



Getting Your Business Ready For Growth

WHITEPAPER

Contents

- RK Fischer & Associates Overview..... 3
- Our Partners..... 4
 - RUDY FISCHER 4
 - KAREN FISCHER 5
- Getting Your Business Ready for Growth 7
 - I. Financial Position 7
 - II. Setting Financial Goals 8
 - Personal Goals..... 8
 - Business Goals..... 8
 - III. Understanding What is Holding You Back 9
 - IV. Assessing the 5 Key Areas of Your Business..... 10
 - Finance 10
 - Sales..... 10
 - Marketing 11
 - Operations 11
 - Human Resources 11
 - V. Determine Your Growth Path..... 12
 - Inorganic Growth..... 12
 - Organic Growth 12
 - VI. Indirect Ways to Help Grow Your Business 20
 - VII. Measuring the Success of Your Growth 21
 - Financial Measurements 21
 - Sales Measurements..... 21
 - Marketing Measurements 21
 - Operations Measurements 21
 - Human Resource Measurements..... 21

Getting Your Business Ready For Growth

Summary22

RK Fischer & Associates Overview

RK Fischer & Associates is a business consulting and coaching firm that helps business owners increase value in their business by improving their operational and bottom-line financial performance which enables them to achieve profitable growth. All of the services we provide are focused on meeting those goals for every stage of a business.

We offer and deliver our services in multiple formats to meet the needs of our clients and how they choose to learn through a combination of facilitation, coaching, consulting, coaching with consulting, and training. Our services assist you, so you can focus on working more "on your business." Though we are located within Southwestern Ontario, we can provide many of our services to businesses remotely across Canada.

As business advisors, our primary focus is on owner-operated businesses who are under 150 employees. Our two partners have significant managerial and executive experience in complex businesses, such as manufacturing, hi-technology (Fintech, SaaS), business services, as well as financial services. We have worked with clients in a variety of industries from retail, construction, transportation, manufacturing, professional services, healthcare, recreation, and food & beverage, to name a few. We work directly with the business owner to understand their specific business goals and challenges, so we can implement the right solutions ensuring you have continued long-term success.

We have associations and affiliations with other professionals such as lawyers, financial accountants, business brokers, business valuers, lenders, and other service providers who help us in providing you with one-stop-shopping for your business requirements.

Our goal is to bring clarity and focus to your business.

Visit us at www.rkfischer.com, to find out more about all of our offerings and how we may help you with your business, or contact us at info@rkfischer.com.

Our Partners

RUDY FISCHER

Rudy Fischer is a management accountant with a CPA, CMA designation who works closely with our clients to help them improve the financial health of their business. Management accountants focus on your financials going forward and create value for your business by combining strategic planning, performance management (financial & non-financial), and expertise in providing owners with the intelligence they need to grow their business. He will work closely with your financial accountant in understanding the financial history of your business, which is their focus.

Rudy has over 25 years' experience in the hi-technology sector in finance, manufacturing, engineering, product management and marketing disciplines. He has held executive management positions with Everlink Payment Services, Rogers Communications, Sprint Canada, Nortel Networks, Newbridge Networks and Mitel, where he was responsible for various business units.

Rudy has expertise in planning, managing, and marketing products through all stages of the product life-cycle, including setting strategic direction along with the building and directing of the teams who will accomplish the necessary goals. Rudy has launched and been responsible for taking many new products to market including small business voice systems, wireless solutions, data centres, enhanced voice services, fixed-mobile convergence, card payment solutions, and financial transaction acquiring solutions.

Rudy was a Board Member, Member of Audit Committee, and past Chair of the Audit Committee for the Education Credit Union in Kitchener, Ontario from 2013 to 2017. He currently is a Board Member of Southwest Regional Credit Union. He holds a designation of an Accredited Canadian Credit Union Director (ACCUD).

He volunteered before moving from the GTA for the BACD in Durham Region where he acted as a mentor for their clients and provided training as needed. He is a mentor for Futurepreneur.

KAREN FISCHER

Karen started RK Fischer & Associates in January of 2010 after 25 years of success in marketing, sales, channel development and general management with the hi-tech, business services and manufacturing sectors. She held management or executive management roles for companies such as Cognos, Entrust, Mitel, Siemens, and Pitney Bowes. In the last six years of her career before starting RK Fischer & Associates with her business partner, she held start-up Executive roles that included help with plans for financing and acquisition. Based on this experience, Karen felt the small & medium business market was underserved by the consulting industry. She found most firms focus on larger businesses and if they do acquire a smaller client they try to implement large business methodologies in the small business, which is not a fit for most businesses under \$25M in revenues.

