



WHITEPAPER:

Defining the
challenges of a
**GROWING
BUSINESS**

Defining the challenges of a growing business

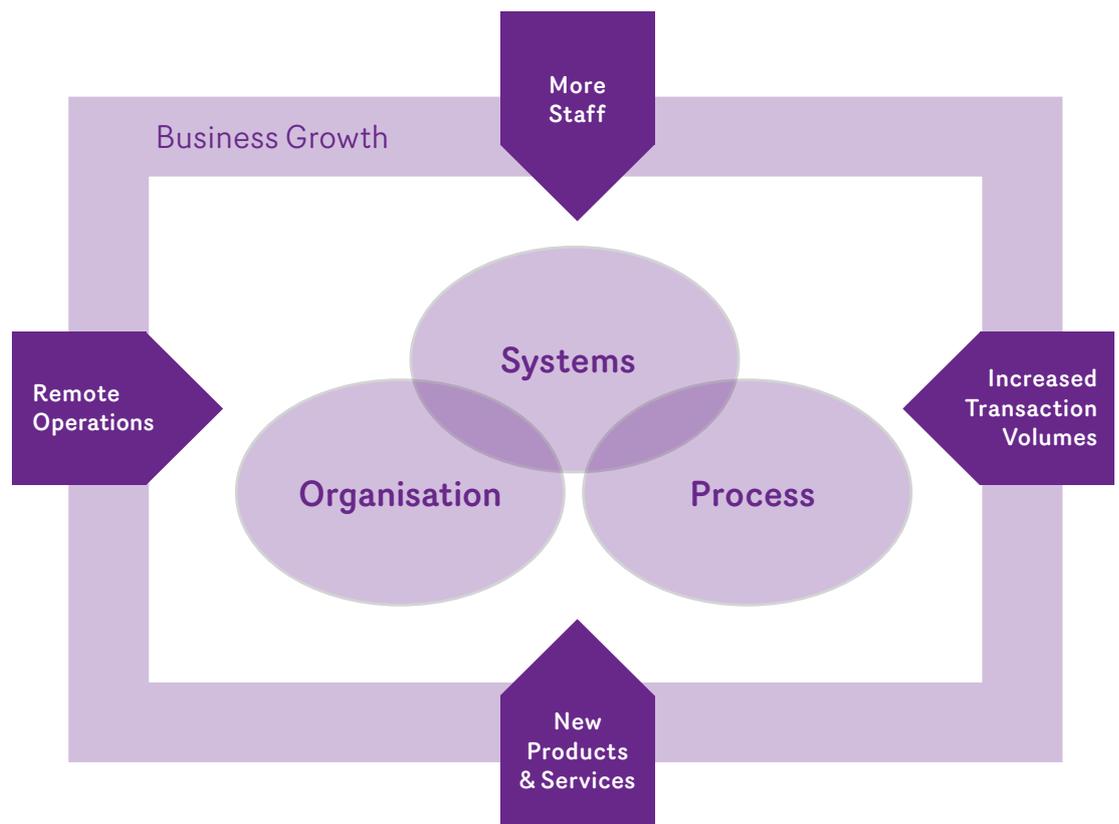
All businesses depend on the efficiency of the interaction between three key components:

- The people who work in the business – its organisation.
- The procedures and work practices of the business – its processes.
- The tools and systems used by the business – its systems.

As a business grows in size and complexity, the interaction between the organisation, processes and systems of a business can become stressed by a number of growth-driving activities:

- A growth in new products and services – whether introduced to gain market share, grow the revenue base or simply increase profitability.
- A growth in transaction volume – whether through more customers, or more purchases per customer.
- A growth in staff numbers – where more people are hired into the business to help cope with the higher levels of activity and tasks.
- A growth in business locations – where operations are dispersed to get closer to new markets and customers.

Figure 1: The four growth pressure points on the three key components of a business.



Let's examine these four growth pressure points in some detail.

