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SERVICE FIRM EXPANSION: NAVIGATING CHALLENGES, EXPLORING ENTREPRENEURIAL ALTERNATIVES

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Abstract
The dynamic landscape of entrepreneurship is marked by the exhilarating journey of nurturing and expanding a business. The allure of creating a business empire has captivated the aspirations of numerous entrepreneurs, mirroring the triumphant narratives of renowned service firms such as McDonald's, Starbucks, Federal Express, Marriott, Southwest Airlines, and contemporary trailblazers like Google, Netflix, and Uber. This pursuit of growth, both challenging and rewarding, forms the crux of business ownership and operation. As businesses embark on this transformative trajectory, they navigate a complex terrain characterized by diverse challenges and opportunities. This abstract explores the multifaceted dimensions of business growth, delving into the intricacies that make it one of the most compelling aspects of entrepreneurial endeavors. From the inception of the dream to construct a business empire, entrepreneurs grapple with strategic decisions, operational intricacies, and the ever-evolving market dynamics that shape the trajectory of their enterprises. The journey unfolds against the backdrop of notable success stories, where iconic service firms have transcended boundaries to achieve global acclaim. The exploration encompasses the historical milestones of industry giants like McDonald's and Starbucks, drawing inspiration from their trajectories. Moreover, the study extends its gaze to contemporary disruptors such as Google, Netflix, and Uber, unraveling the innovative strategies that propelled them to the forefront of their respective industries. Anchored in the understanding that growth is not a linear path, this abstract illuminates the challenges that punctuate the

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entrepreneurial expedition. It scrutinizes the importance of adaptability, resilience, and visionary leadership in navigating the complexities inherent in scaling a business. The narrative emphasizes the need for a nuanced approach that balances risk-taking with strategic acumen, fostering an environment where innovation flourishes. Furthermore, the abstract contemplates the role of technology and globalization as catalysts for business growth in the modern era. The advent of digitalization and interconnected economies has reshaped traditional paradigms, presenting both unprecedented opportunities and novel challenges for aspiring entrepreneurs. The study sheds light on how businesses leverage technology to optimize operations, enhance customer experiences, and carve a niche in the global market. In synthesizing these insights, the abstract seeks to contribute to the discourse on business growth, offering a comprehensive exploration of the entrepreneurial odyssey. By unraveling the threads that weave success stories, it provides a nuanced understanding of the intricacies that define the evolution from a nascent venture to a thriving business empire.

1. Introduction: Service growth

One of the most exciting, challenging and rewarding aspects of owning and operating a business is watching it grow. Indeed, the dream of building a business empire is appealing to many entrepreneurs and is fueled by the successful growth stories of service firms like McDonald's, Starbucks, Federal Express, Marriott, Southwest Airlines, and more recently Google, Netflix, and Uber, to name only a few.

Watching the business grow, however, doesn't mean watching from the sidelines. A few ventures may be lucky enough to experience short-term growth by hitting on the right concept in the right market at the right time, but long-term growth is no accident, is not guaranteed, and is not without risks. Growth takes foresight, planning and the willingness to make choices and accept the risks that accompany those choices. Indeed, successful growth is viewed more as a choice and a series of well-reasoned and well-executed growth plans than the consequence of hope and enthusiasm.

Further challenging service entrepreneurs are the quasi-unique characteristics of services and service organizations – namely service intangibility, and the simultaneity of production and consumption of services. These characteristics pose additional challenges for entrepreneurs considering the possibility of growing their companies.

Accordingly, the challenges involved in growing service firms are discussed in the sections that follow, as are the potential benefits and risks associated with the growth decision. Finally, several growth alternatives are discussed – possible options for service entrepreneurs committed to growth.

