

How SMEs can avoid costly mistakes

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As Uganda's economy recovers and grows, many Small and Medium Enterprises (SMEs) are eyeing expansion—opening new branches, acquiring larger premises, or entering new districts. While growth is exciting, premature or poorly planned expansion has ruined many promising businesses. The difference between sustainable success and costly failure often lies in timing, preparation, and a clear-eyed view of the risks.

Expansion is appropriate when several conditions are firmly in place.

First, there must be consistent, sustainable demand that the current operation cannot meet. Long waiting times, repeated customer requests for additional locations, or lost sales because stock runs out are strong signals. If your Kampala outlet is turning away customers while demand in Jinja or Gulu goes unmet, that is evidence worth listening to.

Second, your business model must be proven and replicable. If systems, customer acquisition strategies, and daily operations work predictably in your existing location, you can reasonably expect to duplicate them elsewhere. Without this foundation, expansion be-



Customers check clothes at one of the shops in Kampala on March 3, 2026 after KCCA sent away vendors from the streets. PHOTO/MICHAEL KAKUMIRIZI

comes an expensive experiment.

Third, financial health is non-negotiable. SMEs should have healthy cash reserves—ideally covering 6–12 months of operating expenses—plus positive cash flow and access to funding that does not endanger current operations. In Uganda, where bank loans can be costly and repayment terms rigid, relying solely on debt for expansion is risky.

Market research is equally critical. Do not assume demand in Mbale mirrors that in Mbarara. Conduct proper studies—competitor analysis, foot traffic counts, or small pilot tests—to confirm opportunity before committing. Oper-

ational readiness matters too: scalable supply chains, IT systems, and a strong management team that can oversee multiple sites without dropping standards.

Finally, timing and customer pull should align. If existing customers are already asking for a branch nearer to them, or if economic conditions (lower rent, favourable policy changes) are supportive, the moment may be right.

Strong profits do not mean “expand now”

Many entrepreneurs believe that rising revenue and healthy profits are a

green light for immediate expansion. They are necessary, but not sufficient.

A temporary surge, perhaps from a government contract or seasonal spike does not justify permanent new overheads. Profits must be sustainable and trending upward for at least 12–24 months. Equally important is cash flow: paper profits mean little if cash is tied up in inventory or receivables. Many businesses collapse during expansion because they run out of liquid funds while waiting for the new branch to generate revenue.

Sometimes strong profits are better used to strengthen the existing operation clearing debts, building reserves, or investing in marketing rather than risking everything on a second location. Less capital-intensive growth options such as e-commerce, partnerships, franchising, or new product lines often deliver better returns with lower risk.

Risks every SME must anticipate

Expansion introduces new vulnerabilities. The most common pitfalls include:

Financial overextension: Fit-outs, deposits, new stock, and staffing eat cash faster than projected, especially if the new site takes longer to reach break-even. Diluted focus and quality: Management attention splits, standards slip, and customers notice.

Higher fixed costs: New rent and salaries raise the break-even point dramatically, reducing flexibility if the economy slows. **Market misjudgement:** Local competition, different customer preferences, or lower spending power can render assumptions from the original location useless. **Supply chain and staffing challenges:** Coordinating deliveries across districts and finding reliable staff in new areas often exposes hidden weaknesses. **Cannibalisation:** The new branch may simply pull customers from the original one instead of growing the overall pie.

In Uganda, regulatory differences between districts, varying tax enforcement, and occasional infrastructure challenges can add unforeseen delays and costs. SMEs can grow sustainably by treating expansion as a disciplined, data-driven decision rather than an emotional leap. Validate demand, secure genuine financial runway, stress-test your systems, and consider lower-risk growth alternatives first. When you do expand, move incrementally—start with a small satellite outlet or shared space rather than a full second branch.

Growth is the goal, but survival is the priority. By expanding only when truly ready and remaining alert to the risks, Uganda's entrepreneurs can build lasting, multi-location businesses that contribute meaningfully to jobs and economic development across the country.

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