



Business Success Tools LLC

Spotlighting Performance, Change and Growth

Pam@BusinessSuccessTools.Biz
www.BusinessSuccessTools.Biz

tel: 860.643.4744 fax: 860.533.2367 15 Country Club Drive Manchester, CT 06040

How Evolved Is Your Business? (The Seven Stages of a Business)

By Pam Butterfield

Is your “baby” at risk? Like new parents totally absorbed in caring for their infants, business owners often become so wrapped up in planning and launching their “babies,” they usually fail to *anticipate* key challenges their businesses will face down the road. This failure to anticipate—and to respond both personally and professionally—can spell the difference between success and disaster in the future.

Furthermore, businesses grow and die in similar ways. Many evolve along a continuum of seven stages, each with unique characteristics: founder’s mind-sets, management practices, planning mechanisms, financial considerations, and product/ services considerations. The key to success is to tailor these characteristics to the unique demands posed by each stage. For example, if management practices remain frozen in a prior phase, bad things can happen. However, if management remains flexible and open to change, success is not assured, but is more likely.

Let’s take a look at the seven stages and the characteristics and key challenges posed by each, keeping in mind that not all businesses evolve and experience all seven stages. In fact, the final stage can happen at any point along the continuum.

Stage One: Envisioning the Dream

This stage is all about dreams. Two types of people start a business: the “excited entrepreneur” who has a passion for getting into business or the “reticent entrepreneur” who is establishing a business for defensive reasons (tired of current job, getting downsized, etc.). In both cases, each entrepreneur might have a special skill or passion, but probably don’t have much, if any, experience running a business.

Founder's mindset: The new entrepreneur has a surplus of excitement and creative energy. But this energy usually can't be maintained for long. Consequently, the potential for personal burnout is high. And employees are also at risk, since owners at this stage tend to place high demands on their people.

Management practices: The founder of the business usually handles all management functions. In family-run businesses, they might be split among various family members. This can become a potential source of conflict, tension, and stress.

Planning mechanisms: Usually, startups do little, if any, formal planning, unless they are seeking a business loan. And then, planning is limited to the minimum needed to produce a business plan.

Financial considerations: The owner will typically start the business using personal sources of cash (home mortgage, personal loan) or loans from private investors. This latter strategy increases demands placed on the owners. Plus, banks are not always receptive to business loan applications from start-up companies.

Products and services: Products and services are typically launched on the basis of informal market research ("My Mom loves it!") This leads to over-optimism in the product's actual chances. Plus, failure to reach out to people outside the immediate circle of friends and family can cut the company off from helpful sources of information and advice.

Key challenges at the boundary: To move into the next phase, business owners must develop a business plan—defining its products, markets, distribution channels, etc. and a learning plan: what the business owner must know in order to run the business. The owner must also develop sufficient sources of funding to cover costs until sales begin to grow.

Stage Two: Breathing Life into the Business

The "Open Doors" phase is about relentlessly working on the myriad tasks needed to launch a company. But it is not typically about the fine points of running a business. Those details are usually left for much later.

Founder's mindset: The founder usually anticipates making a lot of money and having plenty of paying customers once the business launches. This may or may not come to pass. Plus, the founder has so much on his or her plate; it's hard to focus on any one or several issues.

Management practices: The founder continues to handle all management functions. In some cases, the founder may share these responsibilities with a small team, usually comprised of family and/or friends. Whatever management practices develop in this stage is typically ill defined. And management team members may actually have overlapping accountabilities.

Planning mechanisms: Planning either doesn't happen or happens very informally.

Financial considerations: The Company has an acute need for operating cash, but often underestimates the amount and timing of future cash flow. And management tends to be focused on so many things that it may not notice the firm is running out of cash.

Products and services: After the initial launch stage, products and services tend to become more refined. They may be bundled or packaged together. Management may experiment with pricing. Feedback from early customers may suggest product/service updates, but management may resist changing their "creations."

Key challenges at the boundary: To move into the next phase, business owners must prepare themselves to handle the initial rush of new business. Does the firm have the human, manufacturing, and people resources in place to fulfill their initial orders?

Stage Three: Making products, creating customers

The "Products, Customers" phase is about increasing market awareness and sales. Early efforts to promote the product begin to pay off with strong sales growth. But will the company be able to meet marketplace demand?

Founder's mindset: Work now comes fast and furious, with attendant high levels of stress and deteriorating personal relationships. Compounding the problem is the founder's tendency to "do it all."

Management practices: Management systems remain highly informal. For example, typically there are few specific and documented policies for HR, marketing, accounting, etc. The firm's "knowledge" tends to reside in the heads of one or several people, which limits the degree to which it can be transferred to new employees. The owner also has difficulty "designing the work" and then "delegating the work" to others. He or she tends to want to "do the work."

Planning mechanisms: The founder often pushes forward with his or her original ideas, plans, and actions, with little or no analysis or formal planning. These actions may or may not be appropriate for the future.

