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Nonlinear Model Helps Businesses Prep for Rapid Growth

By Finance New Mexico

New Mexico entrepreneurs who want to start a business or take an existing venture to the next level need a model that allows the business to “scale up” — to improve profitability as demand increases for its product or service.

A scalable model attracts more investors because it equips the business to adapt to a larger market without significantly increasing its costs. And that has a positive impact on economic development in New Mexico, where a home-grown business that’s prepared for exponential growth brings more out-of-state money home.



Different Paths

Many entrepreneurs are content to grow in a linear, conservative fashion: When sales increase, the business hires more people or buys more capital to accommodate bigger demand. The business has a stable bottom line, but its profitability doesn’t increase over time or it crawls slowly and inefficiently upward.

A business with a scalable model, by contrast, aims for faster, cheaper growth by breaking up the sales growth/cost growth relationship. It grows exponentially by keeping costs stagnant when sales ramp up.

Tech companies are well-suited for this nonlinear model, because most of their product development costs appear at the front end. The expenses involved in marketing and selling the finished tech product are minimal by comparison, allowing the company’s profit margin to expand unencumbered by routine costs.

Not every business is a good match for nonlinear growth, but the potential for increased profitability — and increased investor interest — makes it worth an entrepreneur’s time to evaluate whether the business has the resources, systems and people on board to move forward in a dramatic way.

But even a business that is ill prepared to undertake a radical overhaul can benefit by adopting some elements of the scalability model.

Costs Down, Profits Up

No matter what the business, profits will increase with the trimming of unnecessary expenses.

Some businesses prepare to upscale by outsourcing or automating all tasks that don't require the talents of core employees. This lean approach is especially important to startups, which need to maximize the contributions of a small team whose members can take the business into the broader market.

In the manufacturing sector, scalable businesses look for ways to minimize redundancies in production and automate where possible. Both actions can decrease the per-unit cost as demand builds and production volume balloons.

In the service sector, a business can scale up by investing in automation, such as software that increases employee efficiency and decreases the need to bring new workers aboard when demand builds. Even a business dependent on human resources can scale up by giving employees other ways to generate revenue without increasing their hours — for example, a salon that wants a bigger share of the local market can ask its stylists and receptionists to promote beauty products to customers who come in for a haircut.

Almost any business can increase its competitive advantage by assimilating components of the nonlinear model. And generating more revenue without inflating expenses does more than beef up the bottom line; it also increases the business's value to potential buyers and investors.

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