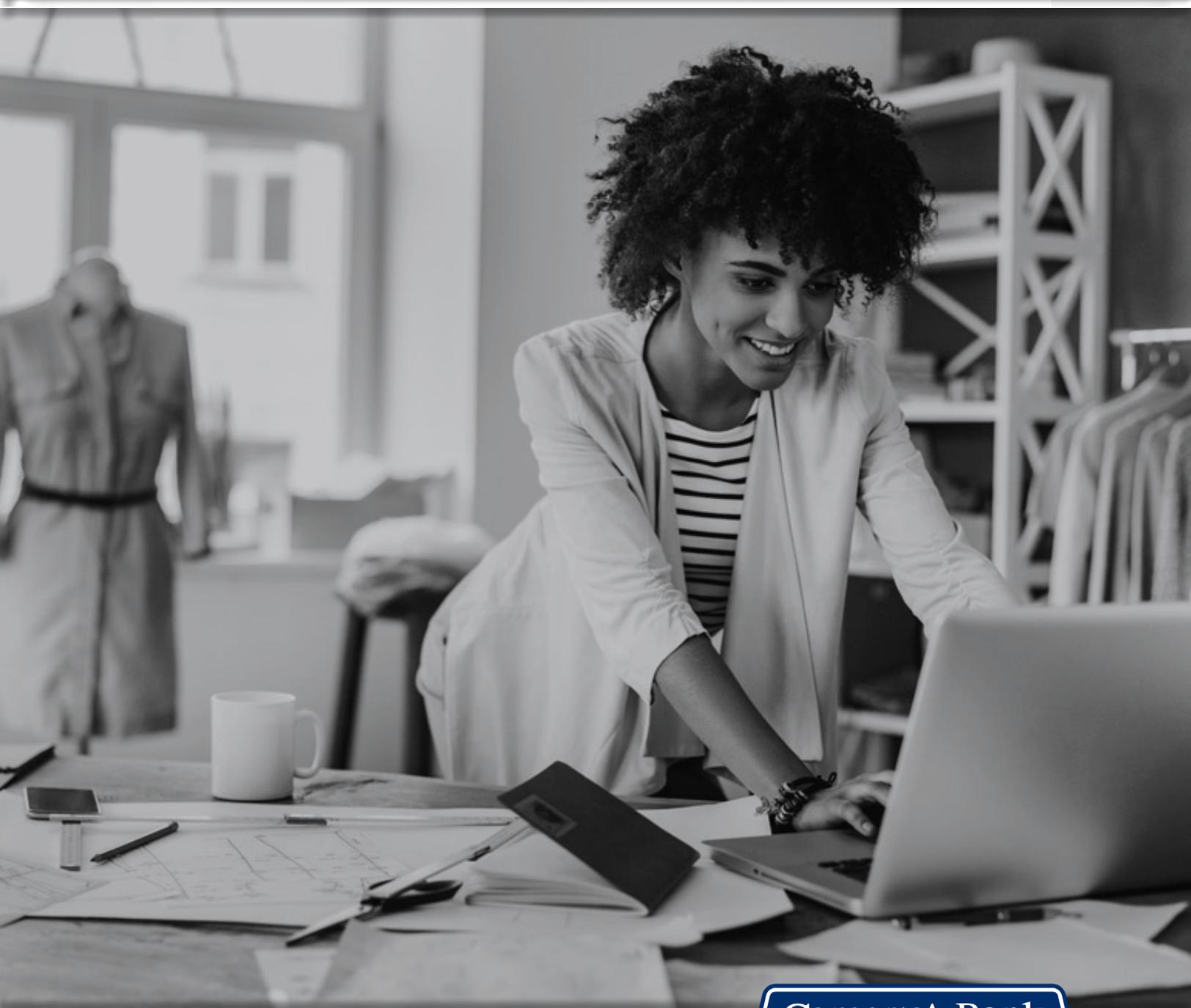


Effective Ways to Scale a Small Business



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Introduction

Small business growth is seen as a sign of success, or at least affirmation that there's growing demand for your products or services. It's also a promising step toward expanding your business. However, growth is not necessarily indicative of increasing net profitability. It just means cashflow has increased. For example, improved sales won't yield greater revenue if the amount of overhead needed to support those sales has increased at a comparable rate;

this means you're spending more cash to earn more cash. At best, business growth will yield a linear increase in profits. At worst, it will bloat your organization and complicate management.

