**Truist Purple Paper℠**

# Financial foundations: The building blocks of future growth

Four cornerstones every business needs to support a successful expansion strategy


# Creating a blueprint for business growth

One of the first steps to adding a new wing to a building is pouring the concrete footings, ensuring the structure has a solid foundation to rise from—a foundation that won't crack or shift but will stand firm in the face of internal or external pressures.

The same idea applies to your business. When considering a growth strategy—whether organic or inorganic—it's important to start from a solid financial foundation.

### What foundations can become the building blocks of growth?

In this Truist Purple Paper℠, we examine four areas that companies should evaluate and shore up before setting and activating a growth plan.

## What's ahead in this Truist Purple Paper℠

# Foundation 1

## Find—and wield—your competitive advantage

**What makes your business stand out among your competitors? Knowing the answer is the first foundation for determining the best way to grow your business.**

Your competitive advantage can drive organic growth by fueling increased sales and helping you gain more customers. And with a clear view of the attributes that set you apart, you can strategically allocate resources to strengthen that advantage further.

**Competitive advantage falls into three categories:**

**Cost leadership**

The ability to offer products and services at lower prices than competitors—without sacrificing quality

**Differentiation**

Offering products and services that are perceived as superior in quality, design, features, technology, customer service, or brand image

**Specialization**

Tailoring your offerings to appeal to a narrow customer segment that competitors don't serve

**Finding your place in the market starts with a thorough analysis of yourself and your competitors.**

Ken Gaylord, market president at Truist Commercial, and his team begin each client's analysis by first helping them understand where they are in the business lifecycle. "Each business lifecycle stage—early, growth, established, and transition—comes with unique needs and challenges," says Gaylord. "Understanding what stage a business is in can give insight into the strategic steps they can take to uncover or enhance their competitive advantage."

For example, Gaylord says solidifying your competitive advantage in the early stage may involve differentiating yourself with new products. At the established stage, you might be looking to strengthen a competitive advantage that has weakened due to increased competition. A company in that situation may want to consider introducing additional product lines, expanding into new markets, or exploring new leadership to focus on a specific niche.

"Helping clients identify where they are and the things they can strategically focus on to get to that next level or next stage is really just self-awareness to help them know and understand what they're dealing with," says Gaylord.

Truist Commercial Market President Joseph Rheaves says he's seen business growth derailed when clients aren't sure where they are in the business lifecycle.

"It can be alarming when a client doesn't know what stage they're in and feels as if they're stagnant and unsure how to grow," says Rheaves. "We can help them unlock the priorities they should be focusing on and provide tools and solutions to help kick-start their growth, whether they need financing, budgeting assistance, or just strategic advice."

**Just as crucial as looking inward is looking outward. Knowing what's going on in your industry and what your competitors are doing—or not doing—can show you where to find or strengthen your competitive advantage.**

For example, say an analysis of your industry finds that poor customer service is a common complaint among your peers, and no competitor is taking steps to fix it. That's an opportunity you could seize by investing in people and technology to make your customer service the best in the market. Industry knowledge like that is what Truist relationship managers offer their clients.

"We can bring in strategic partners like industry consultants, financial risk management teammates, even specialists in mergers and acquisitions," says Gaylord. "We can give clients specific advice—even down to the geographic area—on what's happening in their industry, the economy, and their market. Those insights can help them stay laser-focused on areas where they can improve their business and strengthen their competitive edge."

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>
> **Joseph Rheaves, Market President, Truist Commercial**

**Read our expert insights on how understanding your business lifecycle stage** can be a competitive advantage.

# 4 common types of organic business growth, ranked by risk

When setting the foundations for business growth, consider your company's risk tolerance. Some types of organic growth come with more risks than others.

**Here are four common growth strategies to consider:**

## Low risk

### Market penetration

Selling more of your existing products in your current market is generally considered the least risky growth strategy.

You're already familiar with the product and market, and you won't need a lot of changes to operations.