Karen is passionate about having the chance to help business owners whether that is through growth, increased profitability, or obtaining financing. She is happy to share her expertise and experience that she gained from her prior career with business owners to help them and their businesses flourish. Since the time she started RK Fischer & Associates, she has built strong partnerships in the GTA with other professionals that offer complementary services.

Karen is a past Member of the Board of Directors for the Business Advisory Centre of Durham Region where she held the position of Secretary/Treasurer. This is the small business centre that serves the region of Durham.

She served on the Membership, Marketing and Event Committees for the Ajax-Pickering Board of Trade and was responsible for the development of their Professional Development Series. She filled in for a semester at Durham College for a professor on leave and developed and delivered a Digital Marketing course to the Entrepreneurship Program. She also volunteered as a mentor for BACD and provides training as required.

Getting Your Business Ready For Growth

Upon moving to Southwestern Ontario, Karen has become a Board Member for the Sarnia Lambton Chamber of Commerce and she volunteers for the Chamber on the Business After 5 Committee.

Getting Your Business Ready for Growth

Before deciding to grow your business, you as a business owner need to determine if you are actually ready. There are more businesses that go under from growing and not being prepared for the growth, versus starvation. Growth is not something that you can decide to do overnight; it is something that you need to plan.

I. Financial Position

The first question a business owner needs to answer is whether they are in a financial position to grow their business. If you are not in a positive working capital position, it will be very difficult to grow, as growth requires you to reinvest in your business.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

In short:

$$\text{What you own} + \text{What You Are Owed} - \text{What You Owe Others}$$

Working Capital is the one variable on a balance sheet that provides an overview of your business health and shows whether the business is able to cover the debt. You need to have enough money at the end of each month to invest in your future growth. If you are in a zero or negative working capital position, you should consider working on improving your profitability before you decide to grow your business. Focusing on growth will become a full time job once you are ready to implement growth strategies within your business, so you do not want to constantly be worrying about your bottom line every month and whether you are able to keep your business afloat as well. This can be an actual recipe for disaster and could end up putting you further behind. You need to spend the time to increase your profitability first before taking on growth.

Even if you plan to borrow money to fund additional growth in your business, you need to be in a positive working capital position, otherwise most financial institutions will not consider providing funding. If they do, you will end up paying a very high rate of interest.

II. Setting Financial Goals

Before you actually start trying to grow your business, you as the business owner need to set both business and personal financial goals. You need to determine whether the business financial goals that you set will actually support your personal financial goals. For most business owners, they will count on their business to fund their retirement, which could be from dividends or from the sale of the business down the road. You need to understand the growth that is required to meet your goals.

Personal Goals

- Determine the amount of money you need to make for yourself personally.
- Is this going to be a source of your retirement?
- Is this a business you plan to sell in a certain number of years for your retirement and how much do you need?
- Is this a business that you are going to hand down to a family member, but are going to continue to be a shareholder?

Business Goals

- How large do you want to grow your business and in what time frame?
- Do you want to remain a small lifestyle business?
- Do you want to eventually go through an IPO?
- Do you want to remain a private company, but continue to grow year over year to a larger business?
- What are your revenue and profit targets?
- Is this a hobby/ part time business or is this a real business?

III. Understanding What is Holding You Back

Before you take on business growth as a large focus, you should understand what reasons you are being held back now from growth before you make a large investment. You need to recognize what could be the causes for not being able to grow. Are there changes that you need to look at in your business before you consider taking on a large investment? Are you able to recognize any of the reasons below as potential causes of you why you haven't grown now?

- Lack of Working Capital to Invest in Growth
- Did Not Invest in any Marketing or Invest in the Right Marketing to Grow Business
- Are Currently Using the Wrong Sales Channels
- Current Market that You are Selling in is too Saturated
- Too Many Large Competitors
- Your Products and Services are Not Positioned Properly in the Market
- Too Focused on Current Customers versus Acquiring New Customers
- Your Pricing is Too High
- Poor Customer Retention

IV. Assessing the 5 Key Areas of Your Business

In order to understand where you have the greatest chance to achieve the highest rate of return on growth, you must first assess your current business and where you have been and look at the 5 key areas: Finance, Operations, Sales, Marketing, and Human Resources. Each area needs to be assessed to see where there are potential holes that could be filled to increase profitability and to understand what changes you are going to have to make in your current business to achieve the financial goals that you have put forward.

