# WHEN TO GROW?

It's ALWAYS a good time to grow. In up markets, in down markets in flat markets – it's always a good time to grow. But organizations aren't always positioned to do so profitably. Businesses sometimes pursue growth that doesn't add the most or the best value. And often when structuring the funding of the growth, many businesses don't set it up as advantageously as they could.

Today we'll address three key issues that drive WHEN a company should pursue expansion. In the next issue we'll cover HOW to fund growth and HOW to coordinate that growth with owners' estate and tax plans.

Let's take a look at the question of when a company should expand. To answer that question we need to answer these questions first.

1. Are you ready to grow?
2. What are your market opportunities?
3. What type of growth offers the most value?

**First – is your organization ready to grow?**
To answer this question you've got to assess your business as it is today. The assessment will serve you best if it's comprehensive and objective. Include a review of your organization's product and service offerings, marketing and sales efforts, people, systems and processes and financial situation.

Ask yourself:

- From a purely structural standpoint, can our systems handle the growth? How strong are they? Are they appropriate for the new business? Can they be replicated with consistency in the new business segment? How will our systems and processes be integrated into the new growth?
- How are the new products and/or services going to tie into the existing business? How will they be delivered? Do we have the capability of measuring and managing the new business activities?
- Are our sales and marketing plans aligned for the development of the new business?
- Do I have the excess capacity to personally manage the growth of a new business segment? Do I have the expertise required? Do I expect to continue managing the existing business while developing the new one?
- Do I need to hire someone to grow the new business unit? How will I locate the personnel needed for the new business? Will I need to develop a bonus or incentive compensation program for the new employees?
- *How will I fund the growth? We'll cover this topic in depth in the next issue.*

The answers to these questions tell you if you're ready to handle growth and the likelihood you'll be able to manage the new business in a way that drives profitability.

**Second – What are your market opportunities?**
To determine what your market opportunities are you'll need to talk to your customers and do a market assessment. Our industry is dynamic. Central to the independent's past success was his ability to be flexible and adapt to changing customer demand. This has never been more important than it is today.

Customer information is critical. How is your customers' business changing? How are those changes impacting the way he does business? Are those changes going to drive new customer needs? If so, are you positioned to meet them? Do you want to meet them? Can you do so profitably?

As part of your market assessment evaluate current competition. Are there areas where your competitors are disappointing customers? Can you exploit them profitably? Include in this scan a look at potential new threats – be they new competitors, or products and services that will replace your existing products and services. For example, will a large builder take his business direct, or might he open his own supply yard? Or will a truss manufacturer begin installing?

Include your manufacturers in this evaluation. How is their business changing? How will those changes impact your business and your relationship with the supplier? How can you position your company so that it adds more value to your key suppliers?

In one situation, an independent has partnered with a key supplier and they have incredibly high levels of transparency in information. The dealer and supplier work together with the dealer's sales force to improve demand forecasting. Increased accuracy in demand forecasts enables the supplier to produce more cost effectively and efficiently. The dealer and the manufacturer share the savings and their customers have improved service.

The point is look all around you: don't just look downstream to your customers. Look upstream to suppliers, look outside our traditional channels. Look for areas of profitable growth. Once you've identified market opportunities begin to evaluate what options are the best for your company.

**Third – WHAT growth offers the most value?**
This question speaks directly to your long-term strategy. *WHAT* kind of growth will add the most value? If we assume there are limited resources for funding growth, it makes sense to carry that assumption another step and say we should pursue the kind of growth that adds the most strategic value to our business.

That's not always obvious. In our industry growth has historically consisted of opening additional locations. In today's market that's not necessarily the best – or even a good – choice. Strategic growth adds value and drives the top and bottom line. It may take the form of a manufacturing facility (doors, trusses, etc.), or come in the shape of additional services (installed sales, kitchen design, etc.) or it may fill in the geographic footprint that enables you to better serve your customers. Or it could be an expansion into a line outside traditional LBM channels like a farm and feed store. Whatever type of growth you choose to pursue, it must strengthen the value proposition and increase the value you provide to your customer.

Once you've identified the opportunities and threats in your markets lay them over your organizations core competencies. Where is there alignment? Where might you need to improve competencies so that you're positioned to take advantage of the market evolution? Don't pursue a growth avenue if your internal systems and processes can't support, measure or manage it. Build your internal framework first.

Do you need to move upstream and expand into manufacturing to better control your supply chain and ability to deliver customer satisfaction? Do you need to move downstream and begin installation because your builders are struggling with labor? The next key to determining what kind of growth would enhance your business the most is to challenge every assumption you've made in the process. Do you <u>really</u> need a door shop? Does it fit your long-term strategy?

Door shops have a lot of interest these days but many overlook the fact that 6-panel doors have become commoditized. There's no value-add to differentiate this product from any other door shop. So, how much value will it add to your business? In some markets for some businesses it still makes sense. For many it does not.

Truss plants are another topic of much conversation. This is significantly different from a door shop expansion. We view truss plants as more of a defensive move. They may not be the most attractive expansion financially, but their strategic value often puts them at the top of the list. More and more you need to sell trusses to sell sticks. That doesn't necessarily mean you need your own truss plant. It does mean you need to take steps (strategic alliance, partnership, etc.) to protect that business, if you want to keep it.

**SUMMARY**

There's no one single item that will tell you when, how or where to expand. Rules of thumb have no value here. Start by assessing your organization's ability to support growth. Then determine YOUR market opportunities. These will vary by market. Based on your market and your existing business what kind of growth is most desirable? Now bring it back to whether or not your existing competencies and structure will support that targeted growth.

Take the time to build a solid foundation if at all possible. We often see significant top line growth without the corresponding bottom line growth. Many times that's due to an insufficient structure that is unable to measure the new business activity and therefore the new business is not managed accurately (i.e. there's little control of expenses and it's highly unprofitable!).

Profitability in our industry is such that resources available to support growth are often limited. Choose carefully.

Sharpen your pencil for the next issue. We'll take a look at different strategies for funding growth and ensuring that the growth is in alignment with owners' estate and tax plans.

*Ruth Kellick-Grubbs is President of Kellick & Associates - A building supply industry advisory firm serving clients across the US and internationally.* [*www.KellickandAssociates.com*](http://www.KellickandAssociates.com)

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