

Are You Stunting the Growth of Your Home Business?

By Elena Fawkner

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If you've left the corporate world to strike out on your own in your own home-based business, you'll be acutely aware that your financial success is up to you and you alone, perhaps for the first time in your life. For obvious reasons, therefore, your home-based business is probably run on a shoestring.

This means, of course, that you do everything. Although you are now CEO, you are also secretary, marketing director, receptionist and gopher. But hey, that's the way you like it, right?! And when you're just starting out, let's face it, you don't have much of a choice anyway.

But sooner or later, if you keep doing everything yourself you'll necessarily curtail the growth of your business. It will grow to a certain point but no further because you're only one person and there are, after all, only 24 hours in a day. Now, if you're satisfied with making a little money on the side, that's fine. But if your business is your only source of income, you must move beyond start-up if you are to become financially successful and avoid stunting the growth of your business.

This article looks at the growth stages of a typical one-person home-based business and how to gradually grow your business without being run over in the process.

INITIAL GROWTH

= One-(Wo)Man Band

As already stated, when you first start out, you do everything yourself. You're both chief cook and bottle-washer. And you

can continue like this for quite some time because, initially, you are unlikely to be fully stretched. This is exactly what you should be doing.

This is NOT the time to go out and spend money with advertising agencies and hiring employees. For so long as you CAN do everything yourself and everything that needs to be done is getting done, this is the most efficient use of your current resources.

= Don't Overcommit Yourself

During this stage, however, it is important to be careful not to overcommit yourself. You are a fledgling. You must learn to fly like a sparrow before you can soar like an eagle. So, when you first start out, underpromise and overdeliver.

Also, don't embark on an aggressive marketing campaign until you have the business resources to satisfy the demand you will create. Let your advertising grow in line with the growth of your business, the addition of employees and increased financial capacity.

= Pay Yourself

Be extremely careful of your pricing during this stage also. Make sure you include a wage for yourself in your overhead costs and add a realistic profit margin (say 15-20%). Remember, price equals costs plus profit margin. Costs include direct, indirect and overhead costs. For a more detailed treatment on pricing, read "Pricing Yourself to Get, and Stay In, Business" (<http://www.ahbbo.com/pricing.html>).

= Profits Belong to Your Business

Plough your profit back into your business. This is most important. This is where your funds for expansion during the next growth phase of your business come from. NEVER use your business's profits to pay personal expenses. This is what you pay yourself a wage for. Your business's profit does not belong to you. It belongs to your business. There IS a difference!

= Avoid Premature Expenditure

During your shoestring days, look for lower-cost substitutes before incurring substantial expenditure. For example, don't go out and buy a new fax machine, a new answering machine, a new photocopier. Get one of those three in one jobs that sits on your desktop and only costs a few hundred dollars.

Use a good accounting software program rather than hiring an accountant and hire from your family first if you need

temporary help. Another good idea is to negotiate with family members to take over some household chores you would normally do yourself to free your time to work on your business. This works especially well with pocket-money age children and teenagers.

During times of temporary overload, hire temporary staff from a staffing agency if no family members or members of your social circle can do the job.

= The Glass Ceiling

After a while, somewhere between the one year and three year mark, you will notice that your business is beginning to stagnate. At this point, you have stretched yourself and your resources as far as they can go. You have hit the glass ceiling.

At this point, if you want your business to grow further, you will have to grow it. It will not happen as part of an evolutionary process beyond this point.

BEYOND THE GLASS CEILING

= Hire Permanent Employees

The time to hire permanent employees is when you reach the point where you can't complete all tasks alone (or with the help of family members) and/or your time is worth more than it would cost to hire someone to complete your less complicated tasks.

Before adding employees, carry out an inventory of the necessary tasks required to operate your business. Once you've identified all necessary tasks, assign primary responsibility for each task to one person. Although one person will be assigned more than one task, make sure no two people are assigned the same tasks.

Also, make sure at least one other person knows how to do each task to cover yourself during times of staff shortages, whether due to temporary absence due to illness, or when an employee resigns and it takes you a while to find a replacement.

Finally, and most importantly, when assigning tasks, assign yourself the tasks you do best.

= Capital

To grow beyond the start-up and initial growth phases, you will need capital to inject into your business. Now this, unfortunately, is easier said than done. Banks can be leery of entrepreneurial ventures and venture capital is not easy to obtain. But, although obtaining borrowed capital is difficult, it

is by no means impossible. Here are the main sources of funds:

* Banks

Cultivate a good relationship with your banker. The more he or she understands your business and knows you, the more likely it is that your application will be approved. And this means more than just fronting up when you need money. Keep your banker informed of all significant developments in your business and routinely provide copies of your annual business plans.

Be prepared to demonstrate that your business is capable of generating cashflow and think about what collateral you have available to put up if necessary.

* Venture Capital

In addition to a solid business plan and track record, venture capital providers want to see that you understand your customers and how your business is a good fit with their needs. So arm yourself with competitive intelligence and satisfied customers as references. Also, be prepared to show you have access to experienced management staff. These individuals need not be on your payroll but you should expect to show that you have a depth of experience and talent available to you at least in an advisory capacity.

* Revenue Stream

Instead of selling equity to raise capital, consider selling part of the revenue of the business. In other words, investors advance loan capital and get repaid by way of a percentage of the sales of the business. This preserves your equity in the business and is attractive to investors because they receive an immediate cash return.

This method has the considerable advantage of avoiding securities laws (it is a loan rather than a sale of securities) but it is only viable for businesses with high margins and strong sales.

* Angel Capital Electronic Network

ACE-Net brings companies looking for capital together with angel investors. You can find links to ACE-Net at <http://www.sba.gov/ADVO> .

* Direct Public Offering

If your business has a strong relationship with its constituents (employees, customers, vendors and community), consider selling stock via a direct public offering. Note that with this option you will run into serious securities laws issues which

will require an attorney. This is an *expensive* alternative. Other miscellaneous sources of funding include 401(k) plans and provision of loan guarantees by family members or friends.

= Work On the Business, Not In the Business

The third and final point to note about breaking through the glass ceiling is that you must make the mental transition from working IN the business, to working ON the business.

Until your business hit the glass ceiling, you were effectively working in the business, much as an employee would. In this sense, the business was your job, a place to go to work. But beyond the glass ceiling, your business becomes an entity unto itself. It is no longer your "job" to work at the tasks that make up the business's operation. Instead, your role is to work "on" the business as a separate entity, leaving the tasks to your paid employees.

Hopefully you can see that shifting your perspective in this way is the key to the long-term growth of your business and the difference between true autonomy and indentured servitude.

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Elena Fawkner is editor of A Home-Based Business Online ... practical business ideas, opportunities and solutions for the work-from-home entrepreneur.

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