By comparison, when you scale a small business, you experience exponential growth in profits by increasing revenue at a faster rate than you're spending. Therein lies the key difference between growing and scaling a business: The former involves an

increase in resources (personnel, equipment, technology, physical space) to match earnings, while the latter greatly improves net profits by augmenting cost-effectiveness of new and/or existing resources.

When executed well, scaling is clearly the faster and more direct path to exponential revenue growth, and it will help secure the long-term vitality of your business.



Getting the timing right

Scaling is easier said than done, and attempting to move too quickly can be especially dangerous. Approximately 70 percent of startups and small businesses fail by scaling prematurely, according to the Startup Genome Report.

Examples of premature scaling include:

- Dedicating significant resources to customer acquisition without first demonstrating the ability to retain customers and perform well in the market.
- Investing too much money into the development or purchase of products without validating a need or demand for them.
- Prematurely hiring more people than are necessary in anticipation of eventual exponential growth.
- Rushing to increase profits without verifying the integrity of your business model or without actually knowing if your current model can be scaled.



These examples clearly illustrate the need for a careful balance of priorities when scaling a business. More importantly, they highlight the danger in trying to scale before experiencing growth. Instead, businesses that scale successfully typically do so in response to signs of growth. They're seeing strong sales, for example, so rather than amassing more expensive resources to

keep up with growing demand, they seek to capitalize on their success by improving net profits.

On the other end of the spectrum, waiting too long to scale can also be problematic. If a growing business cannot create the bandwidth to support an influx of new customers, they risk missing out on incredible profit opportunities.

Accordingly, knowing when to scale is crucial for maximizing short- and long-term success. Business owners clearly need a strong business foundation and stable cashflow before they entertain the possibility of scaling, but they don't want to rest on their laurels until they're too overwhelmed with new business to convert all opportunities into revenue.



Steps toward scaling your small business

Presuming you're in a healthy position to scale for long-term growth, there are several key steps that any small business can take.

Focus on customer retention, not just customer acquisition

Most business owners intuitively know it's cheaper to retain existing customers than it is to earn new customers.

However, this core business tenet is especially crucial for organizations as they scale.

Strong customer retention is an enabler of scalability. It's more cost-effective for a business to maximize profits by upselling to existing customers than it is to attract new customers. The marketing needed to get new customers in the door is relatively expensive, time consuming and effort intensive.

Using a simple grocery store analogy, a customer at a checkout line is much more likely

to spend a few extra dollars on low-cost add-on items such as a stick of gum or a candy bar than a prospective customer who has never even heard of the grocer before. Simply put, the customer closest to the point of sale is the easiest and cheapest to sell to, and usually those are your existing customers.



Secure the necessary financing

Even when scaling, it costs money to make money. Improving profit margins will demand some restructuring and possibly investments in new technologies, equipment, personnel and, often, new lead-generation and marketing efforts associated with sales acquisitions. There's no shortage of funding vehicles for small businesses, whether it's private investors, crowdfunding, business grants or competitions.

However, in many cases, your best option may be to seek out a Small Business Administration (SBA) Loan. Private investors often expect significant or even unrealistic returns, while equity crowd sourcing ultimately means you forfeit some of your ownership in the business. An SBA with a competitive interest rate, on the other hand, lets you secure the cash you need while maintaining greater equity in your business.

Invest in technology and outsourcing services

Automation and outsourcing are cost-effective investments for any small business that's ready to scale its operations. Cloud-based technologies, for example, can dramatically improve business performance and increase output at a lower cost than outright technology ownership. You only pay for what you need as you need it in a subscription-based model, which takes the guesswork out



of capacity planning and the risk out of growth strategies that rely on new digital resources.

Remember, the goal of scaling a small business is to serve a much larger base of clients at a lower cost to your organization. Automating manual tasks and outsourcing complex functions that are important for operations but secondary to your main value proposition can reduce operational costs while improving output. This also frees up more of

you and your existing staff's time to focus on how you might create additional value throughout the customer journey.

Seek outside advice to gain perspective

Lastly, if you're simply too close to your business to visualize a strategy that will help you scale quickly and efficiently, don't hesitate to seek outside perspectives. It's not easy to scale a small business, and since every organization

has such wildly different circumstances, there are no one-size-fits-all growth hacks. However, there is indeed a *right* way to scale your business, and it's worth taking the time to figure out what that is.

For guidance pertaining to the financial components of scaling a small business, including an exploration of your funding options, contact the experts at Comerica Bank today.



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Sources:

https://s3.amazonaws.com/startupcompass-public/StartupGenomeReport2_Why_Startups_Fail_v2.pdf

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