

# SWC Business Brief

## The Basics of Finding New Sources of Business

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## INTRODUCTION

# The Basics of Finding New Sources of Business

Frequent readers of our blog may recall that in [\*How to Grow Your Business: 4 Surefire Methods\*](#), we suggested that the primary causes of business failure are often related to cash flow (more cash flowing out than flowing in), poor money management, slow or non-existent growth, and a decline in sales and revenue.

Business growth, as it turns out, is the heartbeat of success. The more business you conduct, the more revenue you generate. The more customers or clients you have, the less likely your business will fail if you happen to lose a few. The broader your market, the less susceptible your business is to market changes. And the happier your customers are, the more your business is worth when you decide to sell.

As a business owner, you want to be constantly finding or creating new sources of business. But how?

In this *SWC Business Brief*, we dive deep into the basics of growth and explore how to grow your business by increasing customer spend, diversifying, and increasing market share.

We also introduce a few more ways to grow your business – including through disruptive innovation and by pursuing alliances and partnership opportunities. Finally, we look at how to analyze your business's strengths so you can leverage and build on them to grow.

So, let's get started.

## Business Growth Basics

*Business growth* is about expanding your business in some way – increasing revenue or profitability, your customer base, your market share, your physical size or geographic coverage, your executive and/or support staff, or some other aspect of your business.

To understand business growth basics, you just need to know *why* growth is important and how to measure it, as explained in the following sections.

### *The importance of business growth*

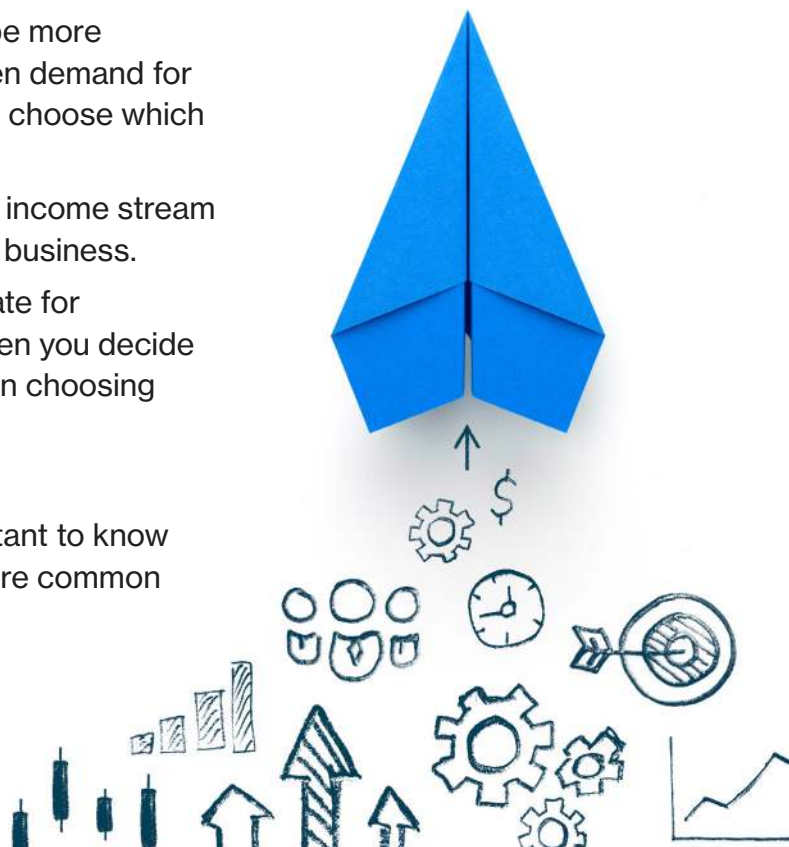
Growth is important for a business for a number of reasons, including:

- Businesses that stop growing tend to start dying because the owners or managers aren't putting any effort into attracting or keeping customers, making it easier for competitors to win them over.
- A thriving, growing business can often charge more for what it offers.
- In certain fields, growth enables a business to be more selective in terms of clientele and projects. When demand for your services is high, you can afford to pick and choose which customer you'll welcome into the business.
- Growth expands income streams, so that if one income stream dries up it doesn't threaten the existence of the business.
- A growing business is a more attractive candidate for partnerships and mergers and acquisitions. When you decide to sell, you can demand a higher price, and when choosing partners, you can be more selective.

