

# Should I Invest in My Business?

Just because you own a business, you don't necessarily have to invest time and money in growing it.

Highly successful entrepreneurs realize more opportunities exist than can be pursued. One of the most difficult roles of a business owner is choosing where to allocate time and money.

## The Entrepreneur's Trap

Most business owners are slaves to their businesses. The businesses are monsters that consume the owner's time, cash and focus. The personal satisfaction that comes with successes far outweigh the failures and the whole situation becomes tremendously addictive. Life becomes centred on continuous improvement and expansion. At what point should you ask the question if all this work is worth the effort?

The most successful entrepreneurs are objective. They learn to apply energy and focus on the limited opportunities that have the highest potential for success. They also ensure their resources are aligned with their own personal objectives.

## See the Big Picture

Most people are too wrapped up with growing their existing business. They are making important front-line marketing decisions each day, such as preparing an advertising campaign or restructuring a sales force. A business owner must first deal with higher level issues. This process is called Strategic Marketing.

Strategic Marketing involves establishing the direction of the company. Two types of decisions are made:

- Corporate Strategy: select the type of business you want to be in.
- Product Mix Strategy: identify the actual products and services you will offer.



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Corporate Strategy requires you to honestly critique your situation. Based on this reality, you must select the types of customers you want to serve and the types of products and services you want to provide. As an example, let's assume your company is a General Contractor in the construction industry. Based on industry trends, levels of competition, and your own competencies, is your current business attractive in the

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short and long term? Should you consider diversifying from commercial into residential construction? Have more radical alternatives presented themselves, such as launching a new business as one of your own trades? Few business owners have experience working through these complex and difficult decisions.

Product Mix Strategy provides direction to the businesses you choose to be in. With our previous example, if you decide to get into residential construction, what specific customer segments will you serve, what specific work will you undertake, what financial results will you expect to achieve and how will you make it happen? This involves establishing goals for the business (such as market share or expected profitability) and allocating capital and management time.

## The Role of a Portfolio

Consider a personal financial investment portfolio of publically traded stocks. The companies owned in the portfolio will each face different levels of risk inherent in

their industries. Some of the companies would be directed by management teams that are aggressive and wish to pursue growth. Others would be conservative and wish to preserve capital. Most investors select companies based on their personal objectives and tolerance for risk.

If you are in multiple lines of business (perhaps you own multiple businesses or have multiple products), this portfolio concept is relevant when developing your Corporate Strategy and Product Mix Strategy.

As a business owner with management control, you also have the luxury of managing the risk facing each business, and allocating time and capital where you feel it is best utilized.

For example, let's assume you manufacture three products. Product A enjoys a high degree of customer loyalty, and generates substantial profit and cash flow. Product B is breaking even, but has potential for growth and requires a considerable sales and marketing investment. Product C has seen profits decline drastically after being displaced last year by a competitor's new technology. Your employees are convinced an investment in R&D would restore market share. Your Product Mix Strategy should define a role and level of support for each. What portion of cash generated from Product A should support Products B and C? What performance expectations and management plans do you have for each product? Before you become engrossed in day-to-day operations, address these decisions to ensure the long term health of your business.

### Should I Grow?

You have three options. Grow, maintain, or retrench. Entrepreneurs are hard-wired to grow. That is a problem for several reasons. First, a growth strategy might not fit with the owner's personal risk tolerance. An entrepreneur preparing to sell the business may be better off preserving cash and ensuring short term profitability rather than undertaking new long-term investment.

Second, the company might not be in a desirable position to grow. Perhaps this company operates in a shrinking or highly competitive industry, is simply not able to keep pace with technological innovations, or the management team does not have the skills to operate a larger and more complex operation. Each of these issues can be addressed in some way, but capital may be better directed to a different venture.

Ultimately, the decision to pursue growth is defined by your company's situation and your own appetite for expansion.

### How Do I Grow?

When the time is right to pursue growth, consider whether to expand into current or new markets. Expansion within current markets is a fairly safe strategy, as management usually understands what existing customers want and how they buy. Three common strategies are Market Penetration (refocusing the marketing effort to increase sales of existing products to existing customers), New Product Development (selling new products to existing customers) and Vertical Integration (i.e. when a manufacturer expands to compete with a supplier or customer).

Growth in new markets often involves more risk, because there is less familiarity with customers. Two common strategies are Market Development (finding new customers for your existing product) and Diversification (launching new products for new customers).

Market and Product Strategy serves as the foundation for subsequent decisions in your marketing plan. The prices you charge, distribution channels you use, and promotional efforts you undertake stem directly from your strategy.

### Clarity Makes Managing Easier

Strategic Marketing is a customer-driven process of strategy development. Its focus is on organizational performance rather than ramping up sales.

With a more structured Strategic Marketing process in place, business owners have a valuable reference point for daily decisions on issues as diverse as expansion of manufacturing facilities, developing advertising campaigns, and negotiating sales force commissions. What is our goal for this business? What resources are we prepared to allocate?

The concepts in this article are general principles and will materialize differently in each situation. But the likelihood of superior performance increases once you take a step back from building the business and ask yourself what you are trying to achieve.