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The Next Stage of Corporate Growth

Tips for Scaling Your Business

Profitable growth is the goal of all business owners and their investors.

When a company surpasses the startup phase, its principals have a lot to celebrate. They've successfully launched the enterprise, worked hard to build a team, attracted investors, developed and perfected the product or service, then secured customers and generated sales. It's something to be proud of – the company has come a long way towards building a solid future.

What's next?

The business is ready for the next stage – movement into the growth phase. While the celebrations are certainly deserved, the serious work is about to begin.

From Lean Startup to Growth – Scaling Your Business

Transitioning from the *startup phase* to the *growth phase* requires *scaling the business.*

It's a dramatic shift in both thinking about strategy and managing the business.

Successful owners use a solid strategy to help launch the company and grow as a startup. But *scaling* is something different. Scaling is more than just responding to market or demands. Scaling requires a long-term view of where a firm is headed. Managers must develop the financing, product and human resource strategies that will take a company from startup to growth. It's not about responding to the immediate needs, but thoughtfully preparing for the demands of growth and setting up the optimal arrangement to make that growth plan a reality.

As business consultants, we consider each client's challenges within the context of their company's growth stage. For example, the solutions we recommend for a 20-person Internet firm will be different than the ones we recommend for a 30-year-old, 100 person manufacturing company. Nevertheless, there are some common Best Practices we use to help make a successful shift to the growth phase.

Moving into Growth Phase – Areas of Focus

Moving into the growth phase requires a business leader to set goals and outline a strategic framework in some key areas.

- Product Strategy
- Financial Strategy
- Human Resources Strategy
- Organizational Structure and Decision-Making Process

Of course, change is never easy. There will be growing pains, particularly from the perspective of owners, managers and team members that have built the company to its current status. Too many leaders have hobbled their company's growth by holding on to the way they did things when the firm was small, flexible and the manager had greater control.

Product Strategy

When it comes to the product strategy, a scaling business has reached a transition point.

Should the company stay focused on the current market strategy, or should it broaden the product footprint by aiming to expand their sales with new products?

To answer this question, it is important to remember that every situation is unique and dependent on the attributes of the company, industry and the market.

Nevertheless, there are some best practices that can help. Specifically, this assessment hinges on a critical question:

Has the company penetrated its Total Available Market (TAM)?

In some cases, the company will determine that they have not maximized their TAM and there is room to grow to meet the company's and the investor's expectations. In those cases, it's a prudent strategy to stay focused and continue working toward that goal.

There are other scenarios. In many cases, owners get drawn into ambitious efforts to expand their footprint by developing new product offerings, independently or through acquisition. There are pros and cons to both approaches.

As mentioned above, the right approach depends on the circumstances. However, it is often a best practice to pursue "natural adjacencies" – modest extensions that augment the current products or services. These are offerings that build on your current product footprint.

Ideally, a strategy of pursuing natural adjacencies will:

- Leverage existing customers by meeting their needs more broadly
- Expand existing channels by offering more naturally related products
- Extending the current product footprint

This approach keeps your product strategy focused, but gives an extra boost toward broadening market share.

Human Capital Strategy

A company's human capital and decision-making structures are the two areas where changes will be most immediately felt. Both aspects have a direct impact on the day-to-day functioning of the team.

Startups generally have a unique, dynamic team, often hand-picked by the founder(s) – individuals who have successfully trekked through uncharted territory and set the way forward. However, the startup team may not necessarily be the team that helps you scale. It's time to think about what's next.

You'll need experienced hands that have done this before. Most businesses will need to hire seasoned project leaders to take productivity to the next level, as well as product and market experts who can expand the market presence and increase sales.

Owners may be torn about this shift. In the startup stage, owners were personally involved with each hire. They found hiring to be an exciting process -- having personally selected people for particular positions. The owner likely also had a fundamental role mentoring and guiding employees.

However, as the company grows, this changes. Hiring is done faster and the owner is less involved personally.

Financial Strategy

Scaling your business requires accessing additional capital. Most businesses went through this process in their earlier history. Now it's time to undertake it once again. The well-known sources of business financing apply here, including venture capital (either "angel investors" or institutionalized venture capital), bank debt financing, government small business programs and even going public.

Regardless of the type of financing you seek, the key point is that having a properly prepared business plan will significantly increase the likelihood of securing the financing. Owners should be prepared to provide accurate disclosures of their current cash flow and profitability, levels of working capital, debt-to-equity ratios, margins and their own personal net worth.

Organizational Structure and Decision-Making Process

The organizational structure and its decision-making processes should also scale to accommodate greater capacity. Whereas the founder was intimately involved in almost every aspect of the business, much of that must now be delegated.

Furthermore, in the startup phase, the various functions were generally performed by individuals. In the growth phase, those functions will be executed by departments, and workflow will move between these various departments.

Possible Growing Pains

From the perspective of the owners and managers, there will be growing pains. After all, each person has their own way of doing things in a flexible, informal environment. As the company grows, this changes.

Owners may struggle to delegate

When scaling their business, owners and managers must have a 3-to-5 year vision for the business's future. This is a real switch from past approach. Most small business owners are so involved in the day-to-day running of the business that they don't think about the longer-term vision.

New hires will seem less favorable than the original team

The owners handpicked their original team and are more familiar with them. Relationships have been forged and there is often a sense of camaraderie.

Productive employees will change

Owners may find that their highest performers are no longer being productive, but are instead putting out fires. They should stay focused.

Workflow process will seem slower

What once was a small, inter-team collaboration now crosses departments and teams. As a leader, you'll spend more time refereeing the disputes between departments and eliminating bottlenecks.

Original team members may resist change

The founding team is accustomed to the nimbleness of the startup environment and will often resist change.

Miller Bernstein Can Help

Scaling your business is a big transition point. You may want to hire a professional. An outside, expert perspective is always valuable – drawing insights from what others have done, identifying opportunities you would otherwise not have seen, or just gaining the reassurance that what you are doing is right.

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