### Product development

Creating new products for existing markets is slightly riskier.

You'll be leveraging existing customer relationships but will need to consider investments in R&D and production.

### Market development

Taking existing products into new markets, such as new geographic areas or customer segments, carries increased risks.

You'll be moving into unfamiliar territory, which may require additional real estate or distribution networks. Plus, you may need to adapt products to different customer preferences.

### Diversification

Developing new products for new markets is the riskiest type of organic growth.

Both the market and the product will be unfamiliar, and significant investments and operational changes may be needed to succeed.

## High risk

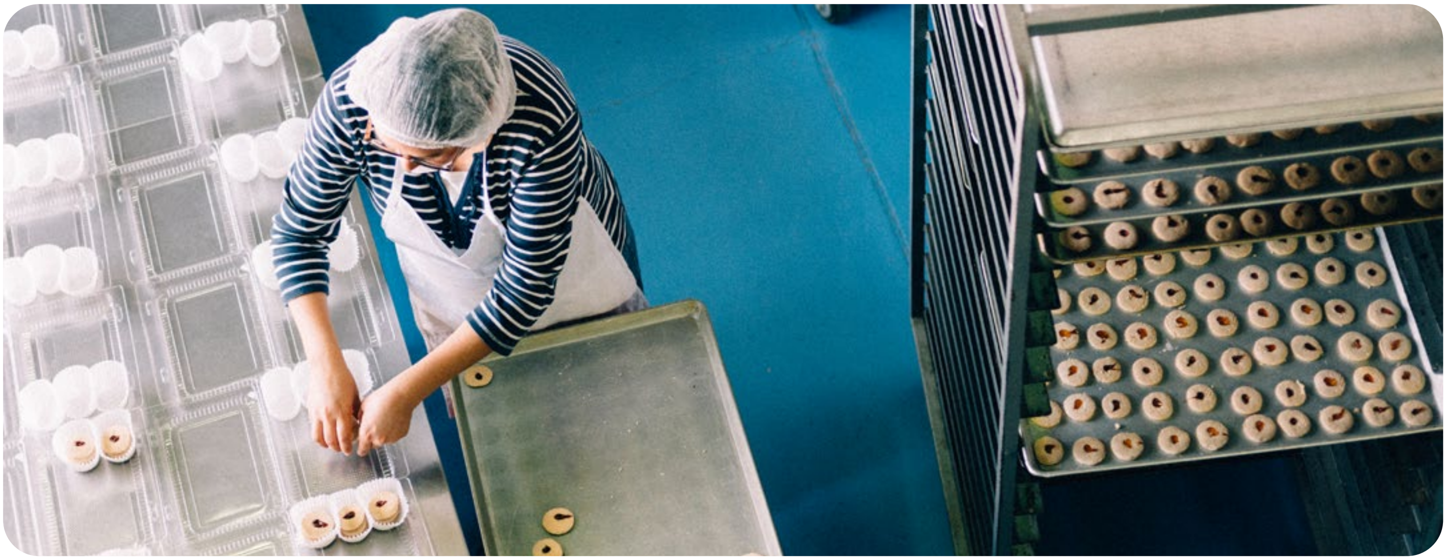
# Foundation 2

## Determine how your industry affects your growth potential

**Just as your industry can play a role in finding your competitive advantage, it could also contribute to or hamper your growth efforts.**

