

Growing without losing control

The biggest constraint on the growth of small businesses is the personal philosophy and attitudes of the owner. And one of the most common attitudes I encounter among business people is the fear of losing control. For that reason, many do not want to grow much beyond their current size.

Like many attitudes, the concern is absolutely real, but that doesn't mean it has to be true. We all know the consequences of uncontrolled growth. It was a Westpac manager who told me that 80% of businesses that go broke have had a record turnover in the previous 12 months. They go under because they run out of cash or they simply crash and burn, unable to deliver on their promises to customers.

To grow without losing control, we have to first understand the real reasons growth can be disruptive. Then we need some strategies to deal with those reasons. Some of the strategies we use at the ESP Programme seem somewhat odd at first – for example, we strongly recommend that you take more time off if you want to really build your business. I'll explain why a little later.

Growth causes loss of control when it is unconstrained. When we start out, any customer who pays is a good customer, even if they don't pay much and don't pay fast. Any product that moves is a good product, regardless of the margin (or lack of it). Profit is opinion and cash is fact, so even if we have to discount for prompt payment, it's better than waiting to get the full amount. In the same way, any staff member who passes the "fog test" is a star employee (put a mirror in front of their mouths and it fogs up).

As we grow, we add more customers, products and staff to the original base. We have more customers, products, and staff, but many of them are low quality, meaning that we don't get economies of scale. All we get are more and bigger headaches. Loss of control happens when the complexity outruns our ability to manage. At that point something has to change, and we either choose to change our business or our business chooses to change without us having much of a say. To grow the business we have to both simplify our business and improve our ability to manage.

To simplify the business, we have to take two "disqualifying" steps. The first one is easier than the second, but it still requires discipline. We have to define our ideal customer or employee, and then don't deal with those who fail our criteria (the "fog test" is not an acceptable criteria). We effectively close the front door to new complexity.

The second disqualifying step is to get the remaining complexity out the back door. This is the one that people struggle with even more than turning opportunity away. We all have D class customers and staff. In the seminars I run I often ask participants how many of them have categorised their customers into A, B, C and D. Usually about a third will put their hands up. Then I ask how many have got rid of their D class, and perhaps a third of them keep their hands up. I ask these people what happened as a consequence, and invariably the answer is that their profits improved and their stress levels decreased.

Someone once said to me that too many business owners are closet socialists, treating everyone the same regardless of their value to the business. A low value customer/employee gets twice the attention of the average one. One owner told me that he had just spent half an hour on the phone with a customer who complained a lot, spent very little and was always late with his (grudging) payment. While he was on the phone he had two calls from A class customers and an A class prospect who had wanted to buy from him there and then.

It's obvious. You've heard it before. You know who your D class customers are (if you're not sure, check your physical reaction when you hear their name). It's easy enough to get rid of them - increase your price, reduce your availability, reduce the service standards etc. So why don't we do it?

To improve our ability to manage, we need to take the same approach. Like as not, we're still doing the same things we did when we started.

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