Meeting the Needs of a Growing Business in the Economic Recovery

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London, England (rushPRnews) 10/03/13 — The resurgence of the economy in the last 18 months has put many businesses in a position that was unimaginable 3 years ago. Many businesses say they could expand but lack either resources to do so or are still gun shy from the last recession. After having spent years downsizing in everything from personnel to facilities and markets to make it through the lean times, the decision to try to grow is neither easy or without risk. There are some sensible steps to consider that will allow a business to “test the water” before going all in and risking everything on an uncertain economic recovery.

Risk Reward Analysis

As with everything in business, the decision to expand must be looked at from a very analytical viewpoint. While lofty noble considerations such as adding jobs to the economy sound good in a press release, if adding 20 jobs now means risking those jobs plus the 20 employees you already have in the event of another downturn then there is no upside. By keeping it a purely dollars and cents decision you will do more to save jobs and help the economy in the long run. The businesses that survived the Great Recession did so by being smaller and more efficient than the thousands of businesses that closed. This is an important consideration that bears keeping in mind when looking towards the future as well.

The simplest way to keep it in perspective is look at each decision and expenditure based on Return on Investment (ROI) in dollars and percentages. If you calculate that you could net another $10k in profits by hiring 5 employees that would be good. If you look and currently average $3500 net profits per employee then you see you have actually decreased your average return. This is the area that will suddenly require substantial belt tightening in the event of a slowdown in business. If business slows down the return on all will decrease and those additional employees that were yielding a lower return will suddenly become an expense.

Control Costs during Growth

The key to a successful expansion is controlling costs. The focus should be two-fold. While keeping costs as low as possible for the acquisition of facilities, labor, and equipment during the expansion, equal consideration should be given to what the cost of eliminating or liquidating will be if it should become necessary in the future. This is somewhat more detailed than simply estimating the resale value of property or cost to exit a lease of property or equipment.

Property and Facility Expansion

In retail business and industry alike, substantial expansion in sales will require larger facilities. Whether for retail space or simply for warehouse space, it is not possible to sell more than you are able to keep in inventory for an extended amount of time. Relying on orders that need to be fulfilled after time of purchase results in stiffer price competition and loss of sales from buyer’s remorse and the accumulation of undesirable merchandise from canceled orders. To expand facilities choose leases of shorter duration or with affordable out clauses, ask for tax abatements from local jurisdictions if purchasing, and consider interim arrangements such as semi-permanent buildings and facilities that would require lower cost to put in place and be easier to sell when either downsizing or future expansion occurs.

Labor

The cost of labor is the greatest drain to profits of any business. This is compounded when a growing company exceeds certain employee number thresholds. For example, with under 50 employees there is little cost or concern about Family Medical Leave Act or the Affordable Care Act. If adding 10 employees means you will be required to provide health insurance for 50 people instead of 0 then there is no point to growing unless you can nearly double in size. Since that is not really a controlled growth, the use of temporary employees and contract workers may allow you to meet labor needs without crossing that threshold and reduce liability for unemployment insurance in a downturn.

Equipment

The easiest way to drastically reduce equipment cost when growing is to share it instead of purchasing or leasing more. Instead of hiring 10 more people to work the same hours, hire more people and divide the work into separate shifts. You are paying the same for your equipment whether it is actually used 40 hours a week or 80 hours so make use of your equipment more hours per day instead on buying more equipment. This can be accomplished by running 2 or more shifts per day as was the norm for decades or looking at the newer approach of gaining favor of alternate work schedules- for example to work 12 hour days 3 days a week followed by three days off. The longer days are compensated to the employees by more days off which makes it a win –win for many companies, and you use all facilities and equipment more hours per week.

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