### *Growth metrics*

When you set out to grow your business, it's important to know how to measure success. Here are a few of the more common growth metrics:

- Sales volume
- Revenue
- Profitability (revenue minus expenses)



- Number of customers, clients, or users
- Customer loyalty or retention or churn rate (number of customers who stop buying products or services)
- Business size, as measured by number of employees, asset values, land area under management, funds under management, etc.

Not all businesses rely on the same growth metrics. For example, a company like Netflix is likely to look more at its number of subscribers, whereas Amazon may place more emphasis on sales volume and GMV (gross merchandise value – the total value of merchandise sold over a given period of time).

Generally speaking, a business is growing if its revenue and profits are both increasing.

### *Are you set for growth?*

Before you head out to grow your business, we here at SWC recommend that you make sure it's positioned to grow sustainably. Attracting more customers is great, but if you don't have the resources and capacity to satisfy those customers, they're likely to end up disappointed. Growing too fast can ruin an otherwise profitable business.

With that in mind, be sure to plan ahead for growth, so that you have the people and other resources in place as your business grows.

### *Increase Customer Spend*

One of the most effective ways to grow a business is to increase sales to existing customers, according to Fred Reichheld, a New York Times best-selling author, speaker and business strategist best known for his research and writing on the loyalty business model and loyalty marketing. Reichheld's research shows that increasing customer retention rates by just five percent results in an increase of profits by 25 percent to 95 percent.

You already have the customers, so you're not investing time and effort in customer acquisition and retention. Instead, you're focusing your efforts on increasing the amount of money each customer spends on the goods and services that you offer.

Here are a few ways to increase customer spend that have survived the test of time:

- Offer credit – for example, 24-months same as cash



- Create loyalty programs that reward customers for return purchases or larger purchases
- Launch new products that are likely to appeal to your existing customers
- Make exclusive offers to your best customers
- Upsell – offer customers additional or more expensive products or services after they've already shown interest in buying something

For example, if you have a bakery or coffee shop, one proven way to increase customer spend is to encourage patrons to stay longer. And one proven way of doing that is to offer free Wi-Fi.

**Caution:** *Don't risk losing a customer by focusing on how to get them to spend more. Place an emphasis on customer retention first. Why? **Because the lifetime value of a customer** (the total worth to your business of a customer over the lifetime of their relationship with the business) should never be discounted. Once they've bought from you, you should be actively working to keep them.*



### Increase Your Market Share

Increasing market share involves taking business away from your competitors. The way to do this is to start with some competitive analysis. To do this, answer the following six questions:

1. What are your competitors' strengths?
2. What are your competitors' weaknesses?
3. What strategies and structures do your competitors employ, and how do those result in customers buying from your competitors?
4. What is your Unique Core Differentiator (UCD)? In other words, what makes you different or better compared to your competitors, and what kind of image do your competitors cultivate versus the one you're focused on cultivating?
5. What is your value proposition? In other words, why should customers buy from you instead of from your competitors?
6. How can you communicate your value proposition to your competitors' customers?

If you're having trouble peeling off customers from your competitors, you probably have a value problem or a perception problem. Either you're not offering a better value, or prospective customers aren't aware of the better value you offer. Each of those problems is unique and requires a different solution. Better marketing can solve the second problem, but it can't solve the first one.

### Diversify Your Offering

Diversification involves broadening instead of specializing. You can grow your business by diversifying in a number of areas, including the following:

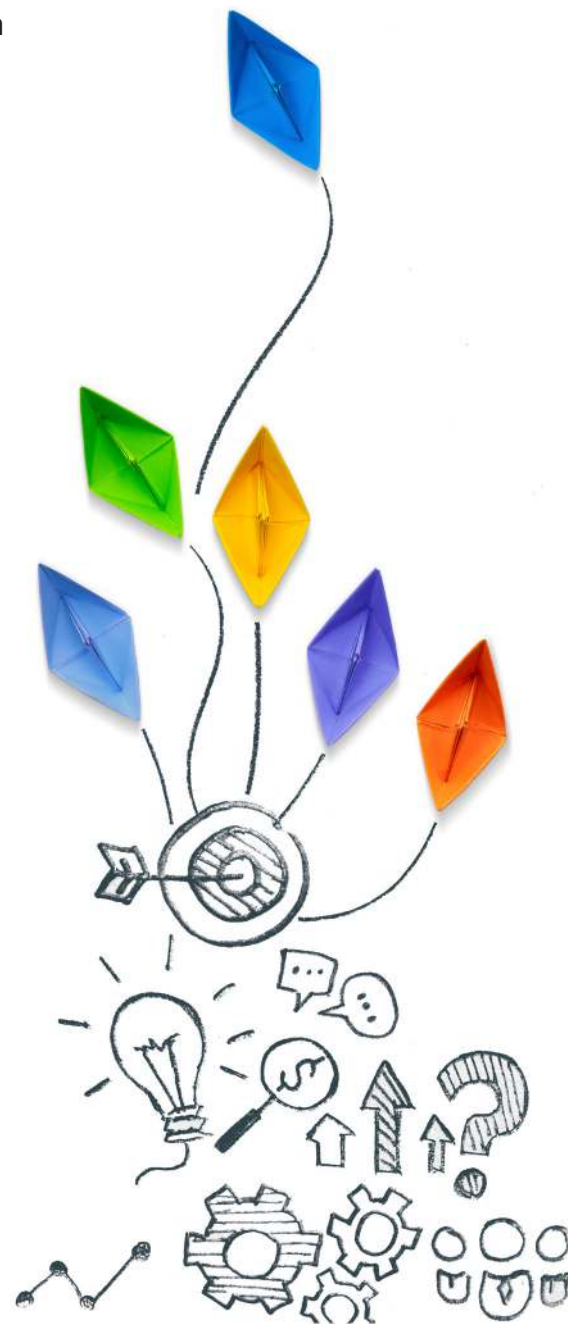
- Sell your existing products to new customers
- Sell new products to your existing customers
- Sell new products to new customers
- For example, a sporting goods retailer could expand in the following ways:
  - Market its existing products to over-50 communities and retirement homes
  - Add a section to its existing retail outlets for performance supplements
  - Start selling monogrammed sportswear to area schools and recreation leagues

### Diversification fundamentals

Products and service have a life cycle that rises to a peak in sales, plateaus, and eventually declines. Diversifying is the best way to prevent a business from being caught with too many products approaching the end of their life cycles at the same time.

As you start to think about diversifying, consider the following diversification fundamentals:

1. Conduct market research *before* introducing a new product or launching into an untested market.
2. To mitigate risk, look for new products that are not dramatically different from your existing products – for example, a more expensive version that existing customers might consider buying as an upgrade or replacement.



3. Monitor sales so you can identify whether the demand for your product or service is increasing, static, or declining. It's possible to resurrect a declining product by repositioning it, improving it, or repackaging it, but that may keep your business going only for a limited time. Once an old product has reached the end of its cycle you must have a new product ready to go, or you risk losing your position in the market.

Keep in mind that the majority of new products fail, even if they're introduced by big-brand marketers. Introducing a new product to a new market is generally the riskiest and most costly way to diversify, which is why market research is essential.

### ***Selling new products to existing customers***

One of the easiest ways to grow your business is to expand your product line – introduce new products that are likely to appeal to your existing clientele. For example, if you're selling women's clothing, expand into selling women's shoes. What might not work is adding a line of men's clothing because that would require a much larger marketing expenditure and would run the risk of turning off existing customers.

### ***Expanding into a new market***

If your existing market doesn't offer sufficient opportunities for growth, you may have no choice but to expand into a new market. Markets tend to expand and contract, and if yours is contracting, you may need to find new outlets for what you sell. The same thing is true if the existing market for your products or services becomes oversupplied.

You can expand into a new market in any number of ways, such as the following:

- Add locations to extend your reach to a broader geographical area
- Target additional demographics
- Expand your product line

Regardless of your overall approach to expansion, you're smart to know the answers to the following four questions *before* you make a commitment:

- Who are your potential customers?



- What do they want to buy?
- Who are your competitors?
- How will you market your products?

### *Compare existing and new markets*

When looking for new markets as a source of growth, project your present business into each potential new area and analyze what changes may be required. You could come up with a matrix like this:

ATTRIBUTE	EXISTING MARKET	NEW MARKET
Customer needs	Luxury products	Mass-market consumer goods
Size of customer base	Numerically small	Potentially large (at the right price)
Company image	Boutique, upmarket	Friendly, offering value
Product positioning	Trendy, exclusive	“Must have,” affordable
Market Trends	Stable	Undeveloped for this product
Competition	Few in number	Several can quickly gear up to produce and enter market

Reviewing the above matrix, you would probably be wise to look for other options because so many elements are a bad fit with your existing business and because your competitors would have a relatively easy time gearing up to enter this market.

### *Selling in a new market*

Depending on your overall approach for expanding into a new market, you have various options for making what you offer available to customers in that market, including the following:

- Sell directly to customers via the Internet, mail order, or by exhibiting at local trade shows and pop-up markets
- Open a new location in the target market area
- Set up a joint venture with a business that’s established in the new market
- Sell to a distributor who then resells your products into the new market
- Sell through affiliates who have a well-established presence in the target market

### *Marketing to new markets*

The marketing and distribution methods you choose will significantly affect both your costs and your revenues, so look for marketing options that will reach the most customers at the lowest costs (*i.e., the biggest bang for the buck*). Small businesses usually have practical limitations on the channels they can use to reach markets. Corporate giants can afford to be more frivolous with their advertising spend. But as a small-business owner, you can't. Also, when you're entering a new market, you would be wise to do your research and perhaps even consult a local marketing firm for advice. There are plenty of stories about large international companies that made major marketing mistakes by failing to do so. Here are a few of those stories:

- New York City-based HSBC Bank introduced their "Assuming Nothing" campaign overseas, not realizing until it was too late that the slogan translated to "Do Nothing" in many of the countries it was targeting.
- American Motors, which in 1987 became the Jeep-Eagle division of Chrysler, introduced their Matador sedan in the 1970s to the Puerto Rico market only to find that the name of the car translated into "killer," which isn't the ideal name for a motor vehicle.
- Pepsi launched its "Come alive with the Pepsi Generation" in China, not knowing that the theme translates into "Pepsi brings your ancestors back from the grave" in Chinese.

### *Selling to governments*

Small businesses often overlook a huge growth opportunity by failing to consider government organizations as prospective customers or clients. Imagine selling to government entities and getting some of your hard-earned tax dollars back!

Every government (federal, state, and local) spends vast amounts of money every year on goods and services. If you can successfully jump through all the bureaucratic hoops to prove that your business is worthy, you have the opportunity to win bids and make it onto their suppliers' lists.



**Pro Tip:** Research government agencies online to find out more about their criteria and selection process and to access whatever “paperwork” you need to fill out. The time and effort you invest may pay handsome dividends.

As we’ve covered so far, growth is essential not only for a business to succeed but, more important, for its very survival. As the old saying goes, “If you’re not growing, you’re dying,” and that’s especially true for small businesses. If you’re not actively pursuing customers, a competitor will be chipping away at your consumer base until the entire foundation of your business crumbles.

In this next section, we seek to inspire more ideas for driving growth through disruptive innovation, alliances, and partnerships. Then we wrap up by taking a quick look at how to analyze your company’s strengths so you can leverage them to grow in the right direction.

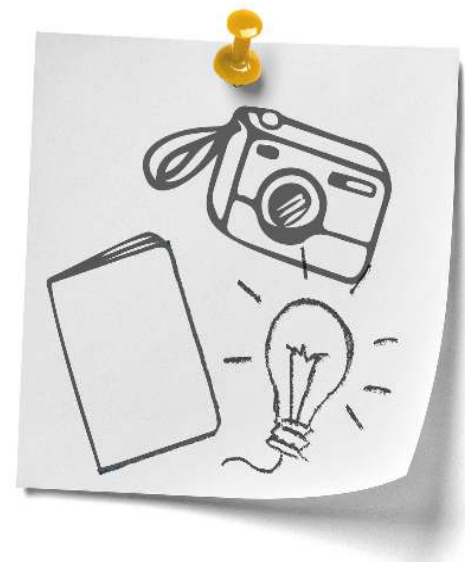
### Growth Through Disruptive Innovation

One great way to quickly grow a business is through disruptive innovation – introducing a new product or service to a market that makes traditionally successful products or services in that market obsolete.

#### *Two familiar examples of disruptive innovation*

Here are a couple examples of disruptive innovation that you’ll probably recognize:

- The first digital cameras were low on functionality and didn’t match the quality of traditional film cameras. The leading camera manufacturers, including Kodak, continued to manufacture and market cameras that used film. This of course left a massive opening for smaller consumer electronics manufacturers to nearly supplant their larger and more entrenched counterparts. Since then, smartphones have made traditional digital cameras nearly obsolete.
- In its early days, Amazon.com disrupted traditional bookstores, using the Internet and traditional delivery services to make it far more convenient and less expensive to purchase books. It has continued to disrupt the publishing industry with its Kindle reader and self-publishing services, making it possible for authors to publish and sell directly to readers.



### *Principles of disruptive innovation*

Several factors make disruptive innovation possible. By understanding these factors, you have a better chance of identifying the soft underbelly of large companies and taking advantage of their susceptibilities:

- Large organizations commit a significant portion of their resources to improving current products and services, making it difficult for them to change direction.
- Large organizations tend to ignore smaller markets, focusing instead on larger markets with more profit potential, thus creating a space for a disruptor to move in.
- Small markets are difficult to analyze, so large organizations often overlook them.
- Well-established organizations have developed cultures over time that tend to resist change.
- Traditional products and services may overshoot what customers need and desire over time in terms of features and price, providing an opportunity for a disruptor to enter the market with a product that has a smaller feature set at an affordable price point.

### *Form an Alliance or Partnership*

Arrangements between two or more companies that enable each to combine resources to enter new markets, share financial risks, and deliver products and services to market faster, are well worth exploring. These types of alliances and partnerships are generally supported by formal business arrangements and when done correctly, are massive drivers of growth.

When scoping out alliance or partnership opportunities, look for businesses with the customer/client demographics won't compete for the same sales. In other words, related businesses that aren't direct competitors. For example, if you own a heating and cooling business, you may form a business alliance with a company that specializes in insulation.

Of equal importance is ensuring that the partnering business shares your values. In other words, is the prospective partner aligned with your views on product/service reliability, customer service and support, truth in advertising, and its role in the community.



### *Alliances suit small business*

Alliances make sense for small businesses, especially if they're trying to compete against a larger one that has more resources. With an alliance, two or more businesses can pool their resources to invest in product development and marketing, or simply drive down the cost of operations. For example, two businesses can share an office and office staff.

Joining forces with another organization can allow you to share expertise, equipment, production costs, and other expenses, and manage risk without necessarily merging or forming a legal partnership.

### *Marketing and product alliances*

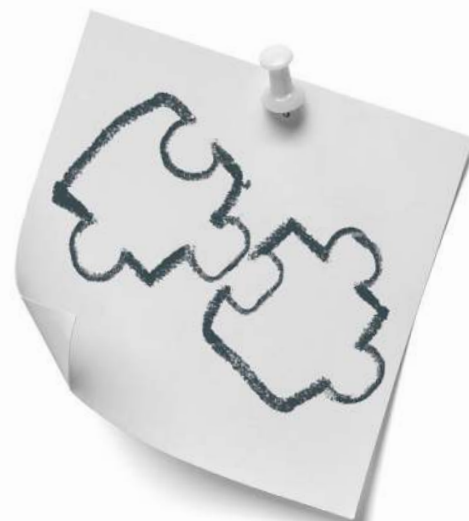
Two types of business alliances that are increasingly popular are:

- **Marketing alliance:** A joint effort between two or more businesses to build awareness of the features and benefits of their respective products or services. A marketing alliance can be as simple as exchanging email lists or producing a website or a catalog offering the products of both companies that saves on website development and printing and postage costs. A marketing alliance expands your market without the usual expenses of acquiring a new customer base.
- **Product alliance:** A mutual agreement to sell one another's products/services. A product alliance enables you to expand your product line and customer base without any of the usual costs associated marketing and introducing new products – manufacturing, distribution, or the creation of a product inventory.

### *What to look for in a partner candidate*

Forming an alliance sounds like a great idea, but what sorts of businesses would provide the right opportunities for your business? Consider the following potential candidates:

- **Key customers:** If you're selling a significant amount of your products or services to one customer, you have an opportunity to explore an alliance between your organizations. Aside from the possible growth in sales, cementing the relationship into a long-term business alliance will help prevent the risk of losing one of your biggest customers.



- **Brand leaders:** A brand leader can boost your business profile through association and open opportunities for joint marketing and advertising efforts, selling each other's products, and more.
- **Competing businesses:** Although non-competing businesses usually work best in business alliances, sometimes teaming up with a competitor can be to your advantage. For example, you may work with a competitor to service contracts that would otherwise be too large for either of you to handle by yourself. Or you may refer new customers to your competitors in exchange for a commission if you're overextended and don't have the resources to serve them.

### *Establish a joint venture*

A joint venture is a form of alliance that unites two separate businesses in a specific business enterprise; for example, you have a product but no distribution infrastructure, so you team up with another business that has a distribution facility that can get your product to market for a share of the profits.

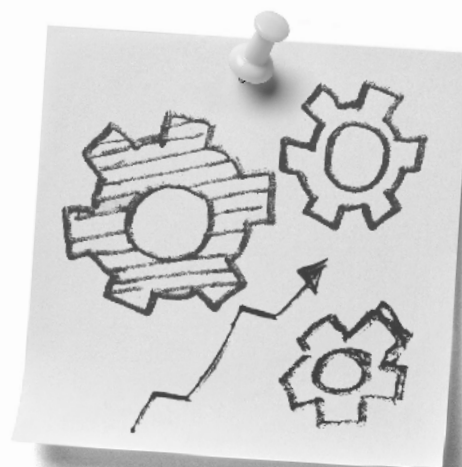
With a joint venture, you're not creating a formal partnership, so both parties can enter into and leave the relationship at any time. It's a good way to test the waters. In the previous example, you find out whether your product is viable before committing capital to building your own distribution facility.

### *Merge with or acquire another business*

Mergers and acquisitions (M&A) have been a staple in the world of business for some time:

- **Merger:** A merger occurs when both businesses dissolve and place their assets and liabilities into a newly created third entity. This entails the creation of a new corporate body.
- **Acquisition:** An acquisition is also called a takeover or buyout. It's simply the purchase of one business by another.

Mergers and acquisitions can be part of an approach to growth, even for a smaller business, although it's usually the case that a smaller business is acquired by a larger one, and the smaller one ceases to exist under its current brand and operational structure. If yours is the business that's disappearing, that's not necessarily bad – you may sell the business for a handsome profit or negotiate another outcome that serves your interests.



### ***Approach alliances from a customer's perspective***

Approach the formation of alliances from the perspective of your own customer base. Develop a profile of your customers that shows what they buy, how much they spend, what else they buy, and any other relevant data. Then create an alliance that meets their needs as well as yours.

A good example would be an alliance between a landscape gardener and a nursery. Both sell to customers with similar interests, but they do not compete directly. The landscape gardener can help the nursery increase its overall sales volume in exchange for a discount. In addition, the nursery may agree to provide valuable referrals to the landscape gardener.

### ***Dare To Be Different!***

If you're just starting a new business venture, think about growth from the get-go. Look for ways to distinguish your business and the products and services you plan to offer from what's already available.

Being unique does not necessarily mean that no one else provides the same product or service. What it can mean is that no one else is providing the product or service in the same way that you intend to provide it. For example, you can create differences simply by:

- Finding better ways of serving selective segments of a market
- Adding a new twist to something old
- Marketing more creatively
- Offering superior customer service
- Providing content of an educational nature

### ***Go with Your Strengths***

At the beginning of this *SWC Business Brief*, we talked about growth metrics. It's up to you to choose the growth metrics that will reflect success in your business and work toward improving your business in those areas. Think in terms of your business's strengths – what your business does differently and better than competing businesses – and build on those strengths.

Avoid anything that's not focused on what you're doing now. A brick-and-mortar bookstore trying to expand into sales of kitchen appliances would be facing an uphill battle. You need to be certain



you have both the resources and the ability to make it work, and of course you need to be sure it's going to increase your profitability. Otherwise, it's not worth pursuing.

### ***Go Forth and Grow***

At this point, you should have at least a few ideas for how to grow your business. Choose one and get to it. Look for ways to increase customer spend, to diversify, to expand market share, or to disrupt an industry. Make a list of businesses that might offer profitable opportunities for an alliance. Spend some time researching the possibility of pursuing sales to government entities. Set growth targets for your business and decide which metrics you're going to use to measure success. Develop an approach for growth around the strengths of your business, and you'll have a much better chance of achieving success.

All businesses need to create opportunities for growth, or they risk becoming unsustainable and irrelevant. Any company that doesn't find new sources of business will eventually go out of business as its existing customers depart. Commit to success through continuous growth.

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**About the Author:** *Laura Stees, CPA, is a founding partner of SWC — Southern California's independently owned tax planning and financial strategy advisory firm for small-business owners, real estate investors, and high-net-worth individuals. The driving force behind SWC's brand and operations, Laura advises the firm's clients on several fronts, including tax planning, business growth, estates and trusts, investment vehicles, legacy planning, and other net-worth-generating strategies.*

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