

Five Simple Rules for Growing Companies



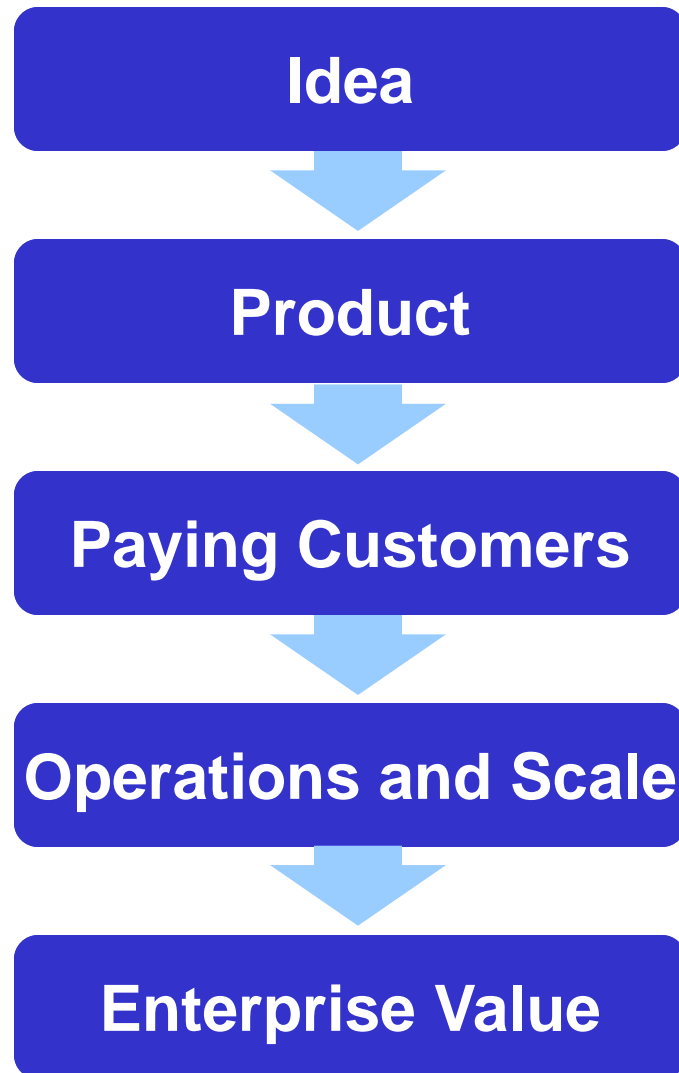
TAG Business Basics
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Presented by Bill Nussey
CEO, Silverpop

The Five Rules For Growing Companies

- 1. Understand the stages of a start up**
- 2. Stay focused**
- 3. Get the right people for each stage**
- 4. Be one step ahead operationally**
- 5. Growth changes culture, don't fight it**

The Stages of a Start Up Company

Five Stages of a Start Up



The basic value proposition – what is that you will offer that people will pay for?

Make the idea concrete and real: code the software, define the service, etc.

Prove that the product is valuable to others outside founders and investors.

Transform from R&D to a business. Ouch.

Growth and profits creates equity value and cash flow for the business owners.

The Stages of a Start Up's Growth

Getting through each stage is a monumental event – you increasingly distinguish yourself from all the other folks trying the same thing. It is truly something to be celebrated.

However, with each stage comes massive change in almost every aspect of the company. What used to work well no longer works at all. This is where most start ups struggle and sometimes die.

Most often these changes are inevitable but many entrepreneurs fight them tooth and nail. “If it got us this far, why change now?”

Stay Focused

Rule 1: Stay Focused

Do one thing and do it well

- ▶ Don't boil the ocean
- ▶ Don't grab the low hanging fruit on the tree next door
- ▶ Slow and steady (and focused) wins the race
- ▶ Great strategy isn't what you chose to do but what you chose not to do

The Focus Changes at Each Stage

Idea	Test your ideas ruthlessly with as many people as you can find. Do research. Do mock ups. Always look for similar companies (there are no new ideas).
Product	Hire great product people (e.g. engineers) and give them the direction, the time and the resources to be inspired. You usually only get one shot at this.
Paying Customers	Marketing and sales. Transforming your idea into something that will get a customer to take a risk on. Get those first “light house” accounts.
Operations and Scale	Efforts shift from products to business. Processes, hiring, finance all become crucial.
Enterprise Value	New products, profits, growth. The company is now about creating value for those that took the original risks on it.

Get the Right People

Question: What is the most common killer of young companies?