**Here are some dynamics that can influence how—and how much—your company grows.**

| Industry conditions that can fuel growth | Industry conditions that can hamper growth |
| --- | --- |
| **Lifecycle stage:** Industries in the introduction phase (when new products and services are being developed) and the growth phase (when recently introduced offerings have been accepted by consumers and demand is soaring) are ideal for growing businesses. | **Lifecycle stage:** Growth opportunities tend to slow in mature and declining industries. To spark growth, companies might consider expanding product offerings or entering adjacent markets. |
| **Fragmentation:** Industries with many smaller companies could present opportunities for growth through mergers and acquisitions (M&A). | **Concentration:** Industries where a few large companies dominate the competitive landscape can hinder the ability of new entrants or established firms to grow. |
| **High barriers to entry:** Industries that are tough for newer companies to break into—such as capital-intensive sectors like manufacturing or telecommunications—can shield existing companies from increased competition. | **Low barriers to entry:** Companies in industries with lots of new entrants may face constant competition that can impede growth. |
| **Technological advancement:** Industries where new technologies are developing rapidly can present opportunities to expand product lines. | **Regulatory requirements:** Highly regulated industries may put constraints on expansion or innovation. |
| **Low economic sensitivity:** Industries less prone to cyclical ups and downs, like healthcare or consumer staples, tend to have more stable growth prospects. | **High economic sensitivity:** In cyclical industries like automotive or luxury goods, companies may grow during economic upswings but then face challenges in downturns. |



## Once you've assessed the state of your industry, staying on top of emerging trends is vital for growth.

As an industry manager at Truist, Matt Greer helps clients track trends in the Food & Agribusiness industry. "You have to know what's driving change in your space," says Greer. "Businesses often appreciate financial partners who understand how fast things can change in their industry due to regulatory requirements, new technology, and shifting customer preferences."

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> **Matt Greer, Food & Agribusiness Industry Manager, Truist**

Greer uses the increasing popularity of limited-time offers as an example of shifting priorities in the Food & Agribusiness industry. Keeping that trend top of mind, a bakery client that supplies buns to fast food restaurants may need to adjust its processes to accommodate new orders.

"Having a banking partner that understands access to capital is crucial, especially in the fast-changing food industry," says Greer. "Businesses must stay flexible. That bakery, for example, can't just make buns forever; it must invest in equipment to adapt to customer demands, like producing flatbreads or cookies for limited-time offers."

## These investments require significant capital, but the payoff is real, says Greer.

"That's why it's essential to work with a bank that understands industry shifts and supports the financial commitments needed to stay competitive," he says. "Not all institutions do, so the right partner makes all the difference."

**Read more about the industry lifecycle and how to leverage it** for business growth.

# Foundation 3

## Lock down your balance sheet

**To help improve access to capital, a growth plan should always start with a thorough financial analysis.**

But what are the most important numbers to look at? Truist experts suggest focusing on these areas first:

### Cash on hand

A healthy cash reserve can help with investing internally toward organic growth or being ready for a potential acquisition.

"Typically, if a company has about $5 million or more in retained earnings or EBITDA, that will allow them to grow in terms of acquiring companies," says Rheaves. "If you can grow that amount to $10 million or $15 million, you'll be even better positioned for M&A."

Gaylord adds that current assets are best for short-term working capital needs. But when financing longer-term needs, such as equipment or a potential acquisition, the value of non-current assets is more important.

### Cash conversion cycle

Rheaves advises clients to pay close attention to their accounts payable and receivable to speed up the cash conversion cycle.

"If you could pay suppliers earlier, for example, you could get a discount," says Rheaves. "That's real money you could reinvest in your company and equipment. If your vendors don't offer a discount, consider paying them one or two days later. Stretching it out a bit could allow you to use that money elsewhere."

Digital payment solutions can help you tighten your cash conversion cycle. See the sidebar on page 8 for more.

### Inventory

A balanced inventory is also key to optimizing cash flow. The quicker you can sell your inventory, the faster you'll get cash to invest in your business. At the same time, depleting your inventory too quickly will leave you with nothing to sell—and could frustrate customers with "out of stock" alerts.

"Look at how obsolete your inventory is," says Rheaves. "How are you moving your inventory? Are you waiting on inventory coming off the ocean? What mechanism do you have to keep an audit trail of your inventory?"

### Revenue diversity

Diversifying your revenue streams is crucial to shielding your business from the risk of relying on a single product or service, customer type, or market segment.

"Diversification can help businesses reduce that risk," says Gaylord. "When you're shielded from the financial fragility of having all your eggs in one basket, it can unlock opportunities for long-term growth."

