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Can growing quickly be a bad thing for a business?

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Many businesses have failed because they couldn't grow fast enough. But can a business fail because it grows too quickly?

Richard Sacks answers that question emphatically in the affirmative. In fact, he says growing too quickly is the worst thing that can happen to a business because it takes what was otherwise good and destroys it.

Sacks is president of The Sacks Group and a board member of the Economic Development Center of St. Charles County. In an interview with the *Business Record*, he said excessive growth that comes too quickly can be an immense problem and one that occurs over and over.

"Sales reps promise more than the company can deliver," Sacks said. "And in the final analysis, the only measure of success is delivering on promises. When a company can't fill orders, it punishes old customers as well as new ones.

"It has to do with the concept that bigger is better. Bigger is not necessarily better. It's a quality game rather than a quantity game."

Sacks said business owners, especially owners of new small businesses, face a terrible quandary: Selling makes things happen, but delivery systems are often fragile. The business may be undercapitalized or lack production or storage capacity. If a company takes orders too quickly and can't fill them, it collapses, he said.

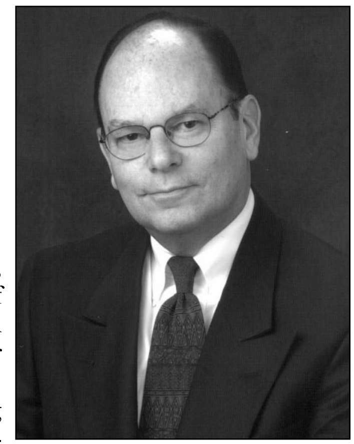
"Without the horses in the barn, you're walking into disaster," Sacks said. "Business is about what you have done for me lately."

Sacks used the example of a small restaurant that expands too quickly and in the process, sacrifices the quality that made it an initial success. People don't come back because it's not like it used to be, he said.

"I would ask a businessman, what would happen if you doubled your business tomorrow? If you are running an efficient company, you don't have the ability to double in size. You don't have the systems or the space. If you did have, you wouldn't be running the company efficiently."

"Bigger is not necessarily better."

Consultant Dick Sacks



The problem is not limited just to small or new companies, Sacks said. Companies grow and keep adding more people and getting bigger and bigger until they are too big to bend over and tie their own shoes. That's when you see huge layoffs, he said.

Growth brings a change in paradigm, Sacks said. At the start, it's all about volume. When sales are good, the owner wants more and more, until reaching the point where the company can't fill any more orders. Then running a business becomes a different type of job. The owner must become a manager and move the business from the point where it takes any sale to the point of taking only the right sale. Big turns on you because you can't support the extra weight, which is a key issue because it sounds so wrong, he said.

Small organizations often do not spend enough time on internal structures, Sacks said. The administrative area may not have figured out how to meet raw materials and cash needs. As an owner, you can never turn your back on your business, but you must monitor it constantly because record keeping is the only way to know what you're doing, he said.

"You need to be a traffic cop and say stop, then set your own speed limit," Sacks said. "It's so insipid, something you never think about. But sooner or later excess is always bad -- whether it's eating, partying or selling. Everything in moderation is key.

"The dilemma is that you want to take every sale because you never know when you can make another one. But gross margin is what needs to grow, not revenue. It's better to sell half as much with a better gross margin. Bigger doesn't go to the bottom line, better does."

Sacks said business involves three disciplines, each of which fights for control: selling and marketing, operations and production, and administration. The synergy among the three keeps a business going smoothly. Any one can sometimes take the lead, Sacks said, but when the owner or management committee doesn't understand the need for balance, one will take control. He cited two examples:

"IBM was in a position to dominate the PC market," Sacks said. "But operations said we're in the mainframe business, not the small stuff. As a result, IBM never scored in the PC market. At GM, the marketing department took the lead, but marketing was wrong. There was no balance. People didn't want to buy what marketing wanted to sell."

Sacks said business is nothing more than a reflection of human beings, and whenever we overstep our bounds and violate our own identity, we suffer for it and wind up in the soup. As humans we can learn and recover, but business may not allow recovery from errors, he said.

"A business plan is absolutely key," he said. "It identifies your bounds, who you are and what you're capable of doing. If you violate the business plan, all bets are off because you've eliminated the rules.

"Two-thirds of new businesses don't make it through the first five years. I always say you're better off with not enough business than with too much. Customers will only get ticked off when you can't deliver, and then it's all over."