Answer: Egos

**If you only remember one thing
today, remember this:**

**Each stage of a young company
requires a dramatically different set
of employee skills.**

Ignore this at your peril.

Founders

Founding a company

- ▶ **Imagine having the skill to look conventional wisdom in the eye and spit on it.**
- ▶ **Imagine if you could challenge reality so effectively that you actually change the way things are looked at and done**
- ▶ **Imagine being able to put your entire career (and often your livelihood) at risk for an idea that everyone says is crazy**
- ▶ **Imagine having to be told “NO” 98% of the time as you attempt to find one or two people who believe**

Everything here describes the amazing skills of great company founders

Operators

Running a company

- ▶ **Imagine if could read a P&L as easily as most people read a magazine**
- ▶ **Imagine being able to see the level of talent and intelligence in a potential employee during the first hand shake**
- ▶ **Imagine having the experience and judgment to know with certainty when to launch products, how much money to raise and how to structure internal processes and organizations**
- ▶ **Imagine having a resume that allows you to attract the best and brightest to be on your team**

Everything here describes the amazing skills of great operating executive

Founders and Operators

Anyone notice a difference here?

- ▶ Visionaries and founders see how to change reality
- ▶ Operators see reality as it is

Why is it that we all expect founders to grow into operators and act surprised when they fail to do it well?

Moral: leadership changes are healthy when done well.

Different Skills for Different Stages

Idea	Visionary, rule breaker, passionate, tenacious <i>and often</i> erratic and emotional. Think sales person meets inventor.
Product	Inspirational leadership – convince those souls brave enough to share the ride to create something that has never existed. Product/tech depth. Internally focused.
Paying Customers	Sales and marketing. Strong process orientation that drives predictability. Great in front of customers with a real understanding of how they work.
Operations and Scale	100-120 people and everything changes. The need for real management becomes paramount because all the old communications approaches will fail.
Enterprise Value	Statesman. Externally focused. Constantly slaying sacred cows. Strong exec team runs the business and provides much internal leadership.

Be one step ahead operationally

Operational Process Changes, Part 1

Hiring

- ▶ Remember A players hire A players and B players hire C players – “Just cause you hired them yourself don’t mean they can hire someone like themselves”
- ▶ As you become successful, you will shift from trying to find anyone to hire to intelligently turning away those that don’t necessarily fit your company’s stage

Communications

- ▶ In small companies, communications happen without effort -- 15 people know everything automatically
- ▶ Over time, functional roles start to become more distributed and communications barriers get erected
- ▶ As you grow, communications need to be explicit and a greater and great percentage of the company’s energy will go into it

Operational Process Changes, Part 2

Finance

- ▶ At some point, the CEO/CFO can't be involved in every financial decision. Wow, that is hard.
- ▶ The more history you have, the better you should be at predicting revenues and costs. Unfortunately, each improvement usually requires a big change from the previous process.

Customers and Products

- ▶ In the early days, process is often secondary to meeting the needs of each new customer
- ▶ As you get larger, process becomes critical to ensure that your existing customers get what they need and that they are never surprised.

Bottom Line

- ▶ Small companies often benefit from little process
- ▶ Larger companies often die from lack of it

Growth Changes Culture, Don't Fight It

Growth Changes Culture

“The company has totally changed. All the early people have left. Employees don’t seem to matter anymore to the executives. It’s almost like the company lost its soul and its vision.”

Is this a bad thing?

☐

Yes

☐

No

Answer...



If you want to reach the final level of company growth and create real shareholder value, then that complaint is inevitable.

If you don't have outside investors and you want to trade-off your ultimate value for a great lifestyle company, then the answer is "Yes" – those changes are bad.

Note: the better you are at running companies, the more you can avoid the growth trade-off's highlighted on the previous slide.

Your primary stakeholders change

Early Days – ideas, products and first customers

- ▶ You worship employees – anyone willing to share your risk is like a brother/sister

Operations and Scale

- ▶ Customers become #1
- ▶ Employees are judged less on their commitment, effort and generalist skill sets and more about delivering results in their narrower functional roles

Enterprise Value

- ▶ If you wonder which stakeholders are most important to larger companies, just read their SEC filings
- ▶ Even large private companies eventually shift towards their investors and owners as their primary stakeholders. This can be a rude awakening for idealistic employees (and founders)

Free Bonus: The Sixth Stage

The Sixth Level

To me, the great achievement in business is to build a business that outlasts your involvement.

► **Think Jack Welch vs. Steve Case**

Read Jim Collins, *Built To Last*

Sustained shareholder growth over decades... now that's something to shoot for...

Thank You

