

The Hidden Danger in Scaling Your Business

**"THIS DANGER IS NOT SO OBVIOUS AND IS SELDOM
ANTICIPATED. IT SNEAKS UP AND WAYLAYS US
AT THE MOST UNLIKELY TIME."**

THE HIDDEN DANGER IN SCALING YOUR BUSINESS

Me: "DO NOT BUY TRUCK." It was my text to a client who was scaling up his business. (He knew I was serious because I used all capital letters.)

Client: "Good price - need dependable truck for new hire."

Me: "You have one - he can drive Ford you used to drive."

Client, several hours later: "I bought truck."

Me: "I guess you'll learn the hard way."

SCALE YOUR BUSINESS: EXPECTED DIFFICULTIES

It's not hard to anticipate many of the difficulties we'll face when **scaling up** our businesses. With just a little thought, we can anticipate the more obvious and common difficulties.

There will be issues with finding, hiring, training, directing and equipping people, with funding accounts receivable and inventory, with making payroll and paying taxes, with managing time and projects, and so on.

These are the issues of the push-through phase that can wear us down, stress us out and make us want to quit.

But there can be another, hidden danger in scaling-up a business.

This one is not so obvious and is seldom anticipated. It sneaks up and waylays us at the most unlikely time such as a beautiful day when everybody showed up for work, all the jobs are going well, we're feeling good about future sales and we have a lot of cash in the bank.

The problem originates as a dangerous combination of abundant optimism and surplus cash, both of which are imposters.

BUSINESS STATUS: ITS COMPLICATED

When it was just us in the business, we could keep track of everything in our heads. We knew how much money we had in the bank, who owed us what, how much we owed others and when it was due.

We had a pretty good idea of when jobs would be billable and how much more we would have to spend to complete them. We always knew how much payroll was due at the end of the week.

Overall, we had a good "feel" for profits, cash and the business.

Then we began to scale up.

Instead of one or two jobs running at a time, we have four, five or six projects going, and they're bigger, too. Where we used to do jobs for tens of thousands of dollars, we now do jobs in the hundreds of thousands. We've even landed a few projects in the millions.

Instead of running them all ourselves, we have project managers, so we are not as current on the details as we used to be. Payroll and the amount we owe to our subs varies weekly.

As for cash, receivables and payables, well, we know what was in the bank this morning but we're a little fuzzy about what we owe, what we're owed, and when things are due.

SCALE YOUR BUSINESS, UNCOMFORTABLY

That uncertainty often results in a "timing" cash crisis.

We're owed more than enough to pay our bills, but we haven't been paid yet. A supplier shuts us off until we get caught up on our past due account. We race around collecting our receivables to get the supplier paid so we can finish the job, get it billed and create another receivable to collect at the next crisis.

We don't like it, but as long as we're making a profit, this sort of crisis tends to work out. The problem is a matter of timing.

It's a crisis, but not necessarily fatal.

SCALE YOUR BUSINESS, DANGEROUSLY

The hidden danger of scaling up results in a more serious form of cash crisis: spending.

Let's say we check our bank balance one beautiful morning to find there is a quarter of a million dollars more in the account than we expected.

How did that happen?

When we investigate, we find that two new job deposits cleared the bank, we finally received the retainage from a big job completed months ago, and we collected a couple of past due accounts.

Wow.

We weren't expecting that. Great day. That \$250,000 is more than our annual sales a few years ago, and now it's cash in the bank.

The hidden danger is our impulse to spend it.

When things are going well many of us are inclined to rationalize our spending. That's what happened to my client with the truck. Of course we all need dependable transportation, but he already had it.

The real reason he bought the truck was because he wanted it and besides, what's \$35,000 when you have \$250,000 in the bank?

SCALE YOUR BUSINESS, FATALLY

Even if we don't outright rationalize our decisions, an abundance of cash can cloud our judgment.

We may buy more inventory than we need in order to save a little freight, or we might pay down a business loan to "feel better," or take an extra draw to fund a vacation, or buy some equipment we don't absolutely need in order to save on taxes.

There's nothing wrong with any of those things so long as the cash we spend is not already committed to existing obligations.

If it is, the spending will lead to a future cash crisis, but this time it's not just a timing issue. There will be no running around collecting receivables in the nick of time because the money's gone. We spent it.

Sure you could sell the truck and inventory and you'll get the tax refund, but it won't be in time and it won't be enough.

A cash crisis of this second kind is not only stressful, it is also potentially **fatal** to our businesses.

SCALE YOUR BUSINESS, WISELY

The vaccine for cash crises is information.

We have to know, not just think, before we spend.

The information we need is found in good bookkeeping and three **financial** reports which will tell us at a glance if the surplus cash is available or already committed.

A Statement of **Cash Flows** will tell us where our cash has gone, and a **Balance Sheet** will tell us what we are owed and what we owe. Armed with the information, it is up to us to enjoy our optimism and the comfort of cash while restraining our impulse to spend.

HOW ABOUT YOU?

Have you ever made an impulsive purchase just because you had cash available? Did you regret it? Do you know your future cash demand over the next month? Year? How much cash would you need to scale your business to double its size?

If you have any further questions, please don't hesitate to mail me at Martin@annealbc.com or visit www.annealbc.com



Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.