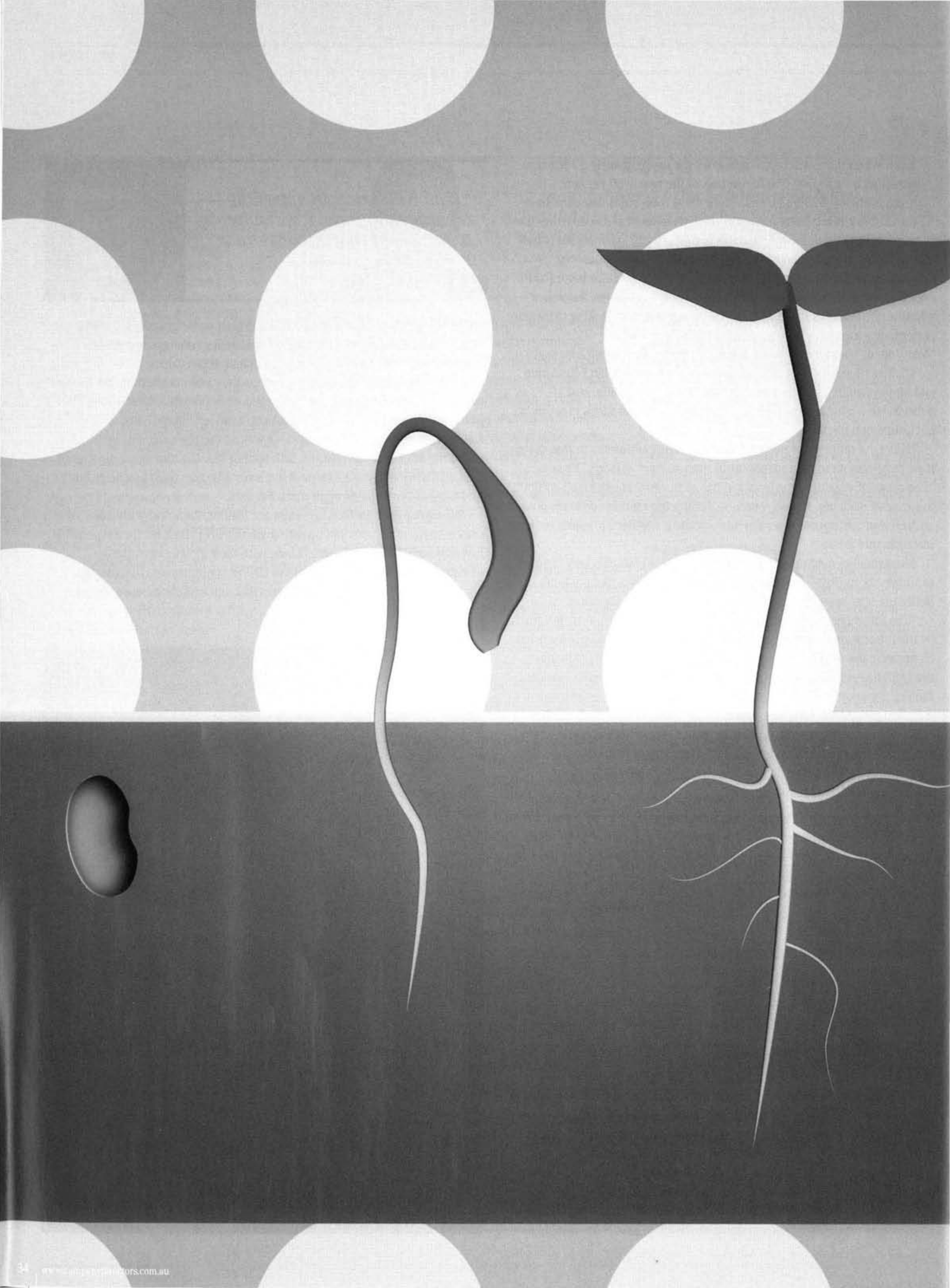

Sowing the seeds for growth

With the economy on the up, it's time to start branching out again. **Nichola Clark** provides some pointers on how SMEs can start repositioning themselves for growth.

As the global financial crisis (GFC) kicked in, many Australian companies battened down the hatches and went into defensive mode. The majority preferred to watch their backs rather than taking risks by tackling new opportunities and markets.

As the uncertainty from the GFC settles and the economy starts to improve, many small to medium-sized enterprises (SMEs) are now repositioning themselves for growth again.

Given the shifting landscape, what do the experts believe you as a director should be considering if you want to get your organisation on the front foot again? What questions should you be asking? What are the risks? What are the common mistakes? And, how do you ensure that you avoid them?

As we crawl out of our bunkers and brush ourselves down, the first consideration is to assess our surroundings and our current situation. What does the landscape look like and how has the world changed since the GFC?

Mike Kaye, managing director of growth and advisory firm thinkGROWTH, believes that post-GFC, organic growth is high on the agenda.