### Expenses

"Controlling expenses is a key part of improving your profitability and increasing retained earnings that will help support future growth," says Gaylord.

Implementing a budget for your growth objectives can help you see how much capital you need and how much spending will affect it. "We use forecasting tools to help clients think logically about the growth they're trying to achieve and what financial support they'll need to have for that," says Gaylord.

**If your financial analysis reveals red flags, your Truist relationship manager can help you find solutions to restore a healthy bottom line.**

"We often have conversations with clients about refinancing debt or even bringing in an investor to help improve cash flow," says Rheaves. "The beauty of our job is we're not just seeing the business balance sheet—we're also seeing the personal financial statement. We can help business owners see how to connect the dots with a holistic view of their finances."

Rheaves recommends that companies looking to borrow to fund growth explore Small Business Administration (SBA) loans. He says there's a misconception that SBA loans are only for startups.

"The SBA space is ideal for clients who may be at that mature level but are seeing some decline," says Rheaves. "It will allow them a much longer amortization to help with their cash flow. It also allows them to not put in much equity because of the guarantee from the government."

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> **Joseph Rheaves, Market President, Truist Commercial**

**Read how Willow Designs expanded** with the help of an SBA loan through Truist.

# How automation can optimize your cash conversion cycle

**Truist's Wholesale Payments team partners with commercial bankers to help clients collect payments, manage liquidity once payments are in, and disburse payments simply, quickly, and safely.**

Tools like automated payables and receivables help reduce paperwork, mitigate fraud risk (see sidebar on page 10), minimize human error, and better predict cash flow through real-time financial insights.

**With automated payables and receivables, you can:**

- Pinpoint when and how you pay vendors to maximize the use of available funds and reduce overdraft risks
- Eliminate delays due to check production and mail delivery to reduce the number of days sales are outstanding

"Growth means generating revenue," says Chris Ward, head of Enterprise Payments at Truist. "And being able to accept payments and get paid for what you're doing is a key part of that."

Payment solutions might include purchasing cards, ACH origination, wire transfers, real-time payments, and more. Ward and his team help clients find the payment solutions that work best for their business—and that often varies by industry, size, and other factors.

"A restaurant is very different from a manufacturer, which is different from a medical practice," says Ward. "One may be focused on cards so they can be cashless, while another may still rely on checks. So, there's a bit of an art and a science to balancing the right set of payment modalities that are important to that business."

# Foundation 4

## Ensure your operations are scalable

**As your business grows, so does demand for your products and services. That's why thoroughly analyzing your operations and their future scalability before you begin to grow is crucial to ensure you can meet increased demand without compromising quality or customer service.**

"Sometimes companies will launch into a growth phase without first looking for operational inefficiencies," says Rheaves. "Is their equipment outdated? Do they need a bigger facility to handle more orders? Will they need to hire more staff? These are the kinds of things companies need to analyze and invest in before growing the business."

Gaylord also emphasizes the importance of talking to your vendors before implementing a growth strategy. "Procurement is an area that I think is sometimes overlooked," says Gaylord. "If a company is entering a new market or adding a new customer base, it's critical to have conversations with their vendors to ensure they'll have the raw materials or product available to support that increased production."

**Create a strategic plan that balances the growth opportunities in your market with the capabilities you'll need to take advantage of those opportunities.**

In addition to investing in facilities and equipment, you might need to invest in automation that can free employees from repeatable tasks and allow them to focus on more strategic work.

You may also want to adjust the breadth of your expansion plan. Business growth doesn't have to be as big as going global or doubling the number of products you sell. A more focused approach—for example, deepening your reach into your existing market or altering existing products slightly to match customer preferences can help you grow with decreased risk.

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**Ken Gaylord, Market President, Truist Commercial**

**Once you have a plan in place, Gaylord suggests implementing a process to measure performance internally—so you can adjust as your company grows.**

"Some things to look at might include employee productivity, cash flow management, and inventory management," says Gaylord. "Increased inventory levels can create a cash flow issue. It's important to have models that can alert leadership to potential problems and allow them to make quick improvements."

