

# INSIGHTful DISCUSSIONS

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## SUCCESSFULLY GROWING YOUR SMALL BUSINESS



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**E**very entrepreneur wants to see his or her business venture succeed and grow. Yet, growth can come with its own unique challenges, especially when that growth comes quickly, unexpectedly or without an effective management plan in place. We asked four local business leaders to share their advice on planning ahead, strategizing for growth, finding and retaining qualified staff, and developing a culture that supports success.

### How far ahead should small business owners plan for growth?

**TRIP COYNE:** Short answer: Day one, but only so much.

There is a balance. Worrying too much about the future in early stages can be at the cost of energy and resources that should be spent building a business worth worrying about.

However, it is wise to identify where you hope to

go – which for a business may be generational ownership or a quick exit, or any number of other outcomes – and build backwards, to the extent your budget allows.

While your hopes and opportunities may change over time, your ideas about your plans for growth of the business may be important in the choice of entity type in the initial formation of the business. Just as importantly, as the business grows, it is important to budget for review and revision of early corporate decisions and other considerations, such as succession planning and changing insurance needs.

For some period, many businesses have to boot-

strap everything. However, too many businesses get past that point and never find the time to shore up their corporate planning, exposing the business to a variety of risks that would have been less expensive to have prevented (or reduced) than to cure.

**JOHN LUCEY:** I would recommend at least two years ahead. McKim & Creed developed our 2020 strategic plan in early 2015 - and we are achieving all of the goals established in that plan - and will be updating that plan through 2025 in the next year.

**MARK JOHNSON:** Seeing it from the banking side

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VP, Market Executive for New Hanover County,  
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of the table, when there is a capital need, the easy answer is there should always be a growth plan in place. Your standard one to three years is kind of the rule of thumb. But often, we see folks who are in a capital crunch because they did not plan for growth at all.

Ideally, I think it's good to have a minimum 12-month growth plan. This amount of time is a bit more predictable and will provide a small business something by which to measure its business operations on a month-over-month basis.

There is a saying I use, “With 100-percent certainty, whatever plan you put in place is not going to be accurate.” As this may be true, having a growth plan in place is better than none at all. A growth plan provides a business a basis and guide for growth, especially if there is a financing need down the road.

It's always helpful when we have time to work with our clients and understand their needs, rather than being pushed and rushed to provide a quick fix for a capital problem. A growth plan is instrumental in that. Typically, a business with no growth plan is the one that is in need of the quick fix for capital. At Sound Bank, we understand small business and strive to be a part of our client's growth plans.

### What benefits and obstacles to business growth do you see locally?

**BETH GAVIGAN:** In my opinion, diversity is the key benefit to business growth in Wilmington. Diversity in the landscape itself - the beaches, ports,

historic downtown area, etc. - attracts many different types of businesses, as well as a diverse group of people to the area. There is definitely something for everyone in Wilmington!

I believe the biggest obstacle to business growth is the lack of direct flights into Wilmington from other major cities. If access to the city was more convenient by air, it would attract and retain some larger businesses to the area.

**JOHNSON:** There certainly are challenges to local businesses, especially those businesses that need infrastructure, warehouse space or plant capacity. Our infrastructure is not really ideal in our community when it comes to expansion as a result of growth. Look at, for example, [U.S.] 421 - there has been quite a bit of news about it and the ability to improve the infrastructure for industrial businesses. As there have been recent moves in the right direction, it will take time to bring that area up to the standards that will allow for strong business growth.

In the areas where infrastructure is in place, the real estate is expensive, and that is an obstacle for many businesses to grow here. So, some businesses have to find less-than-ideal solutions to their growth problems or, worse, they move outside the market.

On the flip side, our community has many benefits to support business growth. This area is largely a service market. People want to be here. This is a destination market. As more individuals and families move to the area, our local businesses will directly benefit and ultimately see growth.

Another obvious benefit is just our location - the ocean and the weather - and the quality of life here. People who have mobile businesses who want to be here can plant their seeds and continue

growing their existing businesses. This is a big deal, as these businesses will utilize other businesses for their products and services. Not only that but the individuals who are running these businesses are smart, innovative, driven people who add to the fabric of our community and add strength to our business community, which ultimately improves business growth.

**LUCEY:** Our business in Wilmington has grown nicely from 50 staff members in 2014 to 63 today. Our biggest obstacle is in finding qualified techni-

community. While population growth presents great opportunity, the inability to accurately predict all of its implications increases the risks of changing traffic patterns, workforce shortages and evolving tastes.