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The effects of a growth in new products and services

When new products and services are introduced, a business can experience either of two growth scenarios:

- If the new products and services are similar to existing products and services generally, then the business can expect to experience an increase in inventory and transactional volumes.
- If the new products and services are significantly different, then the business may require new skills and potentially new processes.

Sometimes, new (or even existing) products and services are deployed through new channels to market – an expansion into a reseller arrangement, for example, or a move to selling direct via the internet.

More often than not, each new channel to market presents its own process challenge, whether accommodating particular commercial arrangements, or meeting the needs of a new set of customers.

The effects of a growth in transactional volume

As the volume of a business's transactions increases – as the number of customer and vendor interactions climbs – it becomes increasingly difficult to 'wing' the supply and replenishment of the business. The informal processes break down.

It's no longer just a case of taking and fulfilling orders; there's a greater emphasis on establishing and maintaining customer relationships, of having to spend time managing customers, and keeping a detailed record of every customer interaction.

With every new customer transaction, there is a corresponding series of processing transactions within the business – quotes, sales orders, purchase orders, inventory transactions and a multitude of accounting transactions, all of which need to be registered and monitored.

As the volume of transactions goes up, workload pressures on staff increase too. Staff struggle to cope with increased processing volumes – they start to work longer hours, they become more stressed, there is an increase in sick leave, and productivity begins to suffer. As a result, customers begin complaining of a drop in service levels. Response times blow out with quotes taking longer to process and orders taking increasingly longer to fulfil.

With the business's informal 'word-of-mouth' processes struggling to cope, exception handling increases, along with errors and omissions. Management tends to get more involved in processing activities, constantly 'putting out fires' and generally becoming more reactive, focussing on 'the moment that was' rather than planning for the future.

In fact, the more customers the business engages with, the more it becomes obvious that the relationship between customer numbers and business efficiency isn't linear, so much as exponential – and that there's a point beyond which the business just cannot cope.

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The effects of a growth in staff numbers

When a business starts-up, staff – almost by necessity – are very task-oriented. Tasks ‘present themselves’, they need to be done, and they get done... somehow.

In this sense, workflows and processes are informal and typically don’t require documentation, since, with a few exceptions, staff tend to be multi-skilled and generalists and – importantly – can usually cover for each other, or share information freely.

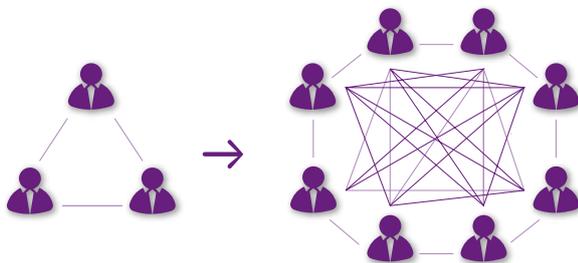
However, when a business grows, the increased volumes and complexity of the resulting business processes require staff to become more task and functionally specialised, with the flexible skillset of the start-up phase transitioning into one that’s relatively inflexible and productivity-focussed.

Instead of generalist ‘staff’, the business starts to employ people in warehousing, sales, floor management, accounting and accounts processing roles.

In fact, what started out as a simple linear organisation of direct communications becomes a complex geometrical arrangement of interactions.

Figure 2: As staff numbers increase linearly, staff interactions increase geometrically.

Effective business management and control depends on a direct interaction and relationship between staff. Without a more structured framework of accountability and delegated responsibilities effective and efficient communication breaks down.



Growing businesses that recognise this need for a more structured management control and processes introduce more supervision and a more formalised management structure.

It’s a very difficult phase of the growth cycle. Not only is it important to get the structure right ‘on paper’; the implementation affects people’s work relationships, and requires very close people management. That in itself is a very detailed and time-consuming task.

As business functions are delegated and key areas of responsibility and accountability are assigned, managers of these areas require more relevant and timely information. There’s an emerging need to measure performance, and to report higher up into the business structure.

While the ‘legacy’, informal processes are recognised by management as ultimately limiting and a source of business inefficiency, some staff can resent the move to a formalised and regulated process. The need for change, or the business benefits, may be unclear; there can even be a perception that jobs are under threat.

