

Budgeting for expansion

An increase in demand has to be sustainable to justify the possible additional costs for new equipment, more inventory and raw materials, work in progress and employees.

What exactly are you aiming for?

Your expansion plans should take into account the economies of scale relevant to your situation – sweet spots in output where profit becomes optimal. Crucially, they should also consider the limits of these economies of scale. For instance, are you limited by the ability of your suppliers to increase their supply while maintaining quality?

Budget for growth

Depending on the scale of your expansion, both your fixed and variable costs are likely to be higher. Make sure you're getting the balance right to cover these higher costs.

Forecasting your cash flow for expansion is a crucial exercise. Analyze your variable and fixed costs in detail by making sure your forecast includes not only the projected costs for your growth project but the day-to-day running of your business pre and post-expansion.

Aim to cover any large expenses incurred while expanding, for instance through purchasing new equipment. You also need to know that once you've got the nuts and bolts in place, your new, larger business will be able to stay in the black day-to-day. This will probably involve forecasting further ahead than you usually do.

Forecasting will help to highlight any potential areas of risk or hidden problems. In addition, if you're not quite sure about some details of your strategy, running scenarios through your forecasts will help to improve the pace and scope of your plan.

Run a pessimistic, realistic, and optimistic version of your final financial forecast. This will help avoid the temptation to be overly optimistic and demonstrate to potential lenders and investors how carefully you're thinking about the implications of growing your business.

Get your accountant or financial adviser to confirm what you've planned is realistic. Try also to consult experts in the field and business owners with experience of growth – their advice may well help you draw up a more realistic expansion plan and avoid some hidden pitfalls.

Financing your expansion

Depending on the type of business and scale of planned growth using your own operating revenue or cash reserves

may cover it. This allows for you to proceed with no external interference from lenders but does expose the business to financial risk. As the funds for expansion won't come in one large injection, it also places limits on the pace at which the business can grow.

In terms of external financing, the most obvious option is to discuss plans with your bank and try to secure a loan. If you welcome the idea of having additional skills and experience on hand, you may want to see if you can attract investors as another option.

Some owners seek to raise capital in other ways; crowdfunding, angel investors, friends and family or bootstrapping (borrowing and finding as many ways as possible to get what you need without paying for it).

Spend time

As in all areas of business, planning and budgeting for expansion requires careful thought and time.

No matter what your financing plan, it makes sense to invest time in optimizing your cash flow in the lead up to expansion – you'll need as much cash on hand as possible for any unforeseen issues. If you feel there's room to improve in this area, use your expansion as a motivator to really tighten up your credit control and spending.

- Run your business through a financial health check. It's a good idea to find out if you have any problems that need addressing before you launch your expansion plans.
- Create a growth business plan with this template.
- Talk to us about our range of lending options so we can help tailor a package to suit your growth plan.

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