Finance

- Do you have the working capital you need to fund growth going forward?
- Do you have a handle on your current cash flow?
- Do you understand where your revenues are coming from?
- Do you know when you are getting paid by your customers?
- Do you know all of your expenses and when they are due?
- Do you have enough cash on hand at the end of the month or do you have to borrow money to cover all of your costs?
- How do you plan to fund your growth and do you have enough available to meet your goals?
- Are you funding growth internally from your profits?
- Are you funding growth externally from investment of through bank loans?
- Are you funding growth from your own personal finances?
- Do you have a financial plan of how you plan to achieve financial growth?

Sales

- Are your current sales reps generating enough revenue?
- Do you have documented sales processes in place and are your sales reps trained on your products and services?
- Are you measuring your sales reps and channels?
- Are your sales reps and channels providing accurate forecasting and sales reporting to you?
- Are you making your sales reps and channels accountable?
- Do you have the right sales channels or personnel for your business?

Marketing

- Do you know if you are getting value/sales from your current marketing?
- Do you plan your marketing or do you do marketing on an ad hoc basis?
- Do you set aside a budget for marketing and track each marketing medium for a return on investment?
- Do you know what marketing works for your industry, demographic, and geography and what does not?
- Do you know if the marketing you are paying for is effective and are you measuring the effectiveness?

Operations

- Do you measure your operational effectiveness in your business?
- Do you have an effective and efficient delivery of your products and services?
- Do you know your customer retention rate?
- Do you know your customer satisfaction rate?
- If you are losing customers, do you know why?
- Do you have proper back office support in place to support all aspects after the initial sale?

Human Resources

- Do you have the right skills / people in your business?
- Do your employees have job descriptions and objectives and are they evaluated based on them?
- Do you measure and monitor the effectiveness and productivity of all of your employees?
- Do you have the right number of employees for the work you have to accomplish?

V. Determine Your Growth Path

There are two ways to grow a business. You can grow your business organically or inorganically. The main focus for this white paper will be on organic growth, since most business owners when they are considering growth are focused on organic.

Inorganic Growth

Inorganic growth is focused on growth externally which includes:

- Merging with another business
- Acquiring another business
- Partnerships with other companies that are not formal in nature

If you are merging or are being acquired by another business in order to grow, your business has to have good financial health. If you are merging with another business, there will be financial and business due diligence performed and it will be important to the other business that you are able to sustain and grow. If you are acquiring another business, you need to have the funds needed to purchase the other business and bring it into the fold of your business and make it profitable. Even if you are looking to grow through the building of partnerships with other businesses or vendors that offer complimentary products and services, future partners will want to make sure that your business is one that is sustainable and will be around.

Organic Growth

Organic growth is focused internally on productivity improvements and cost reductions.

Organic Growth – expanding your customer base or increasing your sales revenue per customer

There are several ways a business can choose to organically grow their business. It is about determining which method or methods are best for your business. In order to proceed, you need to fully understand your business and whether you have the proper financing to take this on as well as have the right skills and staff in order to make this successful.

Investing in Marketing

If you plan to invest in marketing to grow your business you need to develop a marketing plan and marketing budget for your business. On average you should spend between 5-10% of your gross annual revenues if you are looking to grow. Usually the earlier in your business you are or when revenues are lower, you need to spend more than when you have built awareness your business is well known. Once you determine how much you are going to set aside for marketing, develop a plan for how and on what you are going to spend the money on in your budget. You also need to understand if you are able to calculate a return on your marketing spend.

Example:

- Company A is \$5M in revenues
- They are not experiencing any growth today, but feel they should be able to achieve \$6M in sales
- Their financial goal is to increase sales by 20% which for year one is \$1M
- They currently do not have a marketing budget and anything spent is on an adhoc basis
- They have decided to allocate 5% to marketing budget on an annual basis – Year 1 is \$250K
- Their average sale is \$20K per customer which means to meet their goal they have to sell a minimum of 50 additional customers
- Their gross margin is 60% which means gross margin will be an increase of \$600K
- Return on investment is 240% which is $(\$600K/250K)$
- For the 250K that they plan to spend they need to allocate it as such to achieve their goal.