1.1 The challenges of growing service firms

For service entrepreneurs, the growth challenge is magnified by two of the quasi-unique characteristics of services – intangibility of services and their simultaneous production and consumption (Martin, 2015; Zeithaml, Parasuraman and Berry, 1985). Because services are intangible, they can't be shipped in physical containers like boxes of laundry detergent or cans of vegetables, so distribution options are severely limited. Rarely can service businesses rely on an established network of wholesalers, distributors and retailers to facilitate growth. For the most part, service businesses must distribute their services themselves or create a distribution system where none existed previously – such as a network of branch locations for a retail bank or franchised locations for a fast-food business.

The intangibility factor also may impede growth in that entrepreneurs can find it difficult to secure the capital they need to fund growth, especially the early stages of growth. Potential lenders and investors might get excited about a manufacturing venture after seeing a prototype, but they may find it difficult to evaluate a service concept that may be little more than an idea – let alone forecast its sales and expected cash flow.

For many service businesses, simultaneous production and consumption means that the customer's presence is required (hair care services, for example), so these service businesses have to locate near customers. Growth may mean establishing numerous small neighborhood outlets rather than operating from one large, central location. Often the geographic dispersion contributes to control problems and may reduce the potential for operational economies of scale.

It follows that customers' presence increases the firm's visibility and the interpersonal interactions between customers and service providers. A manufacturer's customers may never see the plant or any employees, but a service business's "plant" and employees may be quite visible, and the impressions they make can be critical. High visibility can constrain growth opportunities for service firms if company leadership cannot justify the diversion of management attention and other resources from existing operations to pursue growth. Further, the constraint is magnified if customers rely upon and expect continued interaction with service providers. For example, a customer of Ralph's Barber Shop may resist Ralph's efforts to delegate hair care to an assistant perceived to be less experienced than Ralph and with whom the customer has no established rapport.

2. Benefits and risks of growth

The rewards of growing a service business can be tremendous, but there are risks too. Personal and staff morale, marketplace leadership and the promise of enhanced profitability may be appealing, but personal preferences and limitations, the risk of neglecting existing operations, unstable new markets and the financial risk should be considered.

2.1 Morale

Growing a business to gain financial independence, fill a niche in the marketplace, create jobs in the community, or simply to build something from the ground up can be personally satisfying – a morale booster and motivator. Morale of both employees and managers tends to be high in growing businesses, because growth creates advancement opportunities. Growing companies can attract, develop and retain high-quality and ambitious workers with a strong work ethic, which provides a competitive advantage and builds a solid foundation for further growth.

As a potential downside, growth opportunities may be viewed as obstacles, inconveniences or threats. Some employees and managers are effective when the business is small, but they may not have the skill sets to take the company to the next level of growth. Others may prefer the comfort of a routine, familiar job and "growth" may be equated with "extra work." Consequently, some workers may resist efforts to grow the business.

2.2 Marketplace leadership

Growth positions the company as a leader or as an up-and-comer, creating favorable impressions in the minds of customers, suppliers, financial backers and future owners. As the business becomes well-known, customers may assume that quality is high. Suppliers may grant favorable treatment, not wanting to lose an account with such great potential. Bankers may offer to lend money after recognizing the business's great track record. When it is time to sell the business, prospective buyers will be more likely to pay top dollar if the business is still growing.

2.3 Personal preferences and limitations

The personal preferences and abilities of entrepreneurs do not always mesh well with the characteristics and needs of a growing business. Many small business owners prefer to keep their businesses small to maintain close relationships with customers and employees or to avoid financial risk, relocation, excessive travel, distasteful bureaucracies or other big-business trappings. Some simply prefer more free time and they recognize that growing the business can be time consuming.

2.4 Thinly spread resources

Growth may spread resources too thin, especially if it is too rapid or not well planned. For example, operations may suffer if owners and managers become too preoccupied with growth to attend to the day-to-day details of the existing business. Money that might otherwise be used to upgrade existing facilities may be diverted to fuel new growth opportunities. The quality of service may suffer as well, if personnel is not developed rapidly enough to staff the new operations. When resources are spread too thin, the business and its brands may lose credibility.

