

Stages of Company Growth



How to Grow Without Growing Pains

An eBook from **CEO BOOT CAMP** by John Seiffer

Do you run a company
with 10 to 100 employees?

Are you frustrated with how it's growing?

Bigger is not just more. It's different. By
learning about the different stages you can
become a better leader.

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Decipher Publications

How I Learned What I'm Sharing with You

I started a company in Texas and ran it from Connecticut. Twenty two years later it's still going strong. The physical distance forced me to approach the company in a systematic way. It turns out that those systems are the key to growing any company. And it's a real company with employees and inventory – not a consulting practice (though I have one of those too).

I read so you don't have to. I actually like to read business books – even though most have too much fluff. My goal in this series of eBooks is to give you “*Just In Time Learning*”. They are designed to be read in 20 minutes or less and to give you some practical tips you can apply right away – each on a very specific topic.

If you run a company with 10 to 100 employees – you're on your own. At least that's how I felt when I started my first company in 1979. I'm putting together these eBooks to share what I wish someone had shared with me back then – things I've been sharing directly with my clients since 1994. I hope to reach those of you through eBooks that I don't have the time to help individually.

Being an entrepreneur has been an exciting, sometimes terrifying, but overall satisfying and very lucrative adventure for me. I hope these eBooks will help you have as much fun and profit in your journey as I've had in mine.

Thanks for giving them a try. And **please tell me what you think.** You can find me on my website and blog at www.CEOBootCamp.com or email anytime john@CEOBootCamp.com.

Regards,
John Seiffer



Companies grow through several distinct stages:

Pre-Startup

Startup

Early Growth

Middle Growth

Scale Up

Exit or Succession

The age of a company is no indication of what stage it's at. That is determined by the quality of the processes, management skills, company culture, and number of employees.

A savvy CEO is aware of the current stage of the company and is laying the foundation of the next phase to lessen growing pains. Let's look at each stage in more detail.

Companies, like babies are conceived in passion.

– Ichak Adizes

Pre-Startup This stage runs on passion and potential, because the company consists of very little else. One reason so many startups fail is they don't get this stage right. They think the purpose of this stage is to build a product and start selling as quickly as possible. It's not.

The purpose of this stage is to discover a scalable business model.

The techniques to do this effectively and without waste have been well documented by Steve Blank, Eric Ries and others and given names like Customer Development and Lean Startup.

What hasn't been as well documented is how to know when you're done with this stage. Here's how you know: when you have data to validate the following:

Problem - Market Fit. You have a clear definition of your target market and what problem they care enough to pay money to solve. And you have evidence from the real world (outside your building) that validates your hypotheses in this area.

Product - Market Fit. You have a clear understanding of what solution to that problem your customers want to pay for, and what features matter to them.

Repeatable Sales Process. You know the different stages of the buyer's journey for your customer base and have clear procedures for what to do differently at each one.

Pre-Startup Ends with a scalable business model.

In other words, pre-startup ends when you can plug the right numbers into the parts of your business model formula: **$(LTV-CA)*N = \$\$$** .

In English this means the **Life Time Value** of your customer minus the **Cost of Acquisition** of that customer should be a positive number. Then you have the right **N (number)** of customers to maximize your capacity to both serve and sell.

What should you do if you're at the Pre-Startup Stage?

1. Get clear on your goals.
2. Document your hypotheses using a tool like the business model canvas, the value proposition canvas or some other tool.
3. Use Customer Development techniques to test your hypotheses and build a model.
4. If you're following an existing model, learn how it works in other companies. Also learn what's different about your company and how that affects the numbers in the model.

When you have data for a repeatable business model you are out of Pre-Startup.

For some companies, this is a huge discovery process - they are inventing new business models. Other companies are conceived to follow a business model that's already known, so their process involves learning and researching what others have done successfully.

Sales is Vanity. Profit is Sanity. Cash is King!

Startup

You'll find the term "startup" used in any number of ways. Some people think it only applies to tech companies. Some only to companies that have huge exit potential. I think our vocabulary hasn't caught up to the newest research about how early stage companies differ from scale-up companies.

Even after you've discovered a business model, you're still in startup till you're cash flow positive. The phrase "Cash Flow Positive" means you have enough revenue from customers (not outside investors) to sustain operations while paying everyone who works there market rates. There are a couple of ramifications of this concept.

Companies often need outside money to grow. That's different from needing money to cover operating expenses.

Sometimes it takes a bit of thought to figure out which expenses contribute to growth and which to maintaining operations at your current size.

Startup is a time of needing cash.

A company that's at startup stage is vulnerable to many cash flow issues that have causes beyond their control. Companies that have grown beyond that stage usually have more flexibility to dial back growth when cash is tight and have a cushion for survival.

At this stage cash flow is the primary concern. You'll sacrifice profitability to get cash in the door quickly. You try to have as many expenses as possible be variable costs and as few as possible fixed costs, even if this means giving up some economies of scale.

You've graduated from startup stage when you've become cash flow positive and have that cushion to survive.

Success in these organizations depends on the competence and heroics of the people in the organization and not on the use of proven processes.

Early Growth

Generally from 5 – 15 employees (but numbers vary widely by industry) this stage is characterized by lots of action. There are few procedures and corporate culture feels like us against the world and we've got each other's backs.