More formalised structured processes enforce consistency and provide a platform for improved control. Where possible, automation – whether as simple as moving from paperwork to computer, or as complex as introducing machinery – is preferred for improved efficiency and productivity.

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Then there are the additional processing and control requirements of the new processes themselves, as well as of new business relationships, new functions in the business, and the remote support and management of customers and staff.

Simple historical (quarterly or monthly) reporting is no longer adequate; management need to know how the business is performing in 'real time'.

The effects of a growth in business locations

When a business is set up, it typically services a local market. Then, as business owners seek growth, it makes sense to physically remain close to customers by opening new local branches, further afield – maybe in another suburb; perhaps interstate.

Local suppliers are sought to help minimise freight costs, but this brings even more complexity into the business.

While local operations focus on sales and service, the overall business experiences an increase in warehousing and logistics. New, more complex needs emerge – the need to maintain adequate inventory levels while minimising holding costs, to balance the risk of stock-outs and the cost of expediting shipping, to manage the different supply times of multiple local suppliers, and more.

Inventory holdings are spread across several 'local' locations, creating additional inventory optimisation and management issues.

In short, the business needs to move from the relatively high costs of reacting 'on demand' to multiple local conditions to the optimal costing of demand planning – of forecasting and supply management – across the whole business.

There's also an increased need for more timely and relevant management reporting across the business, with greater visibility of remote local operations.

Coping with growth

To cope with growth, the three conceptual components of the business need to be configured appropriately:

- The right people need to be brought into the organisation.
- Processes need to be structured, formalised and monitored.
- The right systems need to be found and implemented.

In concluding this MYOB Enterprise Solutions whitepaper, let's examine this third point in more detail.

Finding the appropriate systems

Every business relies on a primary business system – a central repository of the business's activities. For regulatory and compliance reasons, as well as for visibility of the financial health of the business, the accounting function is usually the first choice.

As the business grows, this primary system is called upon to do more and more things:

- Invoicing.
- Sales order processing.
- Purchase order processing.
- Payroll management.
- Keeping track of inventory, and more.

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Yet when a business is growing, the primary business system assumes a significance beyond record keeping and compliance (although these functions remain important). It becomes a central point of access to all of the business's critical management information.

'Bolting-on' other functionality does not necessarily make the most sense for a rapidly growing business if the added functionality comes at the expense of inflexible processes, or, worse, if the added functionality wasn't designed with a rapidly growing business in mind.

This is where enhanced 'higher end' business management systems such as MYOB EXO Business can help add value beyond specific features or functionality. Investing in a flexible and configurable system provides the business with the opportunity to implement more structured processes and actively improve the efficiency of operational tasks and activity throughput.

And if the business has expanded to more than 20 employees, there are a range of scalable MYOB payroll, super, time and attendance and human resources (HR) management solutions that can help simplify the recording of staff activities and speed-up complex payroll procedures.

Some of the areas you can explore to help focus on an appropriate business system include:

- Are you actively thinking about making use of the massive amount of data within your systems to make better business decisions?
- Are you deploying the right products and services at the right price and at the right time to satisfy and delight your customers?
- Are your business processes configured in the best possible way for you to procure, make and fulfil your customers' demands in the most cost effective and time efficient manner?

Remember, to help manage the growing pains, your systems, processes and people need to be integrated with the minimum amount of 'friction'.

Simply adding more people will not solve your growth problems. Not only is it expensive to bring new people on board and train them to the point that they are productive and effective (although good systems and well-documented procedures can make this easier); they also need to be managed. And without clear lines of accountability and responsibility, even the best people can be set up to fail.

Other considerations such as management style and the ability to manage change (not just of the system but of the entire business – especially in times of rapid change) are equally, if not more important than the selection of a business system.

In the end, no matter how powerful or 'feature rich' your business system, it's the extent to which it can be integrated with your people and your processes that will ultimately determine its usefulness.