2.5 Greener pastures

The pastures may not be greener on the growth side when it comes to new customers. Attracting and opening accounts for new customers can be more expensive than originally envisioned, and new customers may be too price-sensitive to be profitable. Serving newer customers often requires more time and their purchase volumes generally are lower than those of existing customers (Reichheld and Sasser, 1990). Further, if new customers are drawn from new market segments and they share the same facilities with existing customers, problems of customer incompatibility could arise. For example, long-standing adult customers may resent a new Teen Night promotion.

Generally, new customers are necessary for business growth, but the appeal of growing the business by attracting new customers (especially new customers in the same market area) should be balanced against the reality that it may take some time and money to convert them into loyal and profitable regulars.

2.6 Potential profitability

The most apparent reason for pursuing growth is the promise of greater profits, but growth does not guarantee increased profits. As discussed below, profits may increase from several sources including increased revenues, cost savings, time leverage and erosion of competition.

2.6.1 Revenues

Higher revenues often mean higher profitability, although the rate of increase may not be proportionate. For example, a 10 percent increase in revenues may result in profits greater than, less than, or equal to 10 percent. Losses are also a possibility. The additional investment in facilities, personnel, equipment and marketing required to grow the business may elevate costs so much that a very significant increase in revenues is needed to realize any added profits. Moreover, revenue gains usually lag behind costs, so businesses that grow too much too rapidly can experience a serious cash flow problem. However, if variable costs per unit are low and most costs are fixed and barely fluctuate with changes in volume (such as costs for a hotel or movie theater), a slight increase in revenues can have a dramatic and positive impact on profitability.

2.6.2 Cost savings

The initial cost structure for the business may be quite small. Many entrepreneurs initially operate the business from their homes and perform all the work themselves so overhead expenses are low and payroll expenses nonexistent.

As the business grows, however, additional expenses and investments are piled onto the cost structure. Added facilities, personnel, equipment, inventory, financing and maintenance drive costs sharply upward when home-based businesses leave home and acquire new commercial quarters. These costs, plus the costs of additional management, are added each time the business opens a new location. Research and development costs may soar each time a new service is evaluated and added to the line. Of course, the intent of all of these growth maneuvers is to capitalize on untapped demand, but growth costs become losses if demand fails to materialize.

Some cost savings may accompany the growth, although the savings typically are less in the service sector than they would be for comparable expense categories in the manufacturing sector – especially for labor-intensive services. For example, prices for supplies and equipment may drop as the firm grows and purchasing clout increases. Promotion and advertising economies of scale may develop when the business expands in the same media market. Economies also may arise if the new service can use preexisting slack in the organization. For example, a savings and loan preparing to offer car loans might be able to use the same equipment, people, paperwork and financial analysis to assess the credit worthiness of home loan applicants.

2.6.3 Leveraged time

In labor-intensive service businesses, growth usually facilitates the leveraging of profits by leveraging resources – in particular, the owner's or manager's time. Easy tasks requiring little skill may be delegated to lowerpaid and less-experienced workers, whereas more difficult duties could be earmarked for more skilled, more expensive workers. The challenge and risk lies in knowing which employees can proficiently handle which tasks. Likewise, it may be possible to delegate marketing-related functions, order processing and other tasks to thirdparty online platform services (e.g., a local repairman utilizing www.angieslist.com) – again, freeing service providers' time for other tasks that may not be as easily delegated.

Although entrepreneurs often find it difficult to delegate duties as their businesses grow, efficiently matching each task's demands with the most appropriate workers keeps payroll costs in line, thereby boosting profits. Proper delegation also helps to develop personnel for future growth, and it frees the entrepreneur's time to pursue that growth.

For many service firms, customers represent another potential source of time or labor leverage. Sometimes couched in terms of "externalizing the labor force" or "self-service," in many instances customers can (and may prefer to) provide service tasks for themselves – freeing employees' time for other tasks. In a quick service restaurant, for example, patrons may seat themselves, prepare their own salad, fill their drink glasses and dispose of their rubbish after dining.

