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Controlled Growth – the new strategy for small business?

IN THE WAKE OF THE TURBULENCE caused by the recession, many small business owners are just now starting to shift their focus from stabilization back to growth and profits. But in contrast to how this strategy has been addressed in the past, small business owners are seeking to maintain tight controls over cost and expense. So how can small businesses achieve a balance between growing profits and maintaining control over costs?

A recent development with a client provides a strong example. The company had evolved over time into a diversified operation with manufacturing, distribution, and service divisions. When new management took over, a full review of each business segment followed. Through this structured analysis, it was discovered that the company's main manufactured product was, in fact, not profitable for the organization. Management also concluded that the division, traditionally the main revenue driver, had to either be overhauled or eliminated. In the end, they chose to focus exclusively on their distribution and service sectors. Although revenues would surely decline, the company was positioned for more flexible and efficient operations with significantly better gross profit margins. This is an extreme example, but it demonstrates how a thorough analysis can lead to surprising, yet effective, results.

HERE ARE SOME KEY THINGS TO CONSIDER:
Use experts who know how to analyze the process. Accurate information is critical. Whether it is a CPA or a similar consultant, utilizing an expert in the field of growth, profitability, margins and cost allocation will provide a comprehensive perspective on your business strategy.

Identify the indirect costs associated with each transaction. Always take into account both the human and material costs associated with each transaction, client, or segment of business. This includes physical space requirements, carrying costs of product or labor, and working capital needs.

Focus on profitable growth instead of volume growth. Long term growth can be achieved by taking the time to identify and then focusing on those segments of business that create more margin for the organization over the long term.

Small businesses are finding themselves adjusting their growth strategies to meet the changing times. By digging a little deeper into your business process, you can focus your resources on attracting and maintaining the most profitable business.