I think the greatest general benefit I see is an engaged culture of entrepreneurs, and those that support entrepreneurs, combined with a relatively affordable and easy lifestyle (minimal commutes, easy airport, rich in quality-of-life amenities). This is an uncommon combination, and money not spent on cost of living and time not spent commuting, etc., gives motivated businesses a meaningful leg up, I believe.

### What are the key components of a good growth strategy?

**LUCEY:** The keys to our success in achieving the goals in our 2020 plan were, first, that the plan was based on a good market analysis and then second, the plan was developed by the business unit leaders, who developed detailed action plans and took responsibility for achieving the plan.

**COYNE:** Visiting internal corporate documents is important. As a business grows, its corporate structure should be revisited for both tax and legal vulnerabilities and opportunities. A business that is prepared to, for example, take on investors or pass from generation to generation, will grow in the intended direction more smoothly.

These possibilities are often not considered or addressed at inception because of budget concerns or changed plans, and it is easy - and common - to

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Being able to adjust in any direction is key for growth.

- Beth Gavigan

cal staff in this market for our rapidly growing engineering and surveying business.

**COYNE:** I work with businesses around the world and travel regularly for work. I seldom see local communities that, on balance, offer more benefits than the Wilmington area. However, obviously, the answer varies for each business, each day.

One obstacle I see to business growth and growth planning is the predicted growth of the population in our

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forget about them once the business is up and running. If you do not otherwise regularly work with legal counsel regarding your business, it would be good to, at minimum, consult your lawyer as part of any major growth initiative.

**JOHNSON:** First, a business owner or manager must be realistic. In my line of work, I have seen many growth strategies with very optimistic growth expectations. In fact, many are just unrealistic. Where I think many strategies miss the mark is they fail to consider all the market risks of the industry they're operating.

It's easy to say, "I predict my growth to be 5 to 10 percent over a certain period" but the really difficult part is understanding how those unforeseen market risks affect the capital and cash flow of the business.

So, when you look at a good growth strategy, you can't just look at growth from the revenue side. You must have a full understanding of the revenue, the additional expenses that growth will bring, how it affects your cash flow, and how you're going to control that cash flow, especially if growth doesn't meet your expectations.

Let's say your business has a plan for growth but then there is a temporary recession or slowdown locally. Now, the business is straddled with additional fixed and variable costs you can't just make go away overnight. So, the business owner has to be able to still manage those expenses when the revenue is flat or decreasing for a period of time. This is a key component to a good growth strategy.

**GAVIGAN:** I believe you must constantly reassess your business model and take a good look at who your customers are. In our industry, we must examine who our clients are and what type of candidates we are attracting.

Being able to adjust in any direction is key for growth. What industries have we not approached yet? How can we attract the "right" candidates, knowing also that the personality of your client is important, too?

Not everyone fits into that perfect model of how we conduct business. We must be able to bend and adapt to suit their needs as much as our own.

### How important is

### it to focus on your competition?

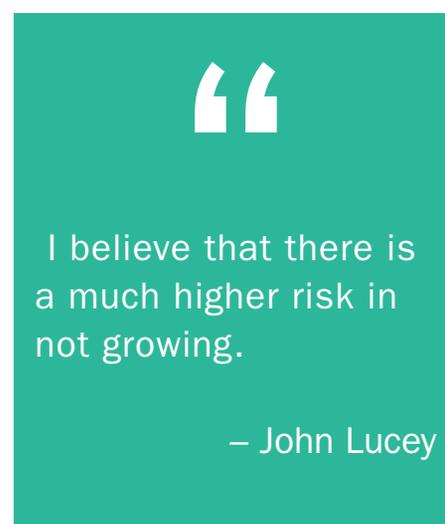
**JOHNSON:** It is very important to focus on your competition to the extent that you know and understand the competition and what you're up against – their pricing, strategy and niche in the market, for example.

It's even more important to always understand who you are as a business. At Sound Bank, we know who we are in this market - we are a high-service community bank with products and services designed for high-end retail and small business and commercial markets. If we were to focus on our larger competitors, we are focusing on the wrong market altogether, as larger banks tend to be a mass-market provider and we are too small for that.

We are a community bank and focus our products and services on what benefits the retail and business community locally.

