

## CHAPTER 17

### PLANNING FOR GROWTH

#### Author's Note

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The natural by-product of a successful launch is growth. It's important that entrepreneurs plan for this important time in the life of the business because, after start-up, the growth phase is often the riskiest if a plan is not in place. This chapter considers the many strategies that entrepreneurs may use to grow their companies. It concludes with a philosophical question: to grow or not to grow? This is a very serious question because often entrepreneurs who are in business for the long haul choose to grow very slowly, making use of internal cash flows.

Managing controlled growth is every bit as complex as managing rapid growth. There is a fine line between controlling growth and putting on the brakes so much that the company stalls and falls behind competitors. Students should be encouraged to consider their values and goals in talking about growth and how they might choose to grow a venture.

#### Learning Objectives

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This chapter will give students an understanding of:

- Whether to grow or not to grow
- How to grow within the current market
- How to grow within the industry
- How to grow outside the industry
- Growing by going global

#### Supplementary Lecture Material

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##### ***Growing When It's Hard to Grow***

A year ago *Fortune* magazine began tracking the fastest growing small companies on the major stock exchanges. These companies had less than \$200 million in annual revenue and a stock price greater than \$1 per share. *Fortune* ranked each venture in three critical areas: earnings growth, revenue growth, and total stock return, including dividends, for the previous three years.

*Fortune* wanted to learn what it takes to continue to grow in difficult times. One of the most surprising findings was that 65 of the 100 companies were new to the list and only three companies that were in the Top Ten the previous year remained there for the 2002 list. Annual revenues for the group as a whole rose by 149 percent, but earnings declined by 62 percent, generally due to write-offs for left-over inventory and the number of low-margin energy companies that made the list this year (13).

Nineteen technology and fifteen health-care companies made it to the list. Zoll Medical appeared both years. It is a Massachusetts company that makes defibrillators, a product for which demand is growing. It is expected that defibrillators will become as common as fire extinguishers. Other entries include Green Mountain Coffee with annual growth over three years of 138 percent and Pixar Animation Studios with annual growth of 96 percent over three years.

Source: Andrew Rafalaf, "Small Business 100: The Tough Get Growing," *Fortune Small Business*, June 3, 2002.

## Films to Rent

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### *Business and Industrial Growth, Part 1: From Boom to Bust*

This film explores the first three decades of the 20<sup>th</sup> century, from the mechanization of agriculture to the mass production of consumer goods. It is anchored by Peter Jennings.

www.films.com  
29 minutes  
Item: **BVL10294**  
Format: **VHS**  
List Price: **\$89.95**

### *Business and Industrial Growth, Part 2: Riding the Cycles*

In this film, Peter Jennings reviews the ups and downs of the U.S. economy, from the New Deal to the early years of the Clinton administration.

www.films.com  
40 minutes  
Item: **BVL10295**  
Format: **VHS**  
List Price: **\$89.95**

## Cases Relevant to This Chapter

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Mrs. Gooch's

Overnite Express

## Answers to Issues to Consider

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1. *What are four characteristics of high-growth companies?*

High-growth companies are usually first into their niche market, better at what they do, leaner in their operations, and unique in what they offer.

2. *How can both market and management factors affect the growth of a new venture?*

The market and management strategies you choose can affect the growth rate of the new venture. Market factors include the size, characteristics, and buying power of the target market, the nature of the competition, the degree of product innovation in the market, the status of intellectual property rights, the volatility of the industry, and the barriers to entry. It will be more difficult to achieve the spectacular growth and size of the fastest growing companies if these factors are not favorable to the new venture.

Management factors include the inertia of success, the entrepreneur's ability to move from control to delegation, and the ability to encourage entrepreneurship in the entire venture team.

3. *What questions should you ask at each level of the new venture's growth?*

Start-Up: Do I have sufficient start-up capital, customers, and a way to deliver the product or service?

Initial Growth: Can the business generate sufficient cash flow to pay all the expenses and support the growth of the company?

High Growth: How can I maintain control of rapid growth? Am I willing to give up control to professional management?

Stable Growth and Maintenance: How can the business continue to be innovative, competitive, and flexible?

4. *What advantages do intensive growth strategies have over integrative and diversification strategies?*

Intensive growth strategies are usually less expensive and easier to accomplish because the focus is on exploiting the current market fully by increasing the volume of sales to current customers and increasing the number of customers in the market. In other words, you're working in a market you know. Diversification involves getting into new and unknown markets, so it's a more costly and difficult strategy.

5. *Why is it important to start a growth-oriented business with a plan for globalization from the beginning?*

Due to rapidly changing technology, product lives are shorter and companies are now forced to enter several major markets at once to gain the maximum advantage from the window of opportunity. With increasing competition and saturated markets in some industries, looking to global markets can add a new dimension to the entrepreneur's business.

6. *What are the differences among foreign agents, distributors, and export trading companies in terms of the services they provide?*

Sales representatives work on commission; they do not buy and hold products. Agents purchase your product at a discount off list and then sell it and handle collections themselves. Export trading companies locate manufacturers, buy the product, and sell it in the foreign country.

## **Suggestions for Experiencing Entrepreneurship**

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1. *Visit an export center in your area and talk to a Department of Commerce trade specialist who can advise you on how to become prepared to export. What did you learn that you hadn't learned from reading this text?*

It will be a good idea for the student to have a product in mind and an area of the world. This will facilitate getting more useful information.

2. *Interview an entrepreneur in the early stages of his or her venture and question him or her about the growth strategy for the business. Can you identify the type of strategy being used?*

Students will typically find that most early-stage ventures are involved in intensive growth strategies such as market penetration. This is because they have not yet exploited all of the potential in their current market.