Enabling “Entrepreneurial” Business Growth

Why do some companies grow and are successful over many years, while other companies struggle to “move-beyond” their initial growth stage and early successes?

It is generally recognized that small to medium sized businesses grow in a systematic way and experience similar challenges in similar stages of their development. The growth stages of small and medium sized businesses are:

- Stage 1: Existence (struggles to win customers)
- Stage 2: Survival (an operating business at breakeven)
- Stage 3: Early Success (operating business with modest profits)
- Stage 4: Rapid Growth (revenue and business growth)
- Stage 5: Maturity (consolidating the business and the financial gains)
- Stage 6: Decline (revenue falling and financial losses)

The transition from Stage 3 to Stage 4 is described as breaking through the “Growth Wall”.

© Chase Consulting Group Pty Ltd
The fundamental decision facing the business owner at Stage 3 is whether to exploit the business accomplishments and expand, or to keep the business at its current size. Having made the decision to grow the business, how does the business owner plan for growth?

In order to answer this question we need to understand the differences between small businesses and entrepreneurial businesses.

**Differences between Small Businesses and Entrepreneurial Businesses**

The typical characteristics of small businesses that find it difficult to move beyond their early growth stages (i.e. existence, survival and early success) are:

- Independently owned & operated
- Not dominant in their field
- Do not engage in any new marketing or innovative practices

Whereas, entrepreneurial businesses that have progressed to rapid growth stage are:

- Exploiting business opportunities:
  - introducing new goods & services
  - introducing new methods of production
  - opening new markets
  - creating a new business model
- Focusing on business growth

These differences help us to understand why entrepreneurial businesses have broken through the growth wall.
Rapid Business Growth

For small and medium sized businesses that are struggling to break through their growth wall, rapid business growth can be achieved by launching new products and services, moving into new markets, winning new customers and/or combining existing resources in new ways.

The following diagram highlights some of the different approaches between small businesses during their start-up stages and the entrepreneurial businesses that have broken through their growth wall.

**Start-up Stages**
- Sales and or product driven approach to growth (organic growth)
- Internally focused attitudes
- Modest, uneven investments in marketplace intelligence
- Tendency not to have management devoted to marketing & strategic planning
- Only modest changes in original business concept

**Rapid Growth Stage**
- Opportunity and marketing driven approach to growth
- External focused attitudes
- Systematic approach to identifying and screening market opportunities
- Marketing or equivalent function
- Many changes to original business concept and product/service configurations

The essence of “entrepreneurial business growth” is found in the strategies that link the business with the marketplace.

The business owner and their management team needs to develop and execute effective strategies which address the critical market issues, product and service delivery issues, management issues, and financing issues.
Planning for Entrepreneurial Business Growth

Planning for entrepreneurial business growth addresses three fundamental questions

1) What business opportunities should we explore and capture?
2) How much should we invest in each business opportunity?
3) What are the critical issues we need to address to ensure the success of the existing business and the success of the business opportunities?

Entrepreneurial business strategies enable the business owner to develop the strategies that enable new business growth.

These Entrepreneurial Business Strategies include:

- Study the environment to identify unmet marketplace needs
- Screen and shape the business opportunities
  - determine the window of opportunity
- Develop product/service to respond to needs and marketplace trends
- Marshall the resources to capture the business opportunity
- Manage the implementation
  - exploit your innovation
  - extend your time monopoly
Business planning is considered beneficial to success of the entrepreneurial business strategy.

The benefits of business planning include:

- Focusing the organisation on a single outcome that enhances clarity
- Enabling the organisation to develop the appropriate business model
- Analysing the cash flow requirements during the rapid growth stage
- Addressing the risk and uncertainty issues

The amount of planning depends on the type of venture:

- Large scale – needs detailed planning
- Small scale – quick screen, then do it

The Entrepreneurial Process needs to be managed, i.e. doing things right – where execution is the key to success.
Protecting Existing Business

The business owner and their management team also need to protect their existing business as they explore and capture their new business opportunities.

The “organic growth” strategies are equally important to the new business growth strategies and require careful management attention.

These **Organic Growth** strategies include:

- **Customer Retention**
  - identifying and quantifying customer defections, and fixing their true root causes
- **Product / Service Extension**
  - understanding your “core customers” cost and service gaps better than your competitors
  - improve products & services
- **Reducing Costs**
  - get the most out of your systems by decreasing costs & risks
Measuring Business Growth

The traditional accounting measures of revenue growth, employment growth, profit and return on investment are inadequate for guiding internal decision making during the rapid growth stage.

It is general knowledge that a business can have good profits, but has severe financial problems due to a lack of cash. It is also recognised that the business needs a balance of financial and non-financial measures and also a balance of lead and lag indicators.

Three important measures that help the business owner during the rapid growth stage are “Revenue Margin”, “Cashflow” and the “Sustainable Growth Rate”.

**Revenue Margin** is defined as revenue less the cost of goods sold and less the direct marketing and servicing overheads. Only consistent growth in the revenue margin can provide an increase in the operating profit of the business.

**Cashflow** is defined as the change in cashflow from operations, investing & financing activities. It is a critical financial measure. Will there be enough cash to satisfy the growing demands? How quickly can we grow before we need to finance our growth through additional debt or equity funding?

**Sustainable Growth Rate** is defined the maximum percentage increase in revenue that can be achieved without requiring an increase in debt or equity funding. Determining what the sustainable growth rate from a cashflow perspective requires careful consideration in the planning process.

**Author: Craig Peacock** (Ph.D.) is the Director of the Chase Consulting Group. His areas of specialisation include business planning, coaching business owners, entrepreneurial business strategies, technology investments, business growth, cost reductions, supply chain management, market research, organisation change, business process reengineering and project management.

Phone: 0412 71 4549  
Email: craig.peacock@chasegroup.com.au  
Web: www.chasegroup.com.au

---


2 Osborne (1994) ibid