Companies at this stage have employees doing different jobs. But usually they lack formal departments or managers of those departments. Most employees wear several hats and do what's needed at the moment. This is not always a bad thing.

In fact it's necessary for this reason: Companies at every stage need all the functions performed by big companies. But early growth companies can't afford a full time position for many functions (and often don't need one). That's why employees have to wear many hats.

Early Growth companies have a lot of moving parts.

One other characteristic of these companies is they are frugal. This is a benefit now, but can become a liability very soon.

What's missing is early growth companies don't have time to plan for the future. They tend to manage from crisis to crisis thinking they don't have time to be strategic. As CEO you're keeping everything in your head.

And that often becomes a barrier that prevents growth. A savvy CEO at this stage starts to document work flows, job expectations, and unique company wisdom.

This stage ends when top leadership can no longer keep everything in their heads.

Middle Growth is the Young Adulthood of Company Development.

Middle Growth

Generally from 15-50 employees. This is an awkward time for a company, and a critical stage for a CEO. For the company to grow you need to stop acting like a one-man band, and more like an orchestra conductor. But with a difference. An orchestra conductor makes absolutely none of the sound him or herself, but is responsible for all of it. Companies of this size rarely need a full-time CEO. That means you'll spend some time playing an instrument as well as conducting.

What's awkward is that to grow you need to start adding infrastructure and support. People need training, you may need HR or reporting functions you didn't need before. You'll probably need layers of managers you never had. This adds a layer of cost that you never had before. So it may affect your pricing structure and even the types of customers you are able to serve.

Procedures start to become necessary. Often there's a cultural shift when old timers resent the fact that newbies don't know the history of how things are done. It's time to focus on company culture and laying a foundation for different levels of management.

Leadership Matures in Middle Growth Companies.

Often the work of leadership and management start to separate. People need both but now they aren't always done by the same individuals.

Before you can start spending more CEO time, you need to replace yourself in the other things you do. This is actually true for everyone - to be promoted you need to be replaced. But especially as CEO you'll start to focus more on strategic decisions.

The middle growth stage ends when you start have all three different levels of management covered (you may have more management levels but there are only three types). And you'll start to hire directors (not just managers) as you move into the scale up stage.

Can you be away for a week without email? A month?

Scale Up

As your firm grows beyond 50 employees the CEO spends less time dealing with day to day situations and more time planning for the future. That means you should be spending less time on things that are urgent and more time on what's important but not urgent - quadrant 2 of the Eisenhower Matrix. CEOs and directors of scale up companies have the luxury to spend more time on strategic decisions as the tactical work is handed off to capable others.

That means you need systems in place to deal with the ongoing operations and maintain the standards that have gotten your company where it is. In other words, the wisdom and experience that you've developed can't just live in people's heads. It has to be transferred throughout the company by processes and procedures.

But this must be done in a way that doesn't burden people with needless bureaucracy, and doesn't prevent new ideas from coming up through the ranks to be incorporated into those systems.

Scale Up Companies Capture Wisdom in Procedures.

What often hinders companies at this stage is they think they don't have time to systemize and develop accurate procedures. It's true they don't. But you have to do it anyway. That's the real work of positioning a company for growth.

You need processes for:

- Sales & Sales Management
- Production & Quality Control
- Hiring, Training & Promotions
- Management & Leadership Development
- Financial Reporting & Compliance

But what about your job? As CEO you'll now have time to focus on the more strategic aspects of growing the company. You'll be spending time on things like:

- Looking toward new products and new markets
- Deepening relationships within your industry
- Improving relationships with vendors
- Possibly becoming a thought leader

The Scale up Stage ends with the sale of your company or succession to others.

You're going to exit your company someday. No one lives forever. Will it be on your terms or another's?

Exit or Succession

Unlike the other stages, exiting your company is inevitable. But ironically, this stage is often the least anticipated, and the least planned for. Even with companies that have taken outside investment from investors who are seeking an exit from day one, the planning for that exit is often done too late. With closely held or family owned firms, the planning can be even more problematic – often non-existent.

If you've done a decent job defining your life goals, and how the company can support those goals then this will be a little easier. I call this describing what you want **FROM** your company as opposed to what you want **FOR** your company.

If your goal is to sell the company, start early to learn who the strategic buyers are and what size and scale they're attracted to. If your goal is succession be sure you've replicated everything you do well and taken yourself out of the mix.

This doesn't mean the end of the company's growth. Just that now the burden is on someone else.

What stage is your company in?

How are you preparing for the next one?

Pre-Startup: Discover a scalable business model.

Startup: Become cash flow positive.

Early Growth: Get stuff done. Learn what works.

Middle Growth: Start to systemize and repeat what works. Also build layers of support for growth.

Scale Up: Focus on strategic activities and grow.

Exit or Succession: Find a buyer or replicate your skills and replace yourself.

As I said at the start, companies grow through distinct stages. A growing company is not just bigger, but has different skills, resources, and needs. An infant, a toddler, a teenager and a young adult all need food, clothing, shelter, love and support. But how you meet those needs is different at every stage. So too, a company's needs change as it grows.

Want More?

I've spent the last 20 years helping companies grow both through my consulting practice and now through eBooks and resources online. eBooks and more are available at www.CEOBootCamp.com/Store

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