2.6.4 Erosion of competition

Competition is a fact of life for most service businesses, but it is rarely static. New competitors enter the marketplace and existing ones may pursue growth plans of their own. The decision not to grow often leads to a drop in market share, which eventually leads to increased unit costs (relative to those of larger competitors), a loss of bargaining power in the marketplace and a negative impact on profitability. This phenomenon is especially true when demand is growing and the industry is expanding, but it also tends to hold true even if the size of the industry remains relatively constant.

Avoiding the negative consequences of nongrowth practically necessitates the pursuit of growth to some degree. Through growth, the business can discourage some potential competitors from entering the market and slow the growth of existing competitors. This increases the service firm's share of market demand, potential profits and future industry growth. A superior business concept may eliminate some competitors and the outright purchase of competitors certainly will.

3. Growth alternatives

Once the growth decision is made, one or several interrelated growth options can be pursued. The risks and rewards associated with each alternative vary depending on the business, industry, marketplace and the ambitiousness with which the options are pursued, so it is impossible to say which growth option should be pursued first. However, the less risky options are found toward the top of the following list of growth options:

- Financial management
- Increased purchase volume and frequency among existing customers
- Promotion to attract new customers
- Expanded or increased use of existing facilities
- Development or modification of service delivery systems
- Development of new services
- Addition of new locations
- Integration

3.1 Financial management

Business growth usually means bigger operations, but profits also can be grown by managing the business's existing financial affairs. Moreover, getting the financial statements in shape helps to poise the business to capitalize on other growth opportunities and seek financing when needed. Expanded facilities or increases in sales growth, for example, are accompanied by a need for funds to finance the growth – funds that must be anticipated and made available when needed.

Start by comparing the business's financial performance with that of other businesses in the same industry. Knowing how the firm's sales, profits, assets, working capital and liquidity compare to those of competitors can be helpful in determining whether some financial adjustments should be made and whether competitors might be better positioned for growth. Trade associations can be useful sources of industry data. Other sources to find this sort of information include *Annual Statement Studies,* published by Robert Morris Associates, and *Industry Norms and Key Business Ratios,* published by Dun & Bradstreet.

A somewhat sophisticated use of service industry performance data has been developed by Mayo and Jarvis (1992). These researchers investigated financial management growth potential in the service sector and found that the typical service firm could financially sustain an annual sales growth rate of about 28 percent, in contrast to only five percent for manufacturers. Generally, labor-intensive service businesses were found to have higher sustainable growth rates than equipment-based service businesses.

A service business may use the estimated growth rate to gauge how rapidly the business should plan to expand sales, whether the rate of growth should be slowed or whether steps should be taken to improve the growth rate to accommodate growth plans. For example, the actions in the following list might be taken to increase the sustainable sales growth rate. Some of the actions involve reductions – tactics that may seem counterintuitive to growth, but may be necessary to enable the business to take advantage of more profitable growth opportunities elsewhere.

- Increase prices to improve profit margins.
- Increase promotional efforts for the most profitable services in the line.
- Reduce expenses by cutting hours of operation – especially during low-demand times of the day, days of the week, and seasons of the year.
- Tighten credit practices to minimize losses from bad debts.
- Eliminate less productive employees.
- Reduce marketing efforts directed toward marginally profitable customer segments, unless they show strong potential for future profitability.
- Offer new services that yield economies of scope, i.e., new services that can use existing assets and personnel.
- Prune the mix of services offered. Get rid of those that tie up assets and are only marginally profitable.
- Reduce the number of locations to free assets. Sell those that are not performing. Consider converting some to franchise operations.
- Engage in leasing. Sale and leaseback arrangements free up capital for growth.
- Eliminate duplicated and unproductive assets. Does each location or employee need the same tools and equipment? Is some equipment rarely used? Can multiple locations share some of the same assets?
- Reduce inventories of supplies and maintenance items. For example, is a two-week buffer inventory really needed when suppliers ship within a few days?
- Reduce or eliminate dividends to free up funds for growth.
- Use standby lines of credit.
- Increase the debt-to-equity ratio by borrowing funds to fuel growth.

