



Expansion

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By Linn Haugestad Edvardsen

Expanding is always in the back of a small business owner's mind, but is there ever a right time?

Within the second year of running their business Keith Hancock, owner of three Raydiance Tanning Center locations in Florida, and his business partner, started thinking about expansion. After conducting an enormous amount of research (including demographics, location and their own financial readiness research) they felt confident to begin the task of going from nine to 18 beds, as well as changing locations.

Unfortunately, everything didn't go as planned. The equipment they upgraded to didn't work correctly for a miserable 24 months. But while this would have pushed most expanding salons over the edge, as a result of Hancock's preparedness, they were able to weather the storm.

"We had our bread and butter upgrade equipment that wasn't functioning properly for 24 months," says Hancock. "If we hadn't prepared and had our business plan together, we would have gone out of business. It's really important to look at the positive aspects but also look at the negative aspects when thinking about expansion. There are many unforeseen situations that could occur."

The moral to this story is simply that expanding your business is a process, not just an action. You should have a well-thought-out strategy, or – when unforeseen circumstances arise – your dream can very easily become the ultimate business nightmare.

Denise O'Berry, small business expert and president of The Small Business Edge Corp. in Florida, would agree. She believes that whether you're adding a few beds or opening

a brand new location, jumping in blind is business suicide.

"Consider all of those things that you considered when you opened your first business," says O'Berry. "You should just take a look back at what you've drawn on to be successful to get you to the point where you can say, 'Hey, I do want to expand,' and leveraging off of that by trying to learn from your mistakes, and not repeat those again."

It's no surprise that many small business owners jump into an expansion without doing the necessary homework. Why? The obvious reason is probably that since their current business is doing so well (if it wasn't, they wouldn't be expanding, right?) they simply don't have to. Unfortunately, says Hancock, if you think you can avoid crunching numbers and spending weeks hunched over a business plan for an expansion, you're sadly mistaken.

"There may be a drop in the economy, equipment failures or a larger competitor that moves in across the street," says Hancock. "If you don't plan for these types of things, you're doing yourself a great injustice, and you could be setting yourself up for failure. We had a lot of different opportunities and went into them with a pretty decent business plan. And for some of the things we didn't foresee we were able to overcome because we had cash flow reserves."

Once you've finished a thorough business plan, you'll have a better feel of whether this really is an opportunity worth taking advantage of, and if you will be able to survive financially. After all, while expanding may

seem like a no-brainer to a successful business owner, it can quickly become a very expensive proposition. And, as you well know, there are many hidden costs, so make sure your business plan is detailed.

“Financially, you need to look long and hard,” says O’Berry, “at what you’re willing to risk from a debt perspective: your plans for paying off that debt and how long it’s going to take you to get a return on investment.”

Fulfill Your Vision

The first step in a successful expansion is having some type of vision of where you see your business going. This road-map type approach is how Sylvia Beaver, the owner of three East Coast Tanning Co. locations in South Carolina, has been able to expand successfully time and time again.

“I have a long-range plan,” she says. “I know I’m going to do it when I feel comfortable doing it but I’ve already picked out my area. I don’t move forward just because I’ve maxed out one location.”

Another important element, says Beaver, is to spend time building your current business. In other words, don’t start expanding before you’ve perfected what you have. Basically, she means honing your business practices, becoming educated about the industry and building a solid reputation. Although Beaver opened her second location just months after her first, she doesn’t advise it. It worked out for Beaver but she now admits that not only did she stretch herself pretty thin, but also she had a lot to learn about the tanning industry.

As a result, she waited four years to expand again. “Make sure that you’re the best that you can be so you’re known for that before you start another business. Before opening my third location, I concentrated on my first two

stores so that I established a name for myself. I concentrated on building that image so that when I went into my third location I was so well-established and well-known that from day one it was a hit. Even though it was a new area, they knew who I was.”

