

Expansion: The Next Big Step



ALL THINGS FINANCIAL

Paul Fyfe, an Independent Financial Advisor, Property and Business Broker explores and gives commentary on the above subject.

The decision to expand your business requires thoughtful consideration of various factors, including your finances, the logistics of growth and you, personally.

There are many ways to grow a small business. The key is to manage the growth in such a way that it can be controlled. Growing too rapidly can sometimes be more devastating to your company than not growing at all, while controlling the pace allows you to fully research the market's desire for your product and service.

It is best to expand only when you recognize untapped opportunities that can benefit your business. There may be a niche that you want to capture or a location not serviced by your competitors. You will see the signs.

Things to consider before expanding

- **Look at the economies of scale.** You should only expand if you can sell your products or services at lower prices or take more profit per item. One way to do this is mass production or bulk buying.

- **Are your competitors expanding?** If they are, they may

have recognised new opportunities in the market or developed a new idea. You can either wait and see how their decision plays out or follow their lead.

- **Do you have the necessary finances** without sourcing them externally?

- **Consider your customers.** How will they react to the change?

- **Examine the business environment.** Assess whether it will support your expansion.

- **Review your role.** Expansion will involve a change in your responsibilities.

- **Get back to basics.** Are you moving away from what made you a success in the first place?

Growth is good for a developing company, but don't be misled by early success. Growth is a gradual process. Too much, too soon is too risky

A number of things might indicate that you're growing too fast:

- The decision to expand is impulsive and not based on financial evaluation and market studies.

- High loans are acquired.



- The owner and managers lose touch with the employees.

- The new administration gets in the way of essential, basic business functions.

- Overheads keep growing.

- Customer complaints are increasing because service delivery is flagging as a result of extra responsibility.

- There is an over dependence on key customers, suppliers, lenders.

Expansion must play to your strengths and not be a result of your weaknesses. Grow your business one step at a time, so that you can sufficiently plan

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your future success.

Buying an added-value business

An added-value business will do just that – add value to your business. For a petrol station, this could be a convenience shop or a car-wash.

For a commercial printer, it might be a graphic design studio. These complement the existing businesses and build on their success. Either business can stand alone, however the two gain an advantage by working in tandem.

According to www.diomo.com, a widely used Internet strategy guide and reference resource for business buyers, over 90% of the people who begin the search to buy a business fail to ever complete a purchase. In most cases, these are first-time buyers who admit to having totally underestimated what was involved in the buying process. The trick is not to take anything for granted. The more you know, the easier it is to make good decisions.

How to buy a good business at a great price

Match your strengths with the business you choose. That way

you get value for the money you spend. Be wary if you are handling your purchase through a business broker. Remember that a broker represents the seller, not the buyer, and won't necessarily have your best interests at heart.

Focus your search. Determine what is important to you, and sift through what is available according to the criteria you've chosen. If a business suits you and is not "officially" for sale, speak with the owner. They may be willing to sell at a good price.

Review all the figures. The seller may lie, but the sales records won't. Verify figures with accountants if need be.

Create a checklist for the seller that includes absolutely every part of the business, including the competition, the suppliers, the customers, the contracts, the employees, legal issues, the industry – and make sure you are satisfied with the background information that the seller comes up with.

Make a purchase agreement to protect you from future decline in business, bad inventory, faulty equipment and other liabilities.

Hire the right professionals, ie, a lawyer and accountants. A lot



of money can be saved purely from the choices you make at this stage.

Negotiate. Make an offer you can safely afford. There are a number of local listings that contain details of businesses for sale in South Africa. For info see:

www.bizforsale.co.za/business.htm

www.buyabusiness.co.za

www.haggle.co.za

<http://home.intekom.com/capebusinessbureau/buy.htm>

How to ensure you come out on top

- Set realistic goals.

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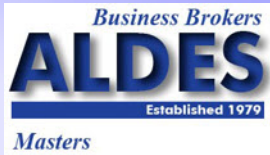
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- Effectively plan your expenses.
- Finance smartly. Look for low interest rates, no personal liability, little or no collateral, a long payback period.
- Put more money into working assets that bear cash, rather than fixed assets, where your money is locked in.
- Get the timing right when expanding. Consider it when your business is at its peak.
- Up your sales without sacrificing your profit margins. But remember, greater volume of sales does not necessarily bring a greater profit.
- Be spiteful with your money. Spend only where you will see a return.
- Understand your business. Don't just leave the finance side to your accountant.
- Don't forget – the more you know, the more control you have.

Re-assess your resources

Finance. Do you have enough capital to expand? If not, where can you get more and how?

Human Resources. Are you going to need more staff to cope with the added demands? Do they need more skills and do you have to train them?

Time. How long will the process be? Have you evaluated how long each growth stage will take?

Need-to-know info

Things to ask before signing on the dotted line:

Q: What are the seller's reasons for selling the business?

Q: Do you have an income statement for the last two years that will allow for a meaningful financial analysis?

Q: What track record does the business have?

Q: Have you identified key customers? How would the transfer of ownership affect them?

Q: Have you identified key suppliers? What terms and conditions of trade are in place?

Q: Do you have a list of assets with a valuation where necessary?



Q: Have you examined the accounts receivable and assessed the recoverability of these amounts?

Q: What agreements are in place regarding premises and asset leases?

Q: Have you taken into account the working capital that you will require to cover the initial outlays until income starts rolling in?

Q: Obtain details of the latest assessment received from SARS. Are there any disputes with SARS that may impact future taxation payments?

Q: Is there any pending litigation against the business?

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Q: Does the business provide any guarantees or warranties on its goods and are these reflected on the balance sheet?

Q: Which employees are key to the future viability of the business?

Q: What is the business cash flow cycle and is it attainable?

Paul Fyfe would like to thank "The small capital practical guide for small business" for this article.



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