3.2 Increased purchase volume and frequency among customers

Relationship marketing describes business efforts to strengthen ties with customers. The focus is on retaining and developing existing customers and stems from the realization that it is only marginally profitable, at best, to attract new customers if they cannot be retained (Reichheld and Sasser, 1990). The philosophy is analogous to recognizing the folly of filling a bucket with water (new customers) only to have the water leak through holes in the bucket. Rather than feverishly working to refill the bucket, relationship-minded organizations find it more profitable to plug the holes instead. Such an approach is particularly appropriate in mature or highly completive service industries for which the pools of prospective customers are shallow.

Among other benefits of customer retention, happily retained customers tend to be more profitable because they purchase more, are less concerned about price, are often easier to serve and they help to market the business by spreading positive word-of-mouth communications (Reichheld and Sasser, 1990).

3.3 Promotion to attract new customers

Although established customers tend to be more profitable than new customers, all customers were once "new" and some customers will be lost regardless of the firm's efforts to keep them. Inevitably, some existing and very satisfied customers will outgrow their need for the service, move out of the market area, or die. Therefore, efforts to retain existing customers must be balanced against efforts to attract new ones. The objective should be to attract new customers that have a good chance of being profitably retained.

Start with prospective new customers that are most similar to existing, satisfied customers. Similar customers are more likely to be satisfied by the same service mix than dissimilar prospects would be, and in service businesses where customers are likely to come into contact with other customers, they are more likely to be compatible with existing customers. The similarities may be based on demographics such as age, income, education and/or gender, or based upon customers' needs and expectations. Hotels, for example, have found that both demographics and expectations differ for business travelers and vacationers, so they may avoid appealing to both groups simultaneously.

Some situations would justify appealing to dissimilar market segments. One is when the pool of prospective new customers that is similar to existing ones is too shallow to satisfy the firm's growth objectives. Second, sometimes the competition for customers that are similar to existing ones is too intense to be profitable. Third, the service system might be unable to accommodate more of the same type of customers if usage patterns are also the same. For example, a hotel operating near capacity during the week by catering primarily to business guests might promote getaway packages to attract tourists on the weekends.

Once the decision has been made as to which groups of new customers to attract, advertising and other promotional efforts may be used to steer the prospects toward purchase. However, before engaging in an expensive advertising campaign, objectives should be clarified. Here are some possibilities:

- Create awareness of the business and the service by advertising key benefits or themes and by frequently using the company name and the brand name of the service.
- Clarify the location of the business or where the service may be obtained.
- Help prospective customers to visualize the service by showing the equipment, building or people used to produce it, by displaying the company logo, by using symbols to illustrate the service's benefits (e.g., Allstate insurance's "good hands"), or by showing the outcome of the service (satisfied, smiling customers).
- Demonstrate the service or use before-after pictures or descriptions.
- Strengthen customer relationships with emotional appeals, by emphasizing benefits of being a long-term customer, or by personalizing the message.
- Promote quality by stressing the expertise of the service providers or other benefits of the service that may not be obvious, using testimonials of satisfied customers and offering unconditional service guarantees.

