

# Organic growth or acquisition - *which way to go to grow? – Part 2*

In the second of a two-part article Damian Kay, Managing Director at Telcoinabox examines organic growth - the act of growing your business in two ways - winning customers and getting more out of the customers you already have.

I am a big believer in the saying 'if you always do what you've always done, you will always get what you've always got'. If you are growing your business successfully and the growth is consistent, then maintaining organic growth is a good option. There is no doubt in today's business environment sustainability is vital. We all know the statistics - most small businesses fail within the first five years. The sad thing is many fail not due to a lack of revenue but due to 'death by indigestion', in more professional business terms - unsustainable growth. This can come in the form of:

- Cash pressures to fund the growth
- Lack of processes and getting 'out of control'
- Poor financial management
- The business cannot keep up with demand and leads to poor customer experience
- Business owner gets burned out

Sustainable growth is a must for any business and depending on the maturity of your business organic growth is the means to ensure that it remains sustainable. It means that you can predict labour requirements, customer demands and trends and measure your business while getting the overall balance between order and chaos right. It is definitely a less stressful option compared to the acquisition path. Cash flow is by far the biggest challenge of any small business. Controlled organic growth in addition to good financial management and sufficient working capital is a must if a business is to manage the cash flow challenge effectively.

## Culture

I have and always will believe that culture is a key success factor in any business as it dictates how you treat customers, the people you attract to work for you, staff tenure and vendor and supplier relationships. My opinion is that too many businesses ignore or underestimate how important culture is to a business.

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Culture is reflected in your core values and it is worth exploring these for your business.

Through a discovery process with staff we identified our core values at Telcoinabox to be:

- We care about everything; customers, suppliers and staff.
- We don't wriggle – if we have screwed up we say so – and then fix it.
- We won't deliver half measures
- We definitely have fun

Core values are not right or wrong, they just are. They personify the culture of your business. Nurturing culture is infinitely easier when organic growth is the sole growth strategy. When you acquire a business, you not only buy their customers but you take on their core values and culture which may be vastly different to your own. This can have a very unsettling effect on your business.

## Customer Loyalty

There is no argument that customers 'won' and nurtured by your business mean that there is a certain amount of loyalty. You have a history with your customers and that counts for a lot in most cases. You have a track record of payments, you know their personality and what they like and don't like. When you acquire a business you acquire their revenue stream and cash flow which is derived from customers. Although the acquired customers now become your customers, there is no immediate loyalty. It will happen just with time. Getting to know your customers can be a risky and time-consuming process. If they leave and find another alternative the acquisition could be a disaster.

In the telecommunications industry the rule of thumb is to expect a 25 per cent loss of customers in an acquisition. Think about that and what it means to the financials of an acquisition. Organic growth is the safer road to travel for customer loyalty that is clear.



**Damian Kay**

## Why go organic?

I chose the organic growth path for Telcoinabox for many of the reasons listed above. Telcoinabox will achieve annual turnover of nearly \$100million within its first ten years if it continues this organic path. Being an employer of choice is important to me so company culture is a major part of our business focus. I also value the 'fun factor' and taking the organic path has meant many fun times with manageable stress. The acquisition path would have meant possibly bringing in venture capital and that could have changed the whole dynamic of the business.

Sustainability is crucial and the path taken in short comes down to the maturity of the particular business on all levels including:

- Strength of culture
- Strong (documented) processes and discipline
- Strength of balance sheet
- Good people

Telcoinabox is about to embark on the acquisition path and the bottom line is you can do both – growth by acquisition and organically – when the business is sound. The choice to go organic or acquisition may seem obvious but at the end of the day it is all about timing.