WHITEPAPER:

5 reasons why businesses stop growing

MYOB ENTERPRISE SOLUTIONS

WHITEPAPER

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There is little doubt that economic conditions have made it difficult for many businesses to achieve decent growth. The numbers tell the story – average Australian mid-sized and large businesses experienced growth of just 4% in the 2012/13 financial year, while in New Zealand the figure was 2.3%.

When sales are down you need to look at alternative ways of stimulating growth to remain competitive – starting with reducing overheads and other common barriers, like processes that require additional staff or take longer to carry out – which can cause delays in many areas.

An integrated business management system allows you to operate more efficiently and make informed decisions. It simplifies processes, provides better visibility and gives you the ability to plan, forecast and manage resources better. All of which contributes to positive growth - and increased sales and revenue.

So why do businesses get to a certain size, then simply plateau?

5 REASONS WHY BUSINESSES STOP GROWING

1. No plan for success

When starting a business, everything you do is often governed by your business plan. However, as a business grows and becomes more stable after the initial five year period, often this plan is long forgotten.

Its best practice to review and update your business plan yearly at a minimum - and to review it monthly to really get a handle on how everything is tracking. Combine with reports like General Ledger and Profit & Loss with your business plan, and you should be able to gain a detailed and accurate picture of your business. If outside forces have prevented you from meeting your original plan, then the review process gives you a chance to re-forecast, so there is still some accountability at the end of the year.

'You can't manage what you can't measure' is a good quote to keep in mind. Basically if you don't have a number or a measure to hit, and you can't track your progress against that, then how do you expect to improve? If you didn't set a target, how would you expect to know what was, or wasn't successful? How would you know what commission to pay your staff if you couldn't tell if they had done well or not?

Once you have a plan, you still need the ability to track and measure your success against it. That often requires a business solution where all of the data is in one place. Again, using the salesperson analogy – you've set their targets and if they can't track their success against those targets, how can you expect them to succeed?

However, if all of their sales information, their pipeline, current and past sales and targets are available in one business management system they track their own success. As a manager, you can measure your team's success and use that information to measure against the overall plan for the business.

2. It takes money to make money

The way money flows through a business can make or break an organisation, as you need money coming in on time to pay for all of your outgoings. There will always be a lag between being paid and paying out, but a business's success rests on just how long that lag is.

Every industry operates on different timeframes. There are some manufacturers that work on 180 day pay cycles, and then there are others that are cash on delivery. However the core principle remains the same. The earlier you are paid, the greater your cash flow. And the more cash you have on hand, the easier it is to invest in growing and expanding your business.

A major challenge for businesses managing cash flow once they become bigger is the volume of invoices and debts, as well as the amount of manual work involved in collating the information and chasing it.

Better processes and an integrated business management system can reduce this workload substantially by removing the potential for human error. Combine this with having all your information on-hand via easy-to-read dashboards, plus reports that allow you to identify trends before they become barriers to your growth, and your business should be in a strong position.

A great example is a manufacturing company that found that they were able to gain greater insights into their business and plan ahead by using a business management system - resulting in tighter ordering and stock control. This saved them an incredible $600,000 a year in cash flow, allowing them to invest this figure back into the business and buy new manufacturing equipment. Production costs were also reduced and profits increased. Before moving to a business management system, this company's growth had stalled, as they simply did not have the cash flow to be able to make this kind of purchases.

3. Failure to identify new opportunities and new markets

Once a business has matured it often begins to run on autopilot. The owner knows what to sell, to whom, and can typically predict the outcome based on gut instinct.

But what happens when things go wrong? You only have to look at our region's major car manufacturers for a cautionary tale. It's been on the cards for over five years now that one company in particular would stop manufacturing in Australia, however a lot of their suppliers have continued to operate on autopilot, churning out the same bolts, seat covers or springs as they always have, despite the market slowing and the orders from these manufacturers reducing. Yet still their suppliers continue to trade as normal, knowing that in a few short years demands for this particular stock will no longer exist.

It's not because these business owners don't know what's going to happen, or that they don't care. It's often a case of resources and having the ability to plan. If you're spending all of your time in the business it doesn't allow you much time to work on the business.

Understanding what you do and looking at new markets can be daunting, a similar feeling to when you first started out. What if it doesn't work? What if I spend too much time looking around the business and not enough time on the core of the business? These are all valid concerns, and we're certainly not advocating a reckless approach. However by doing nothing, it's a foregone conclusion that your business won't survive.

Some suggestions on developing new markets:

> Look at your core business and at other industries that could need your products
> Look to other markets, especially overseas
> Innovate your products to give yourself a competitive edge
> Diversify your business with entirely new products or solutions.

