maintain cash reserves of at least three times monthly expenses, you have a reasonable safety net if unforeseen circumstances impact the organization negatively.

What are some best practices when hiring employees?

KAISER: As much as you can, have candidates do the job that you're considering hiring them for. In many cases this isn't possible, but when possible, have that person come in for a day, a few days or a week as a contractor and work with the team. Nothing will tell you more about how somebody will do in a job than having them actually do the job.

Also, involve others from your company in the interview process, particularly people who have the same or similar jobs. They will often pick up on things you don't, or candidates will talk with them about things that they may not talk to the boss about.

Listen carefully to the questions the candidates ask, and be concerned if they don't ask questions that get to the heart of the job and what the company does.

MORGAN: How well we recruit, select and develop our people is an important differentiator. Think of this as part of your competitive edge. Hopefully, in your existing employee base, you have top performers. Find out what your top performers are doing differently, as this will help you develop job descriptions and expectations to use in the recruiting and screening process.

The Forté Communication Style Profile is one such tool used in understanding and replicating top performance. Once the individual has been hired, the on-boarding and training process must be timely and done right or there will be retention and productivity issues. After the probationary period, it is best to continue providing feedback in real time so that your expectations and the expectations of the new hire are in alignment. In addition, sometimes the newest members of your team can provide valuable insight into what could be improved or done differently.

SHROPSHIRE: Market aggressively to attract ideal candidates and play the numbers game so that you can weed through enough candidates to find the cream of the crop. The key to marketing aggressively is to be clear on what an ideal employee makeup is. If you were looking for a "bionic administrative assistant," what would their characteristics be? From there, make sure you market aggressively. Don't just post an ad on Craigslist and get frustrated by the low caliber of candidates that are coming in. You should post on multiple job boards, use your online and offline personal and professional networks for referrals, ask your team for help, and tap your vendors and suppliers within your industry.

Remember that the best customers come by referral, and so do the best employees. Most importantly, always be scouting and interviewing, and have a bullpen of potential team members. I recommend automated phone or online screenings as a first touch with a candidate, as these are much faster and more accurate methods of screening than resumes and applications. Also, "look under the hood" by using pre-employment assessments. For a minimal cost as compared to a bad hire, you can assess things such as reliability, work ethic, integrity, behavioral style, workplace motivators and competencies. Most business owners use resumes, interviews and "their gut feeling" when it comes to making new hires. Unfortunately those methods can lead to missing the opportunity to hire the most ideal candidates in the marketplace.

How can you motivate employees to care about your business?

MCNUTT: Different things motivate different people. However, I find that explaining to your employees why you're passionate about your business and what you hope to accomplish allows them to think and perform in a parallel manner.

An awareness of why you value your clients or customers, and the reciprocal understanding of why your clients value you, provides further clarity of what the business is set to accomplish. If you believe in the success of your business and care about the team that's making it happen, your team will do the same for you.

MORGAN: If you work diligently to have a positive and caring relationship with your employees, understanding how they are motivated and demotivated, they will care about you and definitely your business.

Most importantly, care very much about your "customer." It is no longer an "I'm the boss" relationship, but rather, "How can we build something together?" and "Your ideas are important" collaboration.

SHROPSHIRE: The key to motivating employees to care about your business is helping them understand how the success of your business leads to them getting what they want in life, and then creating an environment that ensures that happens. Employees aren't motivated by helping you make more money, get a nicer car, or buy a home in the mountains. They are motivated by the things that they want in life. You need to help them use your business as a tool to help them achieve those goals.

The only true source of motivation comes from people realizing that they can have what they want. Conversely, the only true consequence you can provide someone is helping them realize that if they continue down this path, they aren't going to get what they want. Start the process of understanding what they want.

I learned a quick and easy strategy from Tom Izzo, Michigan State University's men's basketball coach. He asks each of his players to write down on an index card their "Top 5 Personal and Selfish Goals" that they want to achieve in the next few years. Once he receives them, he asks if it is okay to coach them to achieve those things and correct behaviors that are out of alignment with achieving those goals. I do the same with my clients and they do the same with their team members. If you and your business are partners in helping your employees achieve their personal and selfish goals, you will get a much higher level of performance from them.

KAISER: Genuinely show your employees that you care about them, their families and their careers.

How does an owner's or CEO's communication style affect the chemistry of his or her team?

MORGAN: Self-awareness drives situational awareness, which drives relational awareness. An individual's communication style influences every relationship he or she has.

Margaret Wheatley said it best: "Those who relate through coercion or from a disregard for others create negative energy. Those who are open to others and see others in their fullness create positive energy." The most effective owners, CEOs and leaders understand that people do not "change," they evolve through education, experience and feedback.

SHROPSHIRE: Most owners don't realize the power of their verbal communication and body language. If they are communicating with someone who doesn't match their style, they can be sending the wrong message and not even be aware of it. To be able to increase the level of influence that you have with those on your team, you have to understand their communication styles and find ways to match and mirror them as much as possible. This will allow you to connect with and influence them on a conscious and unconscious level.

To increase the chemistry of your team as a whole, educate them on behavioral styles and NLP (Neuro Linguistic Programing) so they can better understand themselves and the communication styles of the other people on their team. As for the CEO, if his or her communication style is too aggressive for the team members, it can make them fearful. The same aggressive style also can lead to confrontations with others who have similar styles. Weaker communication can create a lack of confidence in the owner and let team members believe that the CEO can be taken advantage of. A CEO's communication style often sets the culture of the organization. If a boss is a jerk to his employees, then it often transfers down to how the employees treat the customers and each other.

KAISER: Over time, a business becomes a reflection of its leader. With many things large and small, people will follow the lead of who is in charge.

If you want to have an open business with a free flow of ideas, then you need to be open about your plans and ideas. If you want the office to be business casual, then dress casually. If you want it to be formal, then dress formally.

MCNUTT: Management styles have certainly changed over the years and will continue to do so. I believe the stern, high-pressure, abrasive communication style that once yielded results is no longer effective.

Company leaders should be diplomats. Having an ill-tempered or intolerant leader can contaminate your entire company's morale. On the other hand, positive energy from your leader will motivate your team to go the extra mile.

What are three specific things a business owner should do to increase their odds of being successful?

SHROPSHIRE: First, understand that as a business owner, you are in the profession of business ownership. Also, the profession of business ownership isn't something that you received formal education or training in. As a result, you have to learn as you go and grow. As you grow in the profession of business ownership, your business will follow suit. If you stop growing, so will your business.

Second, get a coach, mentor or adviser to lead the way. If you leave yourself to your own devices, you will not reach your true potential. You almost never see an athlete achieve at the highest level without a coach or team of coaches that lead and push that person to operate at his or her max potential. Watch the upcoming Olympics and see how many competitors are "self-coached."

Lastly, be committed to growth. You must grow into your goals. If you were "big enough" to have the results you wanted, you would already be there. Achieving new levels of success isn't just about the things you do but also the person that you must become. To become more, you must be committed to growth of knowledge, comfort zone, skill set, belief system, identity and support system. People who saw me speak and present 10 years ago and who have seen me recently are amazed at how different I am. Well of course I'm different; I have put myself through tremendous growth over the last 10 years. Plus I have a great coach!

KAISER: Number 1: Spend time with your top performers. It is natural to gravitate to put out fires and spend a lot of time with employees who aren't performing up to your expectations. Obviously these issues need to be addressed, but the time you spend on them shouldn't crowd out the time your top performers receive. While not micro-managing or stifling their freedom, managers should seek to find ways to engage, motivate and challenge top performers with new opportunities.

Number 2: Talk constantly to customers and potential customers. It is easy to get stuck in meetings and routines, and that takes you away from engaging with your customers. Ideas that look great on a meeting room whiteboard often fall flat in the market. Companies can save a ton of time and money by knowing what problems their potential customers want them to solve.

Number 3: Try management by neglect. The owners of small businesses, particularly when their companies are young, have to do everything. While this is a necessity, business owners have to make sure they don't stay on the hamster wheel forever. One strategy to ensure your team engages with the entire business is to ignore problems. Obviously you can't ignore significant issues, but every company has lots of minor problems with efficiency, product imperfections and other areas. See what happens if you neglect these issues. Will others on your team recognize and address them? If so, you may soon be able to step off the hamster wheel and focus on your company's big picture. If not, you should assess whether you have the right team.

MCNUTT: Number 1: Understand the industry you want to enter (capital requirements, growth expectations, industry standards, for example).

Number 2: Plan and research your entity options, tax treatment, human resource requirements, and the like.

Number 3: Make sure you have the right team. Particularly in the early stages, not having a team in place that believes in your business and parallels your work ethic can destroy profitability and longevity.

MORGAN: I will give you four. Number 1: It is not all about you – it is about what either your product or your service can do for others.

Number 2: The day you stop learning and innovating in what you have to offer is the day the business begins its downward trend.

Number 3: Seek out the very best people and advisers you can.

Number 4: Reference Number 1.