So, understanding my competition, especially other community or regional banks, actually allows me to improve the niche I'm in and assists with our growth strategy. We have a pretty good understanding of our competition here and it helps us to know our place in the market.

**GAVIGAN:** The staffing industry is highly competitive, so it is essential to stay on top of trends in the industry



itself, as well as in the business market around you.

While I do not recommend obsessing over what competitors are doing, it

is essential that you are aware of what they are doing, where they are focusing and what they have to offer.

Making your service unique in some way is so important in this industry. When everyone is offering the same "basics," it is crucial to be able to stand out from the crowd and offer something special.

**COYNE:** My practice includes providing outside general counsel to businesses, and I have been fortunate to work with several high-growth ventures in various capacities. Best I can tell, the most successful entrepreneurs are too worried about their own company to have much time to focus on the competition.

"It is so important that employees feel welcome and an important part of the work 'family'."



**BETH GAVIGAN**  
Regional Manager,  
On Target Staffing

My practice also includes litigation, where the story is after-the-fact, and sometimes different. Notably, some not-so-obvious rights against competitors – such as certain trademark rights – need to be diligently maintained in order to maximize their value (hence the "cease and desist" letter).

**LUCEY:** McKim & Creed is a firm that was founded in Wilmington and has become an \$82 million a year firm operating from Pennsylvania through the Carolinas and southeast United States and into Texas. The market for our services in that area totals approximately \$30 billion. We therefore have about .25 percent of our market.

We know that if we focus on impeccable service to our clients, we will be able to achieve our growth goals despite anything that our competitors may be doing. We are well aware of what our competitors are doing but do not focus on them in any way.

### What are your top three tips for avoiding a plateau?

**LUCEY:** Take time every few months to analyze where your market is going. Challenge your service offering regularly to ensure that you are prepared to benefit from upcoming market trends. Don't allow for complacency.

**JOHNSON:** There is an old saying in business: "Grow or die." That's always on our minds. Look how many mergers of financial institutions have taken place over the last few years, or even just in the last 12 months alone, in our community. A piece of that is driven by the fact that some of these banking institutions reached a size where organic growth is not enough to sustain growth quarter over quarter. So, in order to avoid a plateau, a decision was made to merge with another bank, which ultimately creates growth on both sides of the merger.

As a smaller community bank we think about this a lot. How do we avoid revenues and growth from plateauing? How do we sustain continued growth? This is where being a local bank has some advantages, as we can support our growth from our markets.

So much of it starts with your credibility and reputation in the market; it is really everything. You have to be trusted and known as a knowledgeable business that will treat clients with respect, to be a business that hears and listens to clients. At Sound Bank, this is part of our core, our culture and mission. It starts there. You build that reputation and, naturally, folks will want to do business with you.

Secondly, planning is critical. A small business must constantly look at the numbers. Where are they, where do they need to be and in what time frame? Knowing your numbers will better prepare the business owner for growth and prepare for market risks.

Lastly, for a small business, you've got to get out in the community and network. You need to put your hand in front of folks and meet new people all the time. It's time-consuming and actually hard work. But at the end of

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the day, it's just good old-fashioned networking and sales.

### What are the risks of growing too much too fast?

**COYNE:** Depending on the type of growth – revenue, income, headcount, physical plant, etc. – the risks vary widely.

While growing revenue is hard to argue with, it may mean that less reliable accounts are being taken on. Similarly, growing income may mean that corners are being cut.

From a legal perspective, one of the greatest risks of a growing company comes from poor planning. While young businesses may have to make do with limited professional resources, it is important that as a business grows, it budgets for and seeks professional guidance, such as accountants and lawyers.

As the business grows, most risks will generally increase – there will be more customers, employees, contracts, real estate, etc., to worry about – so it is important to regularly revisit the corporate structure, including internal agreements among the owners.

I frequently litigate business cases, including disputes between owners, and find that the issues that lead to litigation could often have been avoided or mitigated if better attention had been paid to internal agreements as the business grew and evolved. At minimum, if you are considering bringing on outside investors or new partners, you should consult your lawyer.

**LUCEY:** Our business success is based on repeat business, so client satisfaction is critical for us. We have been careful to ensure that our growth has been supported by our ability to recruit new talent to be able to maintain that client satisfaction.

**JOHNSON:** We see this all the time in the banking world. The single-greatest risk that I see is cash flow, no question about it. Growing too much too fast will create a cash flow need at some point. As a business continues to grow, it will have to take on additional expenses, hire more people, rent more equipment, lease more space and so

on. Whatever is on the expense side of things, as you grow, that expense side is growing, as well.