O’Berry advises any business owner who is thinking about expansion to start documenting every aspect of his or her business. What are the processes and procedures of your business? What kind of customer service policies do you have? How are your employees’ roles defined? The more detailed you are, the better, she says. Even though writing down how you prefer the beds to be cleaned seems like a useless task now since you generally do this task yourself, it will be vital in maintaining your standards with a larger facility or an additional location.

“You have to make sure stuff is written down,” says O’Berry. “Lots of small business owners keep everything in their heads. If you want to grow that means you can’t do everything.”

It is important to keep in mind – especially if you’re a control freak – that you can’t be everywhere all the time. So the more you have on paper, the easier it will be to delegate. Going along with this once you’ve established procedures, etc., that will help control the standards and image you’ve worked so hard to create, means you have to start letting go. In order to expand successfully (especially if you’re adding another location) there has to be a certain amount of trust in your employees. You simply can’t be everywhere at once. This is often a shock for business owners who are expanding, but it’s much easier to overcome if it doesn’t come as a surprise.

To deal with this managerial conundrum, Hancock, of Raydiance Tanning Centers, has

created incentive schemes for both managers and employees. His goal is to give them a feeling of ownership (if the salon does well, they do well) in return for their dedication. He can't duplicate himself but he can monetarily encourage employees to do things the way he prefers them to be done. "By giving your key people and your managers some type of profit sharing arrangement, they are more dedicated. It's worth it. You should really make employees feel like they're a part of something."

What's Involved

One of the most common elements overlooked in a small business expansion is the almost inevitable employee dilemma: if you're planning to open a new location and to hire all new employees. You soon realize you have to move one of your experienced managers to the new site. This leaves the first location without its usual anchor and suddenly balls are being dropped within a system you thought was perfected. The key is to have as much of this worked out far in advance. This way, the new employees will have spent time in your first location and have an idea of what can be expected.

Additionally, since having key people who you trust in place at both locations is vital, perhaps you should think about promoting a current employee to a managerial position. Again, try to do this before the second facility opens. Once you have this in place make sure you set strict guidelines for hiring to avoid people coming and going during your season. Remember that it's better to spend time on this now since the expansion is bound to eat up much more of your time once it is completed.

Another overlooked element in expansion is the importance of maintaining customer information. If expansion is in your future,

the more you know about your customer base, the better. If you don't understand the habits of your clients, how can you add the appropriate amount of equipment – not to mention the equipment they would prefer to use?

This also comes into play if you're changing locations. How will this affect where you relocate and how you build out?

"I think it's very important to keep track of your customer base," says Veronica Neumann of Tropical Tanspa in McHenry, Ill., who has been expanding since 1987. "If you think you have 100 people come through the door and you only have 75, that's a big difference. My most valuable asset is my computer."

To make sure she wasn't alienating her current customers, she included them in the move by seeking their input. In order to ensure this move was successful she had to have an idea of not only what kind of potential the new market would provide but also how much of her current customer base would stay loyal to the salon. "I wanted to make sure that my customers who had been with me for years and years were willing to make the move with me," she says.

Are You Ready?

After all is said and done, knowing when to expand is a very personal decision. You have to soul search to find out if you really are ready to make the considerable physical and mental commitment. You shouldn't be naive enough to think that it won't take a large bite out of your free time. If you're working 10 hours more a week than what you initially planned for, expect that to double with an

additional location. And don't forget about employee snafus that were complicated with a small store or just one location. It certainly

doesn't get any easier when you increase in size.

In addition to your own readiness, is your family prepared? Will family members support you when you're being pulled in two directions, with the result being less time for them? Is your business partner as ready and willing as you are to make the commitment?

Expansion can easily strain business

relationships, as well as those of family. These are just some of the questions a business owner needs to ponder when making the decision to expand. Every situation is unique and various factors should be considered. Be thorough.

Business is always a risk – expansion or no expansion. But the better prepared you are, the better your chances for success. TT

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