- Leverage word-of-mouth communications by establishing a strong social media presence, targeting gregarious opinion leaders or influencers, showing ad scenes with happy customers talking about the service, using humor, jingles or tongue-twisters.
- Encourageprospective customers to take the next step, e.g., contact the company for a free estimate or visit the firm's website for additional information. Tell prospective customers who to contact for additional information.
- Manage customer expectations by explaining the service and promising only what is possible.
- Enhance perceptions of value by explaining what benefits the customer receives when buying the service or high-light the negative consequences of <u>not</u> buying the service, by breaking the price into smaller increments ("only $1 per day") or by conducting a value analysis.
- Tell who the service is for to attract customers the business can service effectively and increase the odds that customers will be compatible with one another.
- Educate prospective customers about their role in the service process, e.g., a hospital might provide new patients with a list of what to bring to the hospital.
- Reinforce employees' roles and responsibilities by bragging about their skills, commitment and professionalism (sometimes couched in terms of "internal marketing").
- Judiciously choose calendar time periods when advertising is most likely to be effective – such as when prospective customers are more likely to have the <u>need or interest</u> in the service (e.g., restaurants advertising on radio just before meal time), when prospective customers have <u>money</u> to spend (e.g., payday, tax refund season), or when prospective customers have the <u>time</u> to avail themselves of the service (e.g., evenings, weekends, vacation periods). For elaboration on the topic of "calendar-led marketing," see Martin (2017).

3.4 Expanded use of existing facilities

Sometimes a business can be grown by expanding capacity during peak times. Such peak times may correspond to one or more particular calendar periods, e.g., hours during the day, days of the week or month, or days/seasons throughout the year. This strategy can mean literally enlarging the physical facilities, but this option might not be economical if the expanded facilities are used only during very short peak periods. Less expensive options to speed service or otherwise expand the firm's capacity include automating tasks, cross-training workers to perform multiple tasks during peak operating periods, hiring additional workers or training customers to selfserve portions of the service.

When service capacity frequently exceeds demand, service providers sometimes try to increase demand during the lull periods. These efforts include educating customers about the benefits of using the service during nonpeak times, using a reservation system or online ordering to steer customers into nonpeak periods, offering discounts during lull periods and increasing advertising and promotion efforts to stimulate demand during lull periods. However, keep in mind that there may be compelling reasons to explain why sales are sluggish or nonexistent during some time periods, so much so that heavy promotion and/or deep price cuts may have little or no effect. As an extreme example, consider the unlikely impact on demand of a promotional offer promising slashed admittance fees for an outdoor swimming pool during the winter when temperatures are near freezing. Instead, limited resources might be more productively employed during other periods when prospective customers may be more easily enticed to avail themselves of the service – even if the net result is a more pronounced contrast between the peaks and valleys of demand.

3.5 Developing or modifying service delivery systems

Customer feedback is often instrumental in discovering new ways to revamp operations to make the service system more appealing. Refinements can play an important role in attracting new customers and increasing the satisfaction and patronage of existing customers.

Fundamental are customers' and prospective customers' expectations, i.e.: What do customers expect from the service system? Is speed, price, convenience, accuracy or friendly service most important? Or, are all of these attributes important to one or more valued customer groups? Is the service accessible? Could the service delivery process be more convenient or more customer-friendly? Could it be faster? Which steps in the process are most error-prone, and how can these steps be modified to minimize errors? Which steps involve customer interactions with technology and which with people, and what challenges or irritations are possible during these interactions? The answers to these questions may lead to decisions to grow the business by modifying the delivery system. For example, simply extending the company's operating hours may make it more accessible to more customers. To increase the number of customers served, it may be possible to reduce the amount of required customer contact. Prearranged contracts for services provided over an extended period may reduce the need for customers to contact the business every time they desire service. Technology may enable customers to bypass some or all human workers (e.g., self-serve electronic ordering). In some instances, it might be possible to serve customers without requiring their physical presence (e.g., online or telephone service), or with only limited customer exposure to the service facilities (e.g., drive-thru windows, home delivery). In other instances, customers might prefer performing all or part of the service themselves (e.g., a discount store offering shoppers a $10discount for unassembled children's bicycles, vs. a $10 price premium for assembled bicycles), so making selfservice options available represents another potential growth avenue.

3.6 Development of new services

Adding new services to the service mix may attract new customers and solidify relationships with existing customers. The firm's or brands' good reputation and the service provider's knowledge of the marketplace may make this growth alternative attractive.

In fact, new service development may be essential if customers' needs evolve beyond the company's existing mix of services, or if competitors are aggressively developing appealing new services. In the financial services arena, for example, young consumers' banking needs might be satisfied with a limited offering of a passbook savings account and a checking account, but they might turn elsewhere when their mix of financial service needs expands to include car loans, credit cards, IRAs, and mortgages.