Moving into new markets can however mean that new, more complex needs will emerge – like the need to maintain adequate inventory levels while minimising holding costs, to balance the risk of stock-outs and the cost of expediting shipping, or to manage the different supply times of multiple local suppliers.

Inventory holdings can spread across several 'local' locations, creating additional inventory optimisation and management issues. In short, the business needs to move from the relatively high costs of reacting 'on demand' to multiple local conditions, to the optimal costing of demand planning – of forecasting and supply management – across the whole business.

This is where a single, well implemented business management system can be a life saver to the business and support the pace of growth. It will also cater for the increased need for more timely and relevant management reporting across the business, with greater visibility of remote local operations.

4. High overheads from manual processes

The number of businesses that have grown over a long period of time, that still use the same software and processes as when they started is startling.

What worked when you were small is highly unlikely to work when you've expanded. A great example of this is when a business first gets a website and an email address. You will often see 'sales@xyzcompany.com' as the main email address and this will go through to one person.

As it continues to grow, the business now needs individual email addresses for all staff members. At first this is set up per computer. It's not until a hard drive fails, or someone accidentally deletes an important email that they realise they actually need these emails on a server, backed up.

Looking at this scenario it's easy to see a need dictating the implementation of new technology, yet many businesses continue to suffer using software they have outgrown and attempt to overcome this with additional staff.

It's quite common to see four admin people supporting a team of five salespeople – with the salesperson generating an order and manually typing it up, only for the admin person to then re-type that same information into their accounting software to generate an invoice.

This scenario makes it hard for that business to grow. If they hire a new sales person, they will most likely need to hire an additional admin person, tying up most if not all of the revenue and profit that the sales person would bring in.

Had this same business moved to using an integrated business management system, the sales person would have generated an order within that system and the admin person would have simply approved the order, without the need for any duplicate data entry. The business would be able to either reduce the number of admin staff, seeing an instant increase in cash flow and profits, or to hire more sales people to increase revenue, and subsequently profits.

Either way having the right systems and processes in place can substantially reduce manual work, which helps to save time and thus supports growth.

It also has the added effect of increasing staff retention and improving morale: Imagine if tomorrow morning you got to tell an admin staff member that they no longer had to re-type 100 sales orders and instead you wanted them to concentrate on helping you grow the business.

5. The customer isn't seen as the top priority

The final reason businesses stop growing is that they often lose sight of one important fact – customers are ALWAYS the number one priority. Whether it's finding new customers, or servicing existing ones too many businesses get caught up in the day-to-day routine of their operation and forget that without these customers, there is no business.

It helps to refocus and go back to the businesses roots, reminding everyone what it is you started out to achieve. Say it was to provide the highest quality cheese in the southern hemisphere – ask your clients if you're actually doing this. Perhaps to your surprise you'll find you've lost sight of what you wanted to achieve, that the standard of your offering is slipping and customers are thinking of moving on. But now at least you'll have the chance to make changes and reverse the slide.

One more area to look at is often referred to as the 'buyer's journey'. Think of a recent purchase you've made for an electrical item like a TV, washing machine, fridge or microwave – you've most likely gone through the same process as the majority of modern day customers. You've researched brands, then specific models, after that you've sought opinions and finally you've shortlisted companies you intend to purchase from. The decision of what to buy has already been made, now it's just down to who you buy it from.

Another helpful process is to look at how a customer interacts with you across every touch point, or even better, have someone independent of the business help you do that. When you're an expert in your industry it's easy to assume that because you know something, your customers will too. Having someone independent look at your buyer's journey can give you immediate insights into where you can improve, and attract new customers.

Does your website have too much technical information? Do you even have a website? Was the person on the phone rude, or did anyone even answer? Did you reply to a customer's email within the hour, or did it take days?

You may be surprised at the results. Without a doubt there will be areas you excel in, but you may also find areas that could be turning customers away – and now you can turn your attention to fixing them.

In a rapidly globalised economy, mid-sized businesses are growing quickly – both within developed countries and (particularly) in the emerging markets. How big your business is today, is no reflection of how big it might be in a few years. In this environment, business applications can play a critical role in determining the business's' ability to grow, while at the same time maintaining the flexibility and innovativeness required to compete with the large multinationals.

A single, integrated business management system enables organisations to get greater insight and visibility so that they can make informed decisions.

WANT TO FIND OUT MORE?

This whitepaper was produced by MYOB Enterprise Solutions. To find out how MYOB EXO Business has helped companies like yours, why not read one of the client success stories? If you'd like an implementation specialist to visit you to discuss how EXO Business can help your business grow, please register your details and an MYOB team member will contact you.

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