Another critical area to monitor as you grow is customer satisfaction. If your operations aren't keeping up with your growth, the result could be a decrease in quality—which could hurt your reputation with customers. Increased demand can also stretch customer service resources and leave clients with a negative impression.

"You don't want to start getting feedback like, 'No one ever followed up with me,' or 'I was on hold for over an hour,'" says Rheaves. "Maintaining a company culture of excellent customer service is especially important during growth."

Shoring up your customer service could involve a strategic combination of hiring the right amount of people, investing in technology to enhance response times and personalization, and ensuring your staff has the proper training. Rheaves says cross-training can go a long way.

"I remember my days of working in a bank branch, when customer service meant being flexible," says Rheaves. "And I still think that human capital is key to any business's success."

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**Joseph Rheaves, Market President, Truist Commercial**

**Read our advice on blending high tech and high touch** to create a robust customer experience.

# Don't let fraud derail your growth plans

**The effects of fraud are far-reaching.**

- Thieves could steal the financial resources you set aside for growth.
- Damage to your reputation could cause you to lose customers.
- Operational disruptions could take up time you planned to devote to growth objectives.
- Damage to your credit could limit your access to capital necessary for growth.

Using digital payment solutions with built-in fraud protection can help mitigate your risk. Education about the latest schemes that fraudsters are using is also key to protecting your business.

**Social engineering is one of the most prevalent types of fraud.**

Scammers harvest personal data about your employees, vendors, or customers and use it to create deceptive social media posts, voice and text messages, or emails that trick your team into disclosing sensitive information.

This scam can lead to password theft, business email compromise, ACH fraud, and more.

**Visit the Truist fraud hub for insights and resources** to protect your business against fraud.

# Meet our experts

**These Truist subject matter experts contributed their experience and expertise to the creation of this paper. We encourage you to contact them individually if you have questions or insights to share.**

**Ken Gaylord**
**Market President, Georgia Region**
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Ken has been in the banking industry for over 27 years, serving in key retail and commercial banking production and leadership roles. In his current role since 2013, he oversees the commercial community banking efforts for all of southeast Atlanta.

A graduate of Kennesaw State University, Ken also holds degrees from the Georgia Banking School and Wake Forest University.

**Joseph Rheaves**
**Market President, Atlanta**
**joseph.rheaves@truist.com**

Joseph is a results-driven banking leader with over 25 years of experience helping businesses thrive. He leads a senior commercial banking team that partners with companies across Metro Atlanta to deliver strategic financial solutions that drive growth. Prior to 2021, he led a Small Business Administration (SBA) sales team for Truist's southern regions, playing a key role in expanding access to capital.

A U.S. Army veteran, Joseph holds a Bachelor of Arts from Saint Leo University and a master's degree in finance from Central Michigan University.

**Matt Greer**
**Food and Agribusiness Industry Manager**
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Matt began his career in Food and Agribusiness banking before moving on to serve as market president in the Georgia region for most of his 20-plus years with Truist.

Today, he partners with local bankers to deliver industry-specific content and advice to help Food and Agribusiness clients thrive in the marketplace. Matt is a graduate of the University of Georgia and the Leadership Georgia program.

**Chris Ward**
**Head of Enterprise Payments**
**chris.ward@truist.com**

Chris oversees the Treasury, Liquidity, Merchant, Commercial Card, and Consumer Payments businesses at Truist. He's also a member of the Truist Financial Corporation Operating Council.

His extensive background includes managing wholesale payments businesses with a focus on growth and the client experience. He earned his bachelor's degree in business administration from Robert Morris University in Pittsburgh.

# How Truist can help

Talk to your relationship manager about tools and solutions that can prepare you to take your business to the next level—from financing and budgeting to strategy support and industry insights.

If you don't already have a Truist relationship manager, **connect with one by filling out our contact form.**

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