

INSIGHTful DISCUSSIONS

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BUSINESS GROWTH IS IT AS EASY AS IT SOUNDS?



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One of the most difficult, stressful, and yet rewarding experiences in life is starting a business. Keeping it going is tough; one out of three don't make it through the first two years. Those that survive and thrive at some point will face a new challenge - whether or not to grow. We asked a handful of Wilmington business professionals who've either experienced growth or advised clients on the subject for their take on various aspects of this important make-or-break issue.

How can a business plan to grow, but not too fast?

MARK JOHNSON: Being on the banking side, I may have a different perspective as I have seen many businesses work through their business growth. Planning for growth boils down to a capital issue. Conceptually speaking, the more capital a business has, the faster it can grow. However, it alone is not a measure for the suc-

cess of that business. Growing or expanding just because you have loans or money, it might not mean it's the best idea because if a business grows too fast it will find itself in a cash crunch at some point eventually.

The most successful businesses I have worked with maintain a well-managed, controlled growth strategy with realistic expectations and a measurable business plan. These businesses take an early approach with their accountants and bankers who assist with their capital strategy. Even if these businesses have a great idea which

takes off, no matter how much a business owner wants to push that growth, the business is only going to be able to grow so much within its capital structure. The successful business owners know and understand this.

Planning for growth, managing and controlling growth, re-investing in growth are all components of a successful growth strategy.

RICHARD CROW: Rapid, or forced growth, can sometimes be detrimental to a business. That is not to

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“Rapid, or forced growth, can sometimes be detrimental to a business.”

RICHARD CROW
Business Attorney,
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“Honestly, it's a blessing in this community to see the number of excellent resources out there.”

MARK JOHNSON
Market Executive,
Sound Bank



say that driving towards rapid growth is necessarily a problem, but it should be done within the confines of a well-prepared plan. A good strategic and tactical plan will help the business focus on short-term and long-term goals, and identify actions to be taken to achieve those goals.

Plans have to be revisited on a regular basis, and tactics may need to be revised based on learnings, including failures. However, you should have a plan and should follow the plan. The plan should keep the business focused and prevent, or at least minimize, unproductive projects or getting side-tracked.

How does a local business keep a local feel when growing?

CAT MARINICH: Stay true to everything that got you here! Continue to form and foster relationships and to offer the same personal service you began with. This requires constant effort because you are so much busier. Show your sincere appreciation for your clients, customers, and guests who are loyal and refer you to others, while remaining humble and grateful.

What's the best way to get your team on board with your growth plans?

CROW: A business will find it difficult to function as a democracy; however, employee engagement and buy-in is a key component of a successful business. If you treat employees like owners, they

will act like owners. Every business should want employees who are engaged in the business, who feel connected and valued, and who think of the business as more than just a job.

Although some plans need to stay within a select group of executives and employees, at least for a time, a business should consider providing regular updates to employees regarding the business's plans, goals, achievements, and failures. Constructive employee feedback should be solicited, and honesty should be encouraged. The process that is put in place by a business to solicit that feedback, to evaluate it, and to implement it will drive employee buy-in and engagement, which ultimately will help in driving growth and achievement of other goals.

MARINICH: Make them feel a part of the excitement and shared responsibility for the growth! Give them ownership in the preparation for new growth, include them in some of the planning. Your mainstays that show this kind of dedication, loyalty, and buy-in may deserve bonus incentives and increased pay.

BO BURCH: Encourage open, honest conversations. Your team will embrace a vision if they have a true voice in creating it. This doesn't mean you adopt all the ideas discussed, but make sure everyone is heard.

Invite key stakeholders, executives and others throughout your organization into the discussion. Have town hall meetings and other forums to engage people within your organization, customers, potential customers, suppliers, partners and others important to your company's success.

Embrace push back. Companies benefit by allowing competing views to surface before plans are finalized. Share

your perspective and be open to altering plans based on the merits of others' ideas.

What's the most common mistake businesses make when trying to expand?

BURCH: Failing to conduct rigorous market research and having contingency plans for when times get tough. Your team should have a growth mindset as well as the ability to switch paths when market conditions change.

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We look for those who want to be a part of something at the root stages and desire to work hard to see and watch that plant grow.

- Cat Marinich
Owner,
Nothing Bundt Cakes

Business owners and executives are understandably passionate about their products. However, sometimes this blinds them to the actual demand for their offerings. They must conduct independent assessments of the market

opportunity and avoid over-leveraging the business in case assumptions aren't realized.

Some aggressive executives move quickly to build new facilities and expand capacity at the first signs of opportunity without factoring in the potential downside of being stuck with added costs and personnel. Options like using third-party vendors and contingent workforces should be evaluated before adding costs that will be difficult to shed.

Executives should be in the business of limiting risks, not taking unnecessary ones.