New service development also makes sense when new services occupy underused facilities during periods of low demand. Because much of the facilities' costs are incurred regardless of usage, new services designed for slow periods can have a dramatic positive effect on profitability. That's why ski resorts reinvent themselves for campers, hikers and bird-watchers during the summer or why many fast-food restaurants have introduced breakfast menus.

On the downside, introducing new products can be risky for service businesses. In addition to the omnipresent possibility that the market may not be receptive to the new offerings, the service system may have to be redesigned to accommodate the new services and employees can become overwhelmed if they must deliver and promote too many services. As a result, the company's reputation is at stake with every new service introduction; customers exposed to poor service quality before glitches have been remedied may remember the negative experience long after the systemic glitches have been drummed out of the service delivery process.

Risk can be mitigated by systematizing the process of generating and screening ideas for new services, gauging customers' reactions at each stage, involving employees in the development and testing of new services, developing and reviewing service requirement standards, training employees, introducing new services during limited time periods or at a limited number of locations, at least initially, and by opting for new services that are not radically different from existing services.

3.7 Addition of new locations

Because many service businesses must be located near their customers and the number of customers each service facility can serve is usually limited, expansion into new geographic markets often means building additional facilities. These may be company-owned or franchise operations. Other possible location options include buying existing competitors' businesses, tapping into third-party online platforms, and in some cases, opening new distribution channels.

3.7.1 Company-owned locations

Company-owned locations can be more profitable than franchises and maintaining uniform standards across locations is easier to control. Such uniformity is critical to the company's reputation, so it's advisable to refine the service system and standards before opening new locations.

When operations vary too much from location to location, expenses and service quality fluctuate, customers become disenchanted, and ultimately, the service brands suffer.

The cost of company-owned expansion can be high, both in money and time. Expansion efforts can detract from existing operations. In particular, service to existing customers can suffer. Profitability can suffer too if locations are placed too close to one another and they eat into one another's sales. Yet, if locations are geographically distant, physically visiting each one can be quite time consuming, but doing so may be necessary to ensure that company-wide standards are being met.

3.7.2 Franchising

Franchising is a form of licensing by which the owner (franchisor) of the service business obtains distribution through affiliated dealers (franchisees). Today there are approximately 750,000 franchise outlets in the United States including service businesses such as Hardee's (fast foods), Western Sizzlin' (restaurants), Jazzercise (fitness centers), Fantastic Sams (hair care centers) and Maaco (auto painting), to name a few. Additional information about franchising may be obtained from the International Franchise Association (www.franchise.org 1900 K Street, NW, Suite 700, Washington, DC 20006).

Potentially, franchising enables service firms to grow much more quickly than company-owned outlets, because each franchisee typically makes a personal investment to cover all or part of the new location's start-up costs, thereby substantially reducing the franchisor's costs of expansion. Additional revenues are generated through sales royalties and agreements that require franchisees to purchase specified equipment and supplies directly from the franchisor. The rapid expansion preempts would-be competitors, and because franchisees are investing their own money, they tend to be motivated to make the business a success.

Franchisees sometimes try to act independently and deviate from established standards, especially if promised revenues are slow to materialize. If the franchise is successful, the franchisee may be controlled with the promise of additional franchises in the future. Otherwise, controlling franchisees with the threat of legal action may be less effective than the threat of firing managers at company-owned locations.

3.7.3 Buying the competition

Buying competitors not only assures rapid expansion, but also reduces the number of competitors in the marketplace – further accelerating increases in market share. Although typically more cash is required to pursue this growth alternative than to establish a franchise network, it is usually less expensive than building new locations from scratch and positive cash flows are likely to materialize much faster. The sellers may agree to or even prefer payment over an extended period, and outside lenders and investors may be more willing to provide funds to acquire businesses with proven track records.

