

## What Will Expansion Do For Me?

Recently Momentum Advisors assisted a client who wanted to open a second location, after great success with the current one. Our key tasks were to guide the expansion through detailed business plans, cash flow models and “what if” scenarios, as well as financing negotiations with banks and investors.

We spent a lot of time figuring out what we don’t know today and what the red flags are going to be for tomorrow, using hard data including daily sales figures, number of booked appointments and cash balances. We also tackled the mundane but critical tasks of setting up a general ledger, creating the proper accounts for inter-company transactions, and tracking the various investments and debt instruments used to get things off the ground.

These should be on the “to do” list of any diligent business owner or investor. But here are three things you may have never considered before embarking on an expansion:

- **Demand on your time doesn’t just double, it can almost triple.** That’s because your existing business has a lot of problems worked out already, and there are defined duties to make sure things run smoothly. You may not realize it, but your “full day” is supported by the efforts of an experienced staff. Your new business, on the other hand, will have its own unique challenges, and running it is still fairly undefined. There will inevitably be some wasted time as you figure out the nuances and sort out problems you never thought of.
- **You will initially lose money, and it may take a long time to turn a profit.** Retail and service businesses, especially, are often surprised by the length of time it takes to get going. There is almost always a ramp-up period where expenses outpaced revenue, and how long that takes is as hard to control as it is to forecast. Sometimes it’s as simple as getting the message out through marketing and advertising, but if your business has a long sales cycle, that can add even more time. Consumers also have habits that are hard to break. They get into a familiar groove and even though change might be good for them, it can take a while to adapt.
- **Your business model may require tweaking.** It’s easy to assume that if something works in one place, it will work in another. But even experienced big box retailers find their cookie-cutter formula doesn’t work the same in every market. While deep discounts may be celebrated by shoppers in one location, they are met with ambivalence in another. A prime example: just this year Target exited Canada after a couple of years of struggle. It’s important to understand what your customers are really buying (experience, identity, emotional fulfillment, means to an end) and make sure your new business not only satisfies the same needs, but that there are enough customers to support it.

So by now you’re thinking: “I have to work twice as hard and reinvent the business...how many more times before I get it right?!” It certainly sounds daunting, but while an abundance of caution is prudent, the expansion experience does have its benefits. Most notably, you could eventually make more money. You can also get back into the “business building” mode, which can be a lot more interesting than “business running.” By expanding your business, you’re adding value across more parts, thereby reducing dependency on a single entity. Should you eventually decide to sell, the resulting larger company could be more attractive to buyers and generate a healthier profit. And for the entrepreneur in all of us, the roller coaster of expansion is an experience you’ll never forget.

**EASIER, FASTER, BETTER.**

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