JOHNSON: I commonly see on the startup side or early growth stages of a business overzealous forecasting. I see extremely optimistic forecasts with unrealistic growth rates and inadequate expectations on expenses. Hoping for ten percent growth month after month is great but it's not realistic; instead, look at some scenarios where sales decline or are flat with expenses that reflect that growth or decline. It often comes down to a business owner's optimism and passion for the business overlooking the realities that a market may bear. A business owner should perform their due diligence and have a firm understanding of their market (cyclical, seasonal, competition), revenues, fixed costs and variable costs.

CROW: A common mistake is pushing towards rapid growth in revenue, earnings, or customer or user base without allocating sufficient resources to maintain, update, and improve some of the foundational aspects of the business. Those may include such things as equipment and servers, information security safeguards, technology, software applications, policies and procedures, legal and regulatory compliance, intellectual property protections, and sales

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and other business-related contracts and documents.

Overlooking foundational elements may eventually lead to increased liability exposure, regulatory enforcement actions, contract claims, delays in production or project completion, customer dissatisfaction, or a failure to achieve or maintain growth targets. For those business owners looking to raise capital, or to eventually sell their business, a failure to maintain regulatory and legal compliance, poorly drafted vendor or sales contracts, non-existent or outdated policies and procedures, and general inattention to these aspects of a business may serve as a red flag during due diligence investigations by a potential investor or purchaser, may result in a reduction in the purchase price, or may cause a buyer to insist on a hold-back, indemnification, or some other security to account for the additional risk.

It may not be practical for every business to invest heavily in all of these areas at the same time, but a well-drafted strategic and tactical plan for the business will help to ensure that resources are appropriately allocated to achieve specific goals. Those plans also should be reviewed and updated on a regular basis to account for changes in short-term and long-term goals, steps for achieving those goals, and learnings from past successes or failures.

How should a business approach bringing on investors or partners to help fund the growth of a business?

JOHNSON: Plan, plan, plan as best and as early as you can. When businesses come to a bank in a cash crunch, it's often difficult for a bank to assist at that time. When the cash crunch is evident, the business owner has often utilized all forms of cash and leverage to fund the business growth, extending credit with any available collateral. It's difficult for a traditional bank to help them at this point without the SBA or perhaps USDA involvement. If a business can't go the traditional bank route, they can start looking at angel investors, silent partners, or depending on the size of the

need other forms of capital. It is important for a business to have a very thorough business plan that would attract an outside investor. That path is a certainly a little more difficult and time consuming, so proper planning is important.

CROW: Raising capital from outside investors can be a very beneficial method of funding the growth of a business, particularly if third-party lenders, owner contributions or loans, or net profits of the business are not sufficient, desired, or available. Outside investors also may be able to provide the business with the benefit of their knowledge, contacts, ideas, and other resources that can be invaluable to a growing business.

Before talking with potential investors, I would suggest that the business have a good idea of the type of investors it is seeking, what role the investors may have in the business, and the structure of the investment. The business also will want to prepare a business plan or a pitch deck to help potential investors understand the business, its goals, its management team, how the funds will be used, and the structure of the investment opportunity.

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Finally, in an effort to keep the costs and fees associated with the investment round to a minimum, most businesses should strongly consider offering and selling their stock or ownership interests only to high earning or high net worth investors who are referred to as “accredited investors.”

What approach should executives take toward investing

in technology in growing a business?

BURCH: Technology can offer magical improvements for companies, but automation isn't automatically the answer. The human touch is often better, particularly in customer support and employee recruitment.

Here's an example of automation running amok: An executive applied for a position through a company's website at 7:30 p.m. on a Friday. She received an automatic response that her resume had been reviewed and the company was considering other candidates.

While technology creates efficiencies in numerous areas, the pendulum can clearly swing too far. Many businesses have recognized this, and face-to-face interaction with customers, employees and potential hires is making a comeback.

We increasingly lead lives behind our screens. Companies need to recognize when technology can be leveraged to improve experiences and when it builds barriers. With employee recruitment, it's critical to get beyond automated keyword searches of resumes and assess whether a candidate's experiences and values match your company's needs and culture.



JOHNSON: Certainly, every business needs some level of technology investment, especially during times of growth. I think a key decision when investing is to lease or buy. Whether the need is real estate, phone systems, computers, equipment, etc., the difference in leasing or buying can have an impact on your financials and cash flow. I would definitely recommend any business owner to consult with their accountant prior to any significant technology investment.

CROW: The effective use of technology

by a business is key to operating efficiently, meeting increasing customer demands and expectations, and attaining and

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...the lack of an experienced workforce in certain areas, such as technology and software development, is an issue for businesses in this region

- Richard Crow
Business Attorney,
Ward and Smith, P.A.

maintaining growth. There are still many small businesses that can get by using pen and paper. However, for most of us, a reasonable investment in technology is integral to growth, and to survival.