Before buying a competitor, it's a good idea to ascertain why the competitor's business is for sale. Talk to the competitor, employees, customers and suppliers. Inspect the premises. Scrutinize the financial statements. Clarify precisely what is being sold – the firm's land and building? Equipment, supplies and other tangible assets? Customer information files? Trademarks? Accounts receivable? Accounts payable? Consider including a "no compete" clause in the purchase agreement, which might specify, for example, that the seller not open or work for another business in the same industry within 30 miles of the location being sold for at least 10 years.

3.7.4 Designing a proprietary marketing channel

This strategy may be a viable option for some service businesses. Airlines and hotels use travel agents as intermediaries. Banks install ATMs in convenience stores. Concert promoters use retail stores as ticket outlets. Insurance companies authorize independent agents to sell insurance policies. Because the service business provides the core service, the channel members essentially perform a marketing function. Still, the image, reputation and mistakes of the intermediaries can affect the service firm. For example, an irate airline passenger may blame the airline for a travel agent's error, so care should be taken when designing alternative distribution channels and selecting intermediaries.

3.8 Integration

Perhaps the most risky growth alternatives have to do with integration – either backward or forward integration. A service firm integrates backward by performing services previously subcontracted or by manufacturing its own equipment and supplies. A key benefit of backward integration is decreasing the organization's dependency on suppliers. A related benefit is the potential to improve service quality if existing suppliers don't measure up.

For providers of business services, forward integration entails entering the same business as customers, e.g., a telemarketing firm selling its own line of merchandise or a golf maintenance company building its own golf course. On the plus side, forward integration can help the business improve its service by becoming more sensitive to the challenges its customers face. On the downside, forward integration can involve competing directly against customers, thus potentially creating ill will among customers.

Both forward and backward integration can be risky because they often involve entering businesses that differ substantially from the original core business – differences that may not fully capitalize on the strengths of the original business or the accumulated knowledge and experience of the management team or seasoned workers.

4. Summary and concluding comments

This article provides an overview of numerous issues pertaining to growing a service business – benefits and risks of growth, somewhat unique service-related challenges of growth, and a plethora of growth-related initiatives and strategies. Rather than delving into discussions of the latest fads or tech tools – many of which can be quite relevant to growth – the article has focused, primarily, on the more enduring or perennial issues pertaining to growth that are likely to remain relevant for decades. Accordingly, successful growth is viewed more as a choice and a series of well-reasoned and well-executed growth plans than the consequence of hope and enthusiasm, or a haphazard rush to establish an Internet presence, in general (Scott, 2007), or open a plethora of social media accounts, in particular (Tuten and Solomon, 2018). Still, future research could systematically review the role that technological advances play in the growth of service firms.

Growing a service business can boost profitability, elevate morale and enhance the business's position in the marketplace, but growth brings risks. It almost always consumes additional money, time and energy that become losses if anticipated demand fails to materialize or if competitors mount an effective response. Also, the quasi-unique characteristics of services – in particular, intangibility and the simultaneous production and consumption of services – pose additional growth challenges for service providers. Further, the pursuit of growth can be distracting and thus lead to the neglect of current operations and existing customers – potentially jeopardizing service quality and customer satisfaction. Indeed, knowing that overly ambitious growth plans can be dangerous should prompt service organizations to approach the growth decision with as much caution as zeal.

Once the growth decision is made, several alternatives are available. Not all options are as tangible or as risky as construction of new facilities or investing in expensive equipment. For example, the growth avenue one might travel first is the scrutiny and management of the business's existing financial affairs. Improved financial management can squeeze additional profits from operations and strengthen the firm's ability to pursue more cashconsuming alternatives at a later date. Other growth opportunities include increasing the purchase volume and frequency among existing customers, advertising to attract new customers, expanding the use of existing facilities, developing or modifying new service delivery systems, adding new locations, and employing forward or backward integration strategies. Many of these growth strategies are interrelated and can be pursued simultaneously.

5. References

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