Working with both large corporates and SMEs, Kaye says: "In our recent national survey, *Growth Insights 09/10*, we interviewed 60 CEOs. The CEOs clearly highlighted that growth is a top priority, and to achieve company objectives, they will be dramatically increasing their organic growth focus over the coming year.

"Over 70 per cent saw organic growth [all forms of growth excluding mergers and acquisition activity] as likely to be an increased activity in 2010. But they also admitted to not having the systems or capabilities in place to manage a growth agenda."

Post-GFC, Kaye describes four galvanising issues facing companies: growth, costs, demand and capital. "For SMEs in particular, capital tends to be rated as the first or second priority. SMEs are typically more cash restrained," he says.

Gess Rambaldi, partner for Business Recovery and Insolvency at Pitcher Partners, observes that at present, there is considerably less credit going around. "Lending is difficult," he says. "If you go to the banks at the moment, it is much harder to get money."

Matthew Field, director of Enterprise Advisers at PKF Chartered Accountants and Business Advisers, expands: "Initially securing traditional finance is going to be difficult, as banking and lending covenants are under pressure from falling security, previous cash flow tightness and general business instability. Other forms of capital raising may prove difficult as investors are generally wary of new investment during this time."

Symon Brewis-Weston, head of local business banking at Commonwealth Bank of Australia (CBA), says essentially the fundamental change for SMEs is that there is much greater demand for the same set pool of funding.

"If you are a small firm, the only real source of capital, besides personal assets, is bank financing. At the corporate end of town, we are seeing companies going into equity and reducing debt obligations, but it is much more difficult for small firms to tap equity markets," he says.

So if there is less capital to go around and confidence is low, how can you ensure that your company gets part of the share?

SMEs REPOSITIONING FOR GROWTH SHOULD FOCUS FIRMLY ON

- Relations with their bankers
- Planning and forecasting
- Key risks and how to mitigate them
- Having the right people and skills in place
- Engaging customers and employees
- Managing change
- Having adequate resources and systems in place

Brewis-Weston says before committing yourself, you should make sure you have a really good plan for growth that you can articulate.

"Most importantly, you must have a clear understanding of the risks in the business," he says. "How are you going to mitigate them and what is your exit plan? If you don't know the answers, your probability of finance is more limited and the cost for it will increase. The bank has to have confidence in your management ability."

Alan Hayes, a SME partner at PPB, reiterates the importance of your relationship with the bank. "It is only going to be those businesses that are sufficiently capitalised or that have access to capital, that will be able to get on the front foot again. In any repositioning, it's essential that the banks keep apprised of what is going on," he says. "In a sense, it should be like a business partnership. The reality is that without finance, the business won't be able to do anything."

Rambaldi suggests that you use more than one financier so you can best serve the different financial needs of your business during growth or difficult times.

"First, your business has different financing needs," he says. "You may find that one financier doesn't provide competitiveness across specialist areas such as debt factoring type facilities. To get the best arrangements, you need to go to specialists for certain types of financing.

"Second, it's always important not to have all your eggs in one basket. For example, if your business is having some stress, and you are with the same financier, it can have a domino effect. The financier is able to limit your ability across all areas of your business rather than just one."

IN THE PLANNING

Before you go racing off to secure finance, Hayes warns about how important it is that you are in the right position for growth - that you have good planning and forecasting in place and that your records are in "tip top" condition. Look at what those records are telling you and use that information for your planning.

To ensure success, Field agrees that the proper foundations need to be in place - the business must be healthy and strong before you embark on new growth strategies.

"Seek expert advice. Businesses have failed from inadequate planning and advice. In many instances, they have failed from lack of preparation during rapid growth," he says.

Brewis-Weston stresses the importance of including the downside in your planning process. Entrepreneurs, in his experience, can sometimes be too optimistic and focus too much on the upside, he says.

In your planning, he suggests that you look at five key risks and how you can mitigate them. There are always risks that you can't mitigate, so the plan must be able to tackle the worst case scenario and must be flexible.

"If something doesn't go to plan, and you are starting to bleed, what actions do you need to take, and how quickly can you react and exit? There has to be an exit strategy. If you fail at something, you have to be in a position to fail quickly so you don't bring down the business with you," says Brewis-Weston.

GETTING THE RIGHT PEOPLE

As part of your plan, it is essential to have the right people in place.

Kaye believes human capital is at the core of organic growth.

"Organic growth is about three things in this context: engagement, change and skills," he says.

"Engagement is that of customers - you've got to sell what they really want - and that of employees. Growth is not easy and it requires discretionary effort from employees in the business, so you really need to engage those people. In terms of change, have you managed to change successfully and made a sustainable choice?

"It's also about skills. In our survey, the vast majority of CEOs came back to us and said they don't have the right skills in-house to manage their innovation and growth agenda. At the end of the day, successful growth is more about human capital than anything else."

Brewis-Weston adds that it is not just about having the right people in place, but also having them at the different stages of growth.