Financial considerations: Cash flow remains a key issue in this stage. Strong sales do not always equal high profitability, and the founder may pursue short-term revenues that ultimately hamper long-term profitability.

Products and services: The product/service portfolio is in good shape. With more customers buying the product, the company now has a huge opportunity to capture reliable feedback from customers in order to further refine products and services. But this opportunity is often ignored.

Key challenges at the boundary:

To move into the next phase, business owners must work hard to grow the business beyond their own ideas and personalities. It must become an entity unto itself. And, the business must come to rest on a strong and solid foundation.

Stage Four: Building Structures that Last

The “Structures” phase is about creating a business that goes well beyond the personality of the founder.

Founder’s mindset: The “adrenaline rush” fades as the business settles into a groove. This may take a toll on owners who are addicted to the pace of earlier phases. In fact, the owner’s attention may start to wander, in search of new challenges. The founder may also resist the company’s need for institutionalized management systems and formalized teams.

Management practices: Companies by this time may have more formalized roles and responsibilities, with key tasks assigned to operating managers and employees. Teams are also taking shape nicely, but they may or may not have strong internal dynamics.

Planning mechanisms: At this stage, companies often adopt formal business planning, along with processes for tracking progress, comparing actual performance against projected performance, and revising plans when variances occur.

Financial considerations: Growing a business is expensive and thus management tries to balance the rate of growth with the supply of cash. Outsourcing manufacturing or service delivery may become an option at this stage.

Products and services: Companies now become more sophisticated about market research. They conduct formal research to identify new products and markets, extend current offerings, develop new delivery channels, analyze the competition, form strategic alliances, and retire current aspects of the business that no longer support success.

Key challenges at the boundary:

To move into the next phase, business owners must look upward and outward. They must look beyond their own four walls at what is happening with their customers, competition, and industry. Today's strengths and success does not ensure tomorrow's viability.

Stage Five: Unleashing the Machine

In this phase, the business becomes a high-performance machine, with growing sales and profits.

Founder's mindset: By this point, the business has largely "outgrown" the founder. As a result, the founder may be unsettled due to his or her diminishing influence and may begin to look for new ventures. The founder may also inhibit necessary changes in the business.

Management practices: Management roles and structures are clearly defined and the management team runs the day-to-day business.

Planning mechanisms: Planning is well developed. The focus now often shifts to tracking and identifying trends that indicate downward performance in the future.

Financial considerations: Managing and controlling costs remains essential. At this stage, reducing costs to maintain profits often becomes essential.

Products and services: Staying close to the existing customer base is essential. Strategies for selling more to existing customers become more important.

Key challenges at the boundary: To move to the next phase, there must be a fine balance between knowing when to invest in growth opportunities and knowing when to hold. The business owner's understanding of what he or she can control—and what he or she cannot control—is also essential.

Stage Six: Scanning the Horizon

The "Horizon" phase is about the original founder or founders wanting to tackle new challenges and/or cash out their investment.

Founder's mindset: Fatigue, boredom, and restlessness often afflict the founder(s) in this stage.

Management practices: Management systems are fully developed by this point. But the founder's attention turns to selling the business. In this regard, the founder must work with appropriate legal and financial resources to make good decisions. If the founder does leave, the company must address issues relating to leadership succession.

Planning mechanisms: Given the founder's interest in new horizons, the firm should develop a succession plan *before* the founder begins to transition out of the business. A transition team (CPA, financial planner, attorney, coach, possibly consultants) should also be formed.

Financial considerations: Detailed financial information is essential and must be clearly understood in order to support a change in ownership.

Products and services: The product line is mature and performing well. But now the issue becomes will a potential buyer view these products as marketable? And can they continue to be sold without the founder's involvement?

Key challenges at the boundary: To move to the next phase, it's crucial to be brutally honest about the value of one's "baby" to someone else, especially if much of the business's success depends on the founder's involvement.

Stage Seven: Envisioning the End

"The End" occurs when the founder begins dreaming about just closing the business instead of selling it.

Founder's mindset: Characterized by extreme fatigue, boredom, and burnout. The founder has simply had enough and may be lacking the physical, mental or financial resources to affect a business sale.

Management practices: The management practices will vary, depending upon where the business is in its lifecycle.

Planning mechanisms: Again, the maturity and effectiveness of the planning mechanisms will vary, depending upon where the business is in its lifecycle.

Financial considerations: If a business owner is considering closing his or her business, it is essential to understand the potential profits and losses on the table at the time of sale.

Products and services: The product/service lineup may have withered due to inattention and neglect. Sales may have suffered, as a result.

Key challenges at the boundary: N.A.

Conclusion:

As you can see, businesses are like people. They are born, they live and at some point, they die. It is essential, as a business owner, to know what you can expect at each stage. By knowing and planning for these expected challenges, you can reduce wasted time and resources fighting fires, by being more proactive.

In today's climate of constant change, being proactive will increase the likelihood of your business's success today and viability tomorrow.

For more information, or to discuss your needs or those of your organization, please feel free to call us at: (860) 643-4744 or visit us at: www.BusinessSuccessTools.Biz