Cost of technology is certainly a consideration for executives. Implementing effective technology should not bankrupt a business. Executives need to consult heavily with their IT team, CTO, software developers, and other internal or outside technology experts. In addition to cost, the utility of a technology should be evaluated. What purpose does the technology serve for the business? Will it cut costs, make production faster, or improve security of information? Will it improve user or customer experiences or satisfaction? In addition, the business should consider whether the technology is flexible enough to be updated without having to entirely replace it.

From a brick-and-mortar perspective, what do businesses need to know about seeking additional locations or larger spaces?

MARINICH: It's extremely important to

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confirm any plans for traffic reconstruction that would affect your business and any construction plans in general. Things like road frontage, volume of traffic, easy entry, parking, and exit, surrounding demographics, all of these are extremely important.

We absolutely love our location at Progress Point and are now very worried about the impacts the Eastwood Road overpass is going to have on all of our business neighbors. I am trying hard to trust in the idea that this incredibly expensive and lengthy overhaul is going to be good and better for us, I wholeheartedly hope it is! It's just the fear of, for me at least, so much unknown and is unsettling.

JOHNSON: Wilmington is not the most inexpensive market in North Carolina. Finding not just affordable real estate but also the right location can take time. The old saying "cash is king" is especially true with a growing business. So, if the business owner is purchasing a site for a new location or an existing building, understanding the costs of acquisition and the associated costs with any improvements and maintenance of the property is important. When financing, the rule of thumb in banking is that a bank will lend you 80% of the cost of property. If the cost to expand into the new location is \$1,000,000 then the equity requirement is \$200,000. How does this investment in a new building impact the ability to fund business growth? A business owner may find that leasing makes more sense as some developers will provide the improvements and work the cost into the lease. Leasing can be much less capital intensive. I would advise any business owner to work with a seasoned commercial real estate broker or developer as they are a great resource for information.

CROW: Every business should consider whether it truly needs another brick and mortar location to grow. Personally, I enjoy face-to-face interactions with clients and co-workers. I believe there is no better way to develop a strong, long-lasting relationship than to interact in person. However, that is not always the most efficient way of doing business in today's environment, particularly in a region where available talent in certain areas may be difficult to locate.

Technology makes it much easier to allow employees to work remotely from home or another location. It also opens up an entire world of talent that you

otherwise would have to compensate to relocate to the Cape Fear region.

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...businesses have to have a firm understanding of their fixed costs or, more importantly, their variable costs.

- Mark Johnson
Market Executive,
Sound Bank

What should executives think about first when expanding their team?

MARINICH: Hiring a good team is so critical. Because our business operates solely on teamwork, we focus primarily on personality, communication skills, and ability and desire to PLAY well with others. We look for those who want to be a part of something at the root stages and desire to work hard to see and watch that plant grow.

CROW: Executives should have a thorough understanding of the goals of the business, and the actions necessary for achieving those goals. That will help in identifying gaps in a team's experience, skills, and capabilities. Those gaps will need to be filled in order to efficiently achieve the business's goals. Also, executives should focus on whether the right people are in the right positions. If someone is not suited for a particular role, consider moving them to a role that better fits their knowledge or capabilities.

BURCH: Executives must first have a vision to where the organization is headed along with a viable strategic plan and resource plan.

First, understanding the current state of the business is vital to identifying

the approaches needed to drive future success. A full understanding of the current state includes an analysis of several key stakeholders or areas.

Second, strategic direction - Where do we want to be? The heart of strategic direction setting is this second step. The information from the current state assessment is combined with the understanding of future trends to develop the vision statement, mission statement and goals.

Then a business sets objectives - specific, quantifiable, realistic targets that measure. The objectives establish the bar for the rest of the planning effort. All the strategies, action plans and investments should be focused on achieving one or more of the plan objectives. It is critical the executive team selects the correct objectives for measuring success. Establishing objectives is perhaps the toughest work in planning.

Finally, implementation/execution - How do we plan to get where we want to go? Once the objectives are established, the next step is to develop the road map for achieving the direction. The barriers to achieving the goals



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Owner,
Nothing Bundt Cakes

region have to spend considerable time and money to recruit and relocate technology talent from other places.

Our region has natural advantages with our climate, beaches and affordability compared to many other technology hubs. Expanding the local pool of technology talent with education and recruitment initiatives will put the Wilmington area on the map as a desired location for high-tech ventures.

CROW: The Cape Fear region has a great deal to offer businesses, and is an attractive location for starting and growing a business. However, it does have some issues that pose challenges to expansion. I am not sure if it is unique challenge, but the lack of an experienced workforce in certain areas, such as technology and software development, is an issue for businesses in this region.

What unique challenges do companies face in the Cape Fear region when it comes to

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