

Peter Brown on balancing growth

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Managing growth effectively can be critical for a fledgling company. Here, Peter Brown, national leader for private company services and managing partner in the Toronto office of Deloitte & Touche, discusses the importance of striking the right balance when it comes to growth.

Mr. Brown has extensive experience in public accounting, business advisory services, corporate finance and operational and internal auditing.

In its early days, Eco Waste decided that rather than try to market its technology to as many organizations as possible, it would focus on remote locations such as mines and military bases in the Americas. Is this sort of narrow market and geographic focus a good strategy for fledgling companies?

Peter Brown: I think it's a fabulous strategy. Once you've mastered your focus, then you can start to change verticals. I really like this. I think this tight market segmentation is very advisable for young companies because they can tailor their products and their pitch and learn from their mistakes.

Is there a risk in trying to grow too quickly?

Peter Brown: Always. Growth needs to be managed. And it's a fine balance. For young companies, trying to manage that balance is generally one of the most important success factors.

Is this a common pitfall that small companies face, trying to grow too quickly?

Peter Brown: Absolutely. Growth takes cash. It's as simple as that. If you are growing very fast you can offset some of the cash requirement through traditional financing arrangements with a financial institution. You can have a line of credit that is secured by your receivables and your inventory. But naturally, a financial institution is only going to lend against a portion of your accounts receivable and a portion of your inventory.

So you need to be able to pay for that growth with cold hard cash. Sometimes you can get that cash from the profits of the business and plow them back in, but sometimes, if

you are growing very rapidly, you require injections of equity. Finding that equity to support that growth becomes a very material use of the CEO's and the other owners' time because without the cash, you can't grow.

Eco Waste decided to pursue a contract with NATO valued at \$4.6-million even though it meant competing against international firms. The company spent more than a month preparing a bid with no guarantee of success. Was this a risky decision?

Peter Brown: It's the kind of decision that young companies make every day. These are generally calculated risks. When you are pursuing the elephant – the very big contract – you want to try to do that in a calculated fashion so that if you lose, [you can learn from it and] win the next time. So if you are pursuing that elephant contract, you need to have that calculated risk considered at the front end because you generally don't want to bet the farm.

Steve Meldrum, Eco Waste president and CEO, says it can be difficult to turn down sales opportunities that are outside the company's target market but necessary for a small company with limited resources. Is this something small companies come up against regularly?

Peter Brown: I think it's a classic case and I thought it showed a degree of maturity beyond Steve's years because I think that's a very wise decision. It is so tempting to just take the sales that are evident. For small companies to maintain focus is, I think, critical to successfully growing the business but it takes a lot of discipline.

Mr. Meldrum says Eco Waste plans to maintain its focus even though it's getting more notice as a result of the NATO contract. Is this a good strategy?

Peter Brown: I think so. Those are pretty rich and deep verticals that they are focused on. I think companies learn a lot as they maintain that focus. And they learn what makes them even more successful in that space, and probably until they have really mined the vertical it probably makes great sense for them to stay with it.

What advice do you have for small companies trying to manage their growth? What's the best thing they can do?

Peter Brown: I think they need to be deliberate. That means planning. That means trying to look at the full playing field and be thoughtful and purposeful about the way you drive out the business – staying focused and staying true to your vision, rather than only doing what's expedient to survive. Remember why you got into business in the first place.

All great businesses wind up being adaptable. You start with an innovation, you start with a vision, and chances are you will need to transform it over time. You shouldn't be afraid to change course but you need to be deliberate about it. Great leaders will always admit when they need a change in course.