PINCH A PENNY TO MAKE A BUCK

A shoestring budget can instil much-needed discipline in a business and stand it in good stead for the future. Report: Matthew Smith

● You need money to make money, or so the saying goes. But when it comes to funding growth, less is more for many businesses.

Home food delivery business Aussie Farmers Direct kept early growth funding on a shoestring, says its chairman William Scott, who was a panellist at a BRW/GE Capital Momentum breakfast series in Brisbane that examined growth strategies for middle-market companies.

When Scott started with the idea to connect Australian farmers with end customers in 2005, he and his three business partners each put in $50,000 and began managing supplier relationships through a direct debit system, drawing on that initial investment until the business generated enough cash flow to consider other funding options.

Even now, employing 700 staff and with 200 franchises, Scott is reluctant to use debt to fund future growth. This is partly because of the tight lending market but it also reflects the ethos the business has grown up with: "We've been pretty good at minimising [debt] because we don't want to have that in this environment, we don't think it's beneficial for us," he says.

Such parsimony extended to not bringing on an equity partner during the start-up phase.

"We didn't want to give away the pie early on," Scott comments.

Even Brendon Levenson, founder of the leading 24/7 gym franchise Jetts Fitness, is a big believer in funding growth with as limited capital investment as necessary.

Levenson's worst moment came when l realised he had gone through almost all c overdraft facility.

He remembers the realisation that his l had eaten through $99,000 of a $100,00(overdraft facility as "pretty scary ... It's nc good position to be in when you're lookir overdraft that's almost done," Levenson r

The answer was in better working capit management. "Within two or three hours found that our debtors' list was getting a of control – we were focusing on growth the things that you are doing in a fast-grc environment and just letting some of our franchisees treat us as a bank. We tighten up, pulled it in very quickly and learned discipline and that has stayed with us fro day."

Good cash flow is crucial and compani should look to leverage it to fund growth says Brumby's Bakeries former CEO Mich Sherlock, who is now a consultant to com

GUIDANCE FOR GROWTH

Thoughts from the panellists on unlocking growth strategies in the current market:

William Scott (Aussie Farmers Direct): With any business you need to get in the helicopter, look back where you've been for the past five years and decide where to go next because the past is going to determine where you're heading to in the future. You need to keep adjusting because things change.

Michael Sherlock (Brumby's Bakeries): You have to try to look for those silver linings because [setbacks] are going to happen and that's where the leadership comes out; that you can convince everybody that it's only a short-term thing. In the helicopter, this is where we've come from; this is where we're going.

Brendon Levenson (Jetts Fitness): Vision for me is absolutely mission-critical. I think vision should start with a purpose. It's not just about going out and trying to get X amount of outlets open or making X amount of dollars. It's about starting with a cause.

Expansive: BRW/GE Capital Momentum breakfast panellists, from left, Brendon Levenson, Michael Sherlock and William Scott, also pictured above right, share the secrets of their success

Usually that mentality of funding future growth will stick with businesses that have been through the start-up phase, Sherlock says.

So when Jetts was able to use its cash flow and balance sheet to get a good debt line to fund its next phase of growth, Levenson knew not to take on more than the business needed.

"I guess the key was really understanding what that tipping point was for unlocking the growth and understanding what the cash flow requirements were to sustain that growth in line with the growth plan," he says.

Levenson's road map for growth was built on a vision he formed in the early days that Australians could support 600 of his brand of clubs by 2012, based on the view that there should be a fitness club within eight minutes of 80 per cent of the population.

He thought he might have been able to take 40 per cent of the overall fitness club market if he moved early, so he set a goal of opening 230 clubs by the end of 2012.

"We'll finish this year with 210 clubs, so we're about 20 clubs off our target. But when you're starting with a piece of paper and an idea I think that's been a pretty good shot."

Sherlock likens any business to a journey in a car, in that, if you don't know where you are going you end up driving in circles.

"A lot of businesses that I see, they end up just driving around town and then stuck in traffic and they don't get anywhere," he says.

"If you want to go somewhere you have to ask where do you want to be? How big do you want to be? What's your exit plan? What's your BHAG? [big hairy audacious goal]."

As important as it is to have some "blue sky" in your plan, it's also important to have a structured way to enable peer and company-wide review, Sherlock adds.

At Brumby's, Sherlock instituted a structured 20 minute staff meeting each week where everyone would have the opportunity to offer feedback, a format he says became an important part of fulfilling the company's growth plans. "That enabled everyone to be on the same page. You understood where the road blocks were," says.

Scott places a premium on preserving the company culture and growing organically rath than acquiring to grow."If there's a good acquisition around, we'll have a look at it but i got to be a short return given the market and given what banks are doing and how the bank are seeing it," he says.

Scott believes banks have reduced the amou of time they expect acquisitions to start contributing to the bottom line from three yea to as short as 12 months, depending on the individual situation.

Sherlock is optimistic about growth opportunities despite the tight financing environment. "When everyone else says don't worry, it's too hard and it's all doom and gloon that's when the opportunities arise ... you just need to be aware of them," he says. BRW

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