One of the greatest risks comes when revenues aren't met or they are consistently not being met month-over-month. Now, a business may have these inflated costs, fixed and variable. It takes time to manage the expense side of a business. This drop in revenue, coupled with additional expense, creates a cash crunch, which means there is typically a borrowing need and no guarantee a lending institution may be



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President & CEO,  
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able to provide the necessary capital in the time frame needed.

All that growth can be unwound so quickly because it was just too fast and there wasn't a growth strategy in place that allowed them to foresee the risks of that growth.

**GAVIGAN:** Overextending yourself is a big risk that you take when expanding too fast. Having fallen prey to this mistake in the past, we now are much more cautious of expansion plans. It is easy to get locked into long-term leases or hire extra employees who later end up not being needed.

There may be a sudden surge in business that gives you a false sense of urgency to expand. While you cannot be lackadaisical about it, there is often a need to slow down, take a deep breathe and really look at long-term business levels before committing to expansion.

### What are the risks of expanding a

### business?

**JOHNSON:** Let me answer this question with an example, as we see this often. You have a very successful restaurant in town. So, the natural thought process is, *hey, let's build another one and put it on the opposite end of town. That one is going to do great, as well, and we're going to double our revenues.* You understand the expense side of the business. You can forecast the revenues fairly well and you can predict what the bottom line may look like.

So, the business owner moves forward with a second location. This is not inexpensive. There are many costs, including the purchase/lease of real estate, the cost of improvements, equipment, staffing, etc.

This takes capital away from the business. Once open, the restaurant doesn't meet the projections that were based off the original location for whatever reason and is requiring cash from that original location.

Now, cash is being transferred from

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As a business grows, its corporate structure should be revisited for both tax and legal vulnerabilities and opportunities.

– Trip Coyne

the successful location to prop up the new location. Sales continue to lag, so expense cuts are made, which affects the quality of food and service in both locations. It eventually becomes very visible to the customers, who even-

tually simply find another restaurant, and the decline continues across both locations.

This example is one that leads to business decline, but on the flip side, taking those risks are a must for expansion and growth. There are so many risks with business expansion and there is no business that is immune to those risks. They are out there, for sure. It again comes down to being able to clearly understand the market, market research, having good, realistic numbers, and planning for what happens if expectations are not met. Make sure to include your financial advisors such as bankers, accountants and attorneys for their advice and feedback.

**LUCEY:** Our business is 100-percent owned by our employees. Those employee owners are excited by the technical opportunities that come with growth and the financial reward that comes with the appreciation of their stock through growth. I believe that there is a much higher risk in not growing.

### What are the signs that it's time to expand facilities, and what are the first few steps to take?

**LUCEY:** I should first note that I strongly believe that business leaders must do everything they can to ensure that a business can maintain profitability even during an economic downturn.

Therefore, I believe that you should delay facility expansion until you believe that it is absolutely necessary and that the expanded business can be profitable during an economic downturn.

**JOHNSON:** From the banking side, generally what I see is, when you expand, you are having sustained growth, which results in more staff or inventory. Often, you're just running out of space physically. That's an obvious one.

First, you have to find a location. You have to be able to find quality, knowledgeable human capital. You have to be able to fund the growth. And you have to plan for it. You have to put a strategy in place by which to measure yourself to make sure it's a long-term positive move.

At Sound Bank, we currently have

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one branch in Wilmington. As we continue to grow, we know we are going to have to add branches and, in fact, have a plan for that in place. It is important for a bank to have multiple key locations with good, quality deposits that ultimately support our loans. Prior to a site selection, we make sure we have market demographics that will support that location. Then, it's about making sure we have branded ourselves and market ourselves well enough to be able to attract new depositors and lending opportunities.

**COYNE:** Many leases have less-than-clear termination provisions and long and specific notice periods, so it is important to review your lease closely and, ideally, with your lawyer to ensure that you understand how its provisions will impact your planning, and that you are prepared to meet any notice requirements under the lease or budget for any landlord-imposed requirements related to improvements on your existing site.

### How important are culture and a mission statement to successful growth?

**JOHNSON:** We're going through this now right now at Sound Bank. We had a merger with West Town Bank in October. Cultures were quite similar but different in many respects and those differences have led to some challenges within the company.