There will be portions of your marketing spend that you will not be able to calculate a return on investment because it is necessary to build awareness and is required. This company has not spent time building corporate branding, so whatever they have is not consistent, so though having a consistent look/feel is required, an actual return may not be apparent. Branding can help show the outside world that you are a reputable company to do business with which builds good will. Good will in a

Getting Your Business Ready For Growth

company is worth something but cannot always calculate an actual figure. On the other hand they are spending money on advertising, a new website, a trade show, and direct mail campaigns. These marketing mediums can be developed so that a return on investment can be calculated.

Example:

- An advertisement placement costs \$450.00
- The graphic design for the advertisement costs \$100.00
- Total cost of the advertisement is \$550.00
- There must be a **call to action** on the advertisement which will get the customer to call, come in the business, or visit the website.
- Call to Action – request or direction for customer to do something
- Coupon or discount that brings them to call or visit location
- Download from website where you capture their information before downloading
- Separate phone number which call forwards so you can track those that call
- One sale was made from that particular advertisement of \$22,000 with a gross margin of \$13,200
- Return on Investment of Advertisement is 2400%
- $(\text{Gross Margin} / \text{Total Cost of Advertisement}) * 100$

Adding a New Geography

If you are going to expand your business to a new geography, you must recognize the costs associated with taking this on in your current business. You also need to have an understanding of the new geography and whether you have the potential to grow. Here are some questions you need to ask yourself before you look at growing through geography expansion.

- Do you have the right market intelligence and understanding of the geography?
- Market size
- Demographics (Type/ breakdown of customers)
- Different culture and language

Getting Your Business Ready For Growth

- Number of competitors and understanding of their saturation in that market
- Are there other costs that you will incur by expanding geographies? Will the increase in customers cover the costs so that you are able to make a profit?
- Cost of additional assets: building, vehicles ...etc.
- Cost of additional sales reps or service personnel to handle the sales in the new area
- Cost of marketing to build awareness of your brand and your business in the new geography
- Cost of language translation
- Cost of inventory

Once you answer the questions above, are you able to achieve the growth you want to get through geography expansion?

Example:

- Company B has sales of \$2M and wants to double sales by expanding to another local location in the region totally \$4M in revenue
- The average sale is \$2.5K which is approximately 800 sales/customers a year
- Gross margin is 55% so there is \$1.1M targeted margin growth
- They only have one sales rep + the owner making sales today
- The new geography is approximately the same size as their current for potential prospects, but there are 2 local competitors who have been in business for decades
- There is really no current awareness of Company B in the new geography
- They are going to have to invest in another sales rep which is going to cost them approximately \$100K with salary, benefits, and commissions
- They are currently spending 75K annually on marketing in a geography that they are well known, so for the first few years it will probably cost them an additional \$150K to penetrate the new market
- Incremental spending for Company B is \$250K
- Return on Investment for the \$250K is 440%

Adding a New Product or Service

If you are going to expand your business by adding a new product or service, whether you are developing it yourself or reselling another vendor's product, you need to develop a product plan which is much like a mini-business plan for the product or service. Just as you should when you start a business with a product or service, you need to understand the revenue and the costs associated with launching that product into the market and whether you are going to meet your financial goals with this option. Listed below are just a few of the questions you need to consider before choosing this growth path.

- How big is the target market for this product or service?
- Who is your competition in the market and how saturated is the market?
- If you are reselling someone else's product, do you know how big your target market is? Are you sharing this market with other resellers or do you have exclusivity?
- What is your value proposition for the product/service and what customer pain point does it resolve?
- Will the price you are able to charge for the product increase your overall gross margin for the business?
- Are you going to have to hire additional personnel to develop, support, and sell the new product?
- Have you allocated marketing dollars to build awareness and promotion for the new product or service?

Example:

- Company C has revenues of \$3M in sales and has decided to add a new product to their portfolio that is an add-on to their current product line. This product could be sold to existing customers and could increase the overall revenue per customer for new sales.
- Expected 30% of current base will purchase the add-on and 40% of new sales will buy at the same time as original product.

Getting Your Business Ready For Growth

- The 30% + 40% will result in an additional \$1M in sales with a gross margin of 50% or \$500K
- No additional head count was required to develop, support or sell the product.
- The product required \$100K in develop costs as well as \$50K in marketing to launch the product
- Investment was \$150K
- Return on Investment is 333% $(\text{Gross Margin} / \text{Investment}) * 100$

Adding New Sales Personnel or a Sales Channel

Many times you might be able to grow your business by adding additional sales personnel or by adding a sales channel. If you are looking to add an indirect channel to sell your product, you need to understand if your product is type of product that can be sold through a channel versus one that is best sold directly. If you have a product that has a long sales cycle with a large price and is not easy to sell without extensive training, this is not a product that is likely to have success in an indirect sales channel. In this case you are better off investing in direct sales reps.

