Trading 'Gut' for Best Practice in Business Expansion

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For many seasoned entrepreneurs, expansion into new markets or product categories is fueled by a gut decision, an outgrowth of whatever passion made their companies successful to begin with. But in today's uncertain economy, ambitious growth requires a lot more than intuition.

Indeed, many small businesses are reluctant to expand right now, and the "gut" approach may play into their hesitance. "Through the recovery, small businesses aren't seeing a huge pickup in sales and are still apprehensive about expansion opportunities," said Holly Wade, senior policy analyst at the National Federation of Independent Business, which each month surveys its members about their perception of the economy. "Many are holding onto their cash as long as possible to make sure the recovery actually pans out."

Small businesses are not the only ones hesitant to spend. Among the largest U.S. corporations, the hallmarks of the recovery have been the amassing of cash, such as Apple's huge hoard, and spending on shareholder enticements — buybacks and dividends — at the expense of core business investment. A back of the envelope calculation — figuring the average American worker costs about $60,000 a year with salary and benefits, according to the Bureau of Labor Statistics — implies the total spent on buybacks and dividends in 2013 alone could have hired 5.47 million workers.

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To be sure, initiating and investing in new growth is tricky in an imperfect economic climate for businesses large and small, global and local — but it can be done. Here are four companies that recently took the plunge and their best practices on how to expand.

1. Learn from mistakes you made the first time around.

After a decade of working for Marriott Hotels and boutique inns, Brian Sheehy kicked off his dream in 2002: He bought a bar in San Francisco. While he and his business partner were successful at turning their tiny bar, Anu, into a hospitable, busy hub of the city's then-escalating DJ culture, Sheehy admits to making a few mistakes. No. 1: Location.

"We could only afford to be in the really challenged part of town," said Sheehy, who decided that the bar's $25,000 price tag outweighed the negatives of its address, which was at the edge of one of San Francisco's most crime-riddled neighborhoods, Skid Row. "The second time around, we decided that if we had to wait five years to get the perfect location for our bar, we would—we wanted to be in a part of town where we didn't have to beg people to come."

A year later, Sheehy bought the lease of a bar that was going out of business a couple of blocks off Union Square, the heart of San Francisco's shopping and hotel districts. For the new bar — Swig — Sheehy took care to avoid the small-scale things they did wrong at Anu: this time, he stocked the right type and amount of glassware, sourced local craft beers and handmade cocktail recipes and hired personnel who were keyed into customer service.

Although Sheehy had to take on a third business partner to make the expansion possible—Doug Dalton, former tech entrepreneur—Swig hit big, and taught Sheehy the formula that would make future growth work: Place his bars within walking distance of hotels, so customer traffic on weeknights isn't dependent on locals.

Today, Sheehy's empire, under the moniker Future Bars, comprises five upscale places, including Bourbon & Branch, a speakeasy-style bar that launched in 2006, and Local Edition, a lounge that opened last year. Combined sales from the bars total more than $10 million.

Sheehy recently closed Anu. The neighborhood is still bad and the bar no longer fit the company's image. (They still have and will use Anu's liquor license as per SF/CA law; they are in the process of scouting a new location for a new bar with the old license.) "[Closing it] was sentimental," he said. "We were attached to it, it was doing well. But it became an embarrassment to have hotel guests go to Swig, then to Bourbon & Branch and then ask them to put their lives in danger to go have a drink at Anu."

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2. Go big, but go slow — sometimes really slow.

Since 2004, Lindsey Boyd and Gwen Whiting have grown their New York City-based laundry-care products company, The Laundress, into a multi-million dollar business. Their nontoxic, delicate-fabric detergents are found at Crate & Barrel and boutique stores around the world, and via a co-branded partnership with J. Crew. Marked by blends of scents like sandalwood, herbs and citrus, branching out into scented candles seemed like a natural progression for The Laundress, whose customers had been asking for a more passive way to enjoy the company's perfumes. (The company had already launched a home cleaning line in 2010.)

But entering a saturated, "gangbuster-sales" market with something unique wasn't an easy task, and finding the right composition — candles that were paraffin-free, plant-based and made in the U.S. — took many years. "It was a departure from our brand," said Whiting. "We struggled, we tested and tried candles for five years, making sure the formulation was in line with our message."

The Laundress eventually selected a manufacturer in Brooklyn and launched a line of three candles last fall. Despite a major hiccup — Hurricane Sandy, which hit a week after the candles' debut and resulted in lots of unshipped product and missed sales opportunities — they sold well. The Laundress, whose sales are up 50 percent over last year's, has already made back the investment.

3. Test the market.

After three years of cooking Mediterranean-style fare at Saffron, the Minneapolis restaurant he owns with his brother, Sameh Wadi wanted a new challenge. "I wanted to cook outside my comfort zone, [do something] with international food, different cultures," said Wadi, who in 2010 started hunting for a location for a second restaurant.

Within a few weeks of finding a spot and almost signing the lease, Wadi heard that the city would allow food trucks downtown during warm-weather months. "A light bulb went off," said Wadi. "Street food — we could go around testing it out at a fraction of the cost of a retail spot."

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For the first year and a half, Wadi's truck, called World Street Kitchen (WSK), changed its menu continually as he experimented with mash-ups of international dishes. It wasn't until the second year that he figured out which non-traditional foods Midwesterners liked to eat: noodle dishes inspired by Korean hot bowls, modified Mexican tacos and "Bangkok burritos," tortillas filled with rice and unconventional blends of spices and protein (red curry chicken, tofu).

About 70 people stood in line for two hours at the November opening of the brick-and-mortar iteration of WSK, a casual ,counter-service restaurant that highlights the truck's best-selling items. While Wadi says it will take a few years to earn back his investment on the new restaurant, "the food truck is doing the best it's ever done and overall numbers are better every month."

4. Solve an untouched industry pain point.

Desert Jet, a private-jet charter based near Palm Springs, Calif., hasn't had to launch any big marketing campaigns or specific growth initiatives to boost its core business since its founding in 2007. Flying in and out of small cities and airports that commercial airlines don't service, the company namely grows by word of mouth, catering to people flying for business: Landowners who own multiple farms in California's Central

Valley and Canadian investors in Palm Springs-area real estate.

Annual revenue hit $6 million last year, but founder and CEO Denise Wilson is looking for new sales streams. Her latest venture: Desert Jet Maintenance, an aircraft maintenance facility run by her company's mechanics that she believes will appeal to the owners of the 1,100 small aircraft based in California. "As an operator of jets, one of our biggest risk factors is counting on third-party vendors to provide servicing to us," said Wilson, who plans to open the shop in August. "Not being able to get quality maintenance on their jets is one of the pain points we hear a lot about."

5. Don't fall prey to the glitz.

After creating some of San Francisco's most well-known watering holes, Future Bar's Sheehy is "constantly distracted by shiny opportunities" to open similar places in Las Vegas, Los Angeles, Portland, Ore. and the San Francisco building that's home to Twitter. While many of these spaces lend themselves nicely to the ambiance Future Bars aims to create, Sheehy says they're all missing a piece or two of the formula that his company has identified as crucial to success.

"Three different times we've almost signed a lease," said Sheehy. "But each time we stepped back and realized that it wasn't our core concept."

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