He draws on his experience as CEO of CBA's Indonesian subsidiary. Responsible for the development of the local bank, he managed its considerable growth from 80 to 1,400 staff and a turnover from $50 million to $100 million. "You have to make sure you have the resources to execute the plan," he says.

In addition to ensuring your systems can cope with the growth, you have to check that your management can.

"Some people may be really good at managing a smaller team and getting you to point A. But are they capable of getting you to point B? Executing a plan on a much greater scale can require a totally different skill set."

Hayes says you should not be afraid to buy the best advice and knowledge to meet your objectives. "Buying knowledge can help you with cost cutting," he says.

He also recommends that SMEs expand their view of the world and go beyond their usual circle of advice in order to robustly test their assumptions.

When looking to hire human capital, Ian Basser, managing director and CEO of Chandler Macleod, notes how important it is to take your time in getting the right people.

Post-GFC, Basser says many companies will want to keep the tight costs in place. Therefore, it

'Management teams and directors need to remember that in terms of growing a business, none of it counts unless the business delivers real value to customers' IAN BASSER

is about retaining staff. But the key is also about attracting and assessing the right talent.

"I think if people made better decisions about employees on the way in, they would have much higher productivity rates. Assessment is a very important aspect and people don't spend enough time on it.

"Questions you should ask are: What is the job? Who does it report to? What are the competencies required? How can we induct newcomers properly so they can be successful? It doesn't matter if it's a young person going into an apprenticeship or someone going into a new job, it's all the same. If you get it wrong you see massive dropout rates at huge costs to the business."

Basser also advises understanding who you already have in your organisation.

"Ask yourself who stuck with you during the tough times. Although they may not be perfect for the next step up, they have been loyal. If you develop them properly, you may have a much better solution sitting under your nose."

COMMUNICATION

At the same time, Rambaldi warns that during a restructuring process or when repositioning for growth it is critical to engage your existing staff. "I have seen from experience what happens if you don't engage them through a restructuring process," he says.

"During the GFC, some companies asked employees to reduce their hours, take a pay cut or do a job that required greater responsibility. In effect, they were asked to give more than before. If this has to happen, it has got to be done in the right way. You have to communicate how long the changes will take and why they are important for the individual and the company. When you come out of a recession, those same employees will all of a sudden be in demand and when the market changes, if you haven't treated them properly they will move to places which they feel will."

COMMON MISTAKES AND RISKS

Basser agrees that those who looked after their staff during the GFC will have come out of the recession stronger and in a much better position for growth than those who didn't. Constant communication with staff, he says, is key and failure to do this can be one of the greatest mistakes a company can make when repositioning for growth.

Another big mistake, according to Kaye, is to lose touch with customers. "Unfortunately, we see it all the time," he says. "Management teams and directors need to remember that in terms of growing a business, none of it counts unless the business delivers real value to customers.

"It is very easy for businesses to think their idea is great, that competitors can't do it and customers really want it. They then go and build something without testing and validating it within the marketplace. They then go to market and find that customer demand has changed or they misinterpreted it. Essentially, they have lost touch with the customer."

A further mistake is not recognising in your growth and innovation agenda four fairly simple activities: insight, ideas, validation and implementation.

'Change and growth isn't easy... You have to remember that no one is going to shrink to greatness' MIKE KAYE

"Insight is about customer insight," says Kaye. "Ideas are about taking those insights and creating a range of plausible, valuable and implemental ideas. Validation is about having the skills and capacity to test, prioritise and back those ideas that are most likely to add real value to the customer and to the business. And, implementation is all about having cash, the processes, skills and culture in place so that you can implement your ideas in a way that minimises risk and maximises outcome."

Kaye warns that another common mistake is too much distraction from the core business.

Field concurs, adding: "Never lose sight of your core business - always do what you do best. That's why you're in business."

As Brewis-Weston notes, to help keep your eye on the ball, you have got to keep a clear idea of why you are restructuring and what you are restructuring to. "What will it look like when it finishes? You must understand the risks of this as well as the upside - if you understand those, you can manage your way around them."

Kaye's final example of the common mistakes made by SMEs is over extending financially. "They say growth costs cash," he says. "Cash management is absolutely critical."

Field expands: "Be aware of the cost of growth, not just in dollar terms and capital raising, but also in terms of the extra time, materials and resources needed to invest into your business. Be prepared to put in the hard yards. If carried out properly, the rewards will follow."

Field outlines three risks when companies embark on the restructuring process. First is over-capitalising your business - injecting capital when the core business is not yet strong enough or fully recovered from the downturn. The second is over-borrowing for growth strategies - this places a burden on cash flow at a critical time. And, the third is growing too fast, or trying to grow without having the infrastructure and maturity to maintain that growth.

On the other end of the scale, one of the greatest risks is not to do anything at all.

Hayes says: "Often a company knows it needs to do something, but it doesn't know what it needs to do. It is apparently paralysed by doubt and ends up not doing anything."

But, as Kaye concludes, "at the heart of growth is change. Change and growth aren't easy... You have to remember that no one is going to shrink to greatness".