Direct Sales Channels

If you plan to hire additional sales personnel to increase your growth, there are some tips that you need to keep in mind in order to ensure success.

- Be sure the sales you plan to make from the sales person you hire will cover the costs of hiring.
- Spend time making sure the person you hire has the right skill set and has a track record of success.
- Once the sales reps are on board, make sure that you have the proper training not only on your products and services, but your internal processes
- Make sure you have defined sales processes

Getting Your Business Ready For Growth

- Set the right key performance indicators for the sales personnel and make sure they have a quota assigned that is achievable
- Have required reporting in place for sales personnel so that you have a handle on how they are tracking to the quota assigned.

Indirect Sales Channels

If you decide to use indirect sales channels to increase your growth, you need to understand the parameters for choosing the right channels for your products, as well as what you need to have in place prior to bringing the channel on board to ensure the best chance of success.

- Do you know which channels are best for your products and services?
- Sales Agents
- Resellers
- Distributors
- OEM
- Affiliate/Referral Partners
- Have you determined how many channel partners that you need to achieve the financial revenue targets you have set?
- Have you set quotas that you need to achieve for each type of channel partner / geography?
- Do you know what commission or discount structure you will need to set up for the type of channel partners you have selected for your business?
- Do you have contracts which outline the requirements of the channel partner as well as outlining what you will provide?
- Have you developed channel programs and have staff to manage the partners and the programs?
- Do you have the proper sales support, technical support, training and marketing to take on channel partners in order to ensure their and your success?

Example:

- Company D has revenues of \$4M in sales and has decided they are going to add an additional 2 sales reps to increase their top line revenues by \$1M.
- Their gross margin is 42% or \$420K
- Each sales rep will have a base salary of \$50K and a quota of \$500K with commissions of 4%.
- Total \$100K in salaries and \$40K in commissions for 2 sales reps
- Total investment is \$140K
- Return on investment is 300% $(\text{Gross Margin} / \text{Total Investment}) * 100$

VI. Indirect Ways to Help Grow Your Business

The direct ways to grow a business have to do with increasing revenue and sales, but there are other methods that can help support the growth of your business that are more indirect as on their own they would not help increase the growth of your business, but when they are done in conjunction with those items that have a direct correlation on increasing revenue, they can add or help accelerate the growth.

- Develop budgeting not only for your overall business but for each area within your business.
- Avoid excessive discretionary spending and look for ways to reduce expenses
- Examples:
- Look at your telephone, cell, and internet plans to make sure you have the most cost effective plans for your business
- Watch employee expenses and develop maximums for different areas
- Reduce the amount of personal expenses that are charged to the business
- Look at your employee engagement rate and turnover. Increasing your engagement and reducing your turnover will help increase productivity.
- Look for productivity improvements which can be done by documenting all of your processes and looking for ways to improve efficiencies.

VII. Measuring the Success of Your Growth

Once you have implemented a growth plan for your business, you want to make sure you are tracking whether you are successful. There are measurements within each area of your business that you should track on a monthly/quarterly basis.

Financial Measurements

- Profit Increase
- Revenue Increase
- Expense Decrease

Sales Measurements

- Number of New Customers
- Revenue per Customer Increase

Marketing Measurements

- Return on Investment for Your Marketing Spend

Operations Measurements

- Customer Retention Increase
- Customer Satisfaction Increase
- Improved Delivery Capabilities (Quality / Time)
- Cost Containment (Cost per Customer Decreases)

Human Resource Measurements

- Revenue per Employee Increase
- Employee Retention Increase
- Employee Satisfaction and Engagement Increase

Summary

It is important to develop a plan to grow your business. If you do not look at each of the steps required to grow a business, your growth plan will not have the best chance for success. Since growth is going to require an investment, you do not want to end up spending money in areas where you do not have the best chance for success.

To be successful you need to:

- Understand your financial position and whether you are able to grow your business based on the need for working capital
- Set personal as well as business financial goals
- Understand what is holding you back today from growth
- Assess all areas of your business to determine where you have the best change of increased growth
- Determine what areas you are going to grow your business
- Measure your success