THE BUSINESS OWNER'S JOURNEY

Part 3: Declining or Plateaued Growth

BlueSky
BUSINESS RESOURCES

Up until now, the journey has been pretty amazing. Sure, there were times in the early stage where resources were tight and you and your team were working insane hours, but those are times you consider fondly now as the moments that made you. Then you hit rapid growth and it felt like you spent the entire time inside a tornado, but oh what a ride! You look at your company now and can't even believe all of the crazy moments that got you here. You are so incredibly proud of your team, and, rightfully, more than a little proud of yourself as well. Now comes the part of the story that you really don't want to read. Why does the rapid growth phase need to end, and what do you do next? There are few things worse for an entrepreneur than questions that we cannot answer, and this segment is all about helping you to create the answers to these questions.

The first and most important thing to remember when your growth rate begins to decline is that there is a big difference between declining growth and declining sales. Your growth rate can slow down or plateau and your business will still be in pretty good shape. With that said, once the pace of consistent exceptional growth starts to slow, there is a terribly compelling draw to taking your foot off the gas and letting the organization coast for a while. This is a dangerous period, and the point where many good businesses begin to fail. The best thing that a leader can do is to find new and invigorating ways to keep the company moving forward at full speed. This will require several key actions on your part. The first is to recognize with your team all that you have achieved. The second will be to thoroughly assess the reasons that growth is slowing and to leverage that understanding to assessment of next-level opportunities. The third will be to define the organization's next-level vision, and to align your team using all of the tools and processes you honed during the preceding two cycles.

In many cases, you will be able to treat this new vision as a start-up within your organization, rekindling all of the exuberance of untapped potential just waiting to be manifested. There are several common next stage opportunity categories you will likely want to explore first. These include end market diversification, vertical integration, new product releases, or expansion to new geographies.

Diversification can come in the form of identifying new consumer segments or applications for your existing suite of products or services. The following are some diversification examples from companies we have worked with in the past:

- A gear company that went from selling their gears to pump manufacturers began selling its gears in the rail industry for switching mechanisms
- A company that assists hospitals with governance and optimization of their laparoscopic surgery program offering similar support for orthopedic surgical programs

The key elements of diversification lie in leveraging core competencies and existing infrastructure to broaden the organization's client base in a way that reduces exposure to direct competition and end market variability.

Vertical integration is a strategy of expanding into the upstream or downstream layers of your product supply chain. A great example of this can be portrayed by an aerospace company I worked with. The company specialized in purchasing end-of-life jet engines, tearing them apart and selling the usable components to maintenance repair and operations (MRO) organizations. The key to their success resided in their ability to secure engines at a reasonable price with a high percentage of resellable parts inside. Their vertical strategy for next-level growth was to “conquer the bottleneck.” They devised a strategy to create a leasing company that would purchase the engines earlier in the lifecycle and lease these engines to airlines. This strategy is a great example of strategic use of vertical integration because it leveraged the core competency of the company – sourcing, vetting and negotiating jet engine acquisitions – to remove a bottleneck – access to end-of-life engines – and generate a new revenue stream.

New product releases are the most common and best understood of the next-level strategies. For an example, look no further than Apple, who earned its first rapid growth cycle with the Macintosh and went on to launch an iPod, iPhone, iPad, and so many others. In this instance, I think it would do you better to appreciate the costs and risks involved than the upsides. My concern is that this strategy has become the defacto response to declining growth, and it is not always the best option. Why, you may ask, am I so down on net product offerings? Conventional wisdom is that a business needs to innovate or die, right? What is more innovative than creating the next big thing? Oh my, there is a lot to unpack in that train of thought, and it is no exaggeration to say that everyone at Blue Sky has wrestled with those issues

issues on a personal level. The other thing that we want to make clear is that we believe wholeheartedly that there are many instances where new produce releases are exactly the right strategy. The point we want to make in this book is that it should not be the first choice until the other options have been properly vetted. Without further ado, let’s dig into the issues with making new products your default next-level plan.

New products take a lot of resources to develop. Think about your initial product release and everything that it took to get to where you are today. With a new product, you are starting one-half-step in front of ground zero. You will have the benefit of your established brand and customer base, but that can be a blessing and curse. When it comes to workforce, production capability, and supply/distribution logistics you are barely further along than you were when you launched the company. What’s more, a bad product launch can negatively impact your existing product line. For a new product line, you will more than likely need to establish a new production line, a new sales team, and possibly even a new purchasing and procurement department. The capital investment and time-to-profitability horizon are both likely to be protracted. With all of that said, there are many circumstances in which new product launches are exactly the right strategy. A great example is the restaurant industry where a single unit can quadruple its visitor numbers simply by offering new items every week in the form of a dynamic menu or fresh sheet. If tooling or turnover times are minimal, and product runs are small, there may be a great opportunity to mitigate the ramp-up expenses. Similarly, if the success you are realizing with your current offering has made a new untapped demand center apparent, the investment in infrastructure may be well placed.

Remember that Apple had several successful product offerings before it released the iPhone and revolutionized an industry.

Finally, we want to spend a little bit of time exploring geographic expansion. This seems pretty straightforward, right? If you have the capacity to service a 100mi radius and you have reached capacity, establish a new hub in a new geography and reiterate what you did to succeed. On its surface, this strategy is so simple it almost makes your head hurt but scratch that surface and it gets quite a bit more complicated. For starters, all geographies are not made equal. In my first iteration as an entrepreneur, I was a restaurant designer and operational consultant. I enjoyed a strong reputation for exceptional results and had an 18-month backlog of prospective clients. I was shocked one day to receive a call from the owner of a premier restaurant brand with more than a dozen successful locations within its geography. The owner called me because he was at the end of his rope with a single location. He owned the real estate, so he couldn’t simple walk away, but the unit was losing more than $80K per month. He could not wrap his head around the reality that while more than a dozen of his restaurants were in neighborhoods that seemed similar and were throwing off silly amounts of cash, this one unit never found its way even close to the black. The first thing I did was a demographic inventory, and what I found was that on the surface, family size and median income were similar to the other neighborhoods was successful in, median household liquidity was significantly lower. On my advice, we closed the establishment and reopened with a new brand that focused on a significantly lower price point, exceptional specials, and destination centered

activities. Within four months of reopening, we