Thankfully, we have very good leaders here, not just at the top but locally, as well. We all lead with the same mission, which is to create one of the best banks for our community and shareholders. Our desire to have an extremely successful company, to produce a return for the shareholders and to make this a workplace people want to come to is driving us all. Having this will promote our continued growth and success.

Culture is huge. If you have really diverse cultures, it is going to be a long road before everybody gets on the same page. Fortunately, our two cultures were not diverse, yet I believe with the merger we are creating a culture that is even stronger and it will propel our success.

You must have an attainable mission

statement that all will buy into in order to grow and form a business culture; it really is the first step. Without it, no one knows what that culture should look like, so the mission statement sets the expectation for who you're going to be as a company.

**LUCEY:** We have successfully grown because our founders Mike Creed and Herb McKim established a strong employee ownership culture of "people helping people to achieve their goals and dreams" and our unifying mission of providing the most responsive and dependable service all the time. We could not have been so successful without those cornerstones.

### What is your advice for hiring and retaining talent?

**GAVIGAN:** Logically, it is important to remain competitive with salaries, benefits etc., when recruiting talent. Just as important can be promoting your company culture and opportunities for advancement to create excitement about becoming part of your team.

I always strive to find a candidate that will mesh well with my existing staff and help promote a positive working environment. It is so important that employees feel welcome and an important part of the work "family."

**LUCEY:** We have been successful in hiring 228 people throughout our six-state footprint in the last two years and had our best staff retention in our company's history in 2017 because our leadership team and our staff have a genuine respect for our employees and do what we can to make our work enjoyable and rewarding.

In 2016, we were named one of the best places to work in our industry and I believe that we have steadily improved since then.

### How do you effectively adapt your company's culture to growth and/or an influx of new employees?

**JOHNSON:** Three years ago, Sound

Bank's Wilmington location was one guy, and it was me. We are now a five-person business and we are looking at expansion.

As we've grown, we've effectively created a little bit of our own culture here within our bank. When we started growing and hiring staff, I took my experiences, I listened to my staff and took some of their experiences, and we created a bit of our own culture within the larger corporate culture. To me, it makes sense that certain markets will have their own culture within a broader corporate culture.

It was easy to adopt our current company culture because at Sound Bank, we recognize we are a small business, no different than many of the clients we serve. In order for us to be a partner to successful small businesses, we have to be a successful one ourselves. And in order for us to be successful, we know that our culture must support a business that is

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The single-greatest risk that I see is cash flow, no question about it.

– Mark Johnson

credible, knowledgeable and community-focused while providing competitive products and services with the highest level of client service. That culture is one that is just easy for people to get. And that all comes back to the employees.

**LUCEY:** Luckily, our culture is one of consistent growth. Therefore, our challenge is to ensure that our recruits will fit into and thrive in our growth culture. We do this by careful selection of recruits and by an onboarding process that quickly integrates the new employee into our culture.

### What legal and human resources guidelines should business owners con-

### sider as their staff grows?

**COYNE:** Several legal requirements are based on headcount. Some non-industry specific examples include the application or requirements of the worker's compensation laws, federal and state employment laws, and Affordable Care Act.

As such, it is important to work with your lawyer and insurance provider to understand those that may apply to your business now or as it grows. Additionally, as the staff grows, it is wise to work with your lawyer to develop employee handbooks and other consistent documents and to also evaluate the retention of a human resources consultant or full-time human resources employee.

Growing the staff, managing compensation and monitoring legal compliance will become more and more complex and distracting for other management, and human resources guidance is important to help avoid pitfalls and build compensation and benefit plans that continue to work as the staff continues to grow.

**JOHNSON:** As staff grows, the importance of legal and HR grows, as well. There are many intricacies to employment law that, if not followed accurately and completely, can come back to bite you.

So, having legal counsel to some degree is hugely important. And, to a large degree, that's part of the role of HR – making sure that representation is there when needed and making sure that when situations arise, you're handling it in a proper and legal fashion.

I can't speak to specific guidelines but there are lots of HR consulting companies that already know how to do this. You do not have to reinvent the wheel from an HR perspective.

These guidelines certainly need to be put in place, so it's an investment that absolutely should be made in the company.

**LUCEY:** I think that the key human resources guideline is having a clear and robust onboarding process that allows new employees to quickly get integrated into the company.

You really only get one chance to make a great first impression on the new employee and to take advantage of the enthusiasm that a new employee brings into the business.