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Acquisition or Expansion: Which Is the Best Route to Growth?

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When you're looking to grow your company's geographic reach, you have a couple of options. You could either open another office location or purchase another company.

Let's walk through the steps of considering each option:

Opening a New Office Location

There are several factors to consider when deciding if opening a new office is the best route for your business to quickly grow its revenue.

1. How fast can you attract customers to the new location?

You'll want to make sure that a new location will quickly attract customers and prospects. If it's a service you offer, it's essential that the new office be in an area where people need and want your services.

It's also important to determine if competitors are already serving the area well. If so, it could make it difficult for the new office location to gain momentum.

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2. How many employees will you need to hire?

As the geographic reach of your business grows, your workforce will have to grow with it. Sometimes all it takes is one employee for the office to be up and running. Or, it might be you—the owner—who steps in to run the new location. Of course, many business models will require multiple employees in the new location.

Regardless of how many people are needed to staff the office, you must consider what that payroll will look like. And if it's you on the front lines of the new location, you'll need to make sure that you're able to consistently be in the new office to welcome new business.

3. How much money will it take to open the office?

A new location could drive revenue—but it will also increase your expenses. So it's important to forecast these figures before making a decision.

Consider utility bills, the cost of a lease, additional insurance, office furniture, computers, printers, software, signage and marketing of the new location. You'll also need to project what sales cycles will look like in the first few months of operation. As you plant roots in a new community, it could take a while for business to gain traction. If that is the case, you'll need to make sure that funds are set aside to support the growth period or that you'll be able to secure a loan.

Purchasing Another Company

An acquisition can be a strategic route for fast growth, but there are several elements to keep in mind when looking for a business to acquire.

1. Can I make the acquired company more profitable?

A good acquisition can be a company with a low profit margin because this presents an opportunity to make it more profitable by making better use of its assets.

You'll want to look for areas where you can better use those assets, and cut out unnecessary, non-risky items. For example, if a department is working at half of its capacity, think about how you could maximize efficiencies in that department without putting any more money into it.

2. Can my sales team easily sell an additional product?

If your potential acquisition sells a different product or service than your product offering, your next step is to determine if your sales team can easily incorporate another product into its sales process.

For instance, let's say your current business sells swimming pool accessories, and the company you're thinking about purchasing sells wheelchair accessible pool gear. Because your sales team is already selling pool accessories, it could be natural—and simple—for the team to include wheelchair accessible tools in future sales efforts.

3. What will it take to manage a new team and a new location?

You should think before pursuing an acquisition about combining cultures. When you buy a company, the culture exists and you, the acquirer, are the newcomer.

Will the culture welcome you? When you start to make changes, will the team in place understand the need and the

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rationale? How will your initial plans need to change as you and your new hires start to express different views of the business?

Being conscious of culture and how to change or adapt to it is at least as important as any other aspect of buying and integrating an existing business.

4. What other 'partnerships' or obligations will come with the acquisition?

The last question you should ask yourself before pursuing an acquisition is about all the new relationships in play.

To finance the acquisition, did you take on a new investor or lender? Did the selling shareholders keep a stake in the business, or stay for a transition period while customer relationships are transferred? Did the acquired company work because of long-standing understandings with key customers or suppliers?

Systematically thinking about each new and old stakeholder, and how each one will help or hinder your plans will make a difference in the ultimate success of the deal.

The decision to grow as a business typically isn't a tough one to make. It's what entrepreneurs do every day. The decision to pursue a strategic growth plan, however, is a far more difficult. Choosing the wrong path for growth could lead to a stream of wasted resources and time—as opposed to an influx in revenue.

Frank Williamson is the founder of Oaklyn Consulting, a strategy consulting firm with a financial focus. It serves businesses across the Southeast that need advice about mergers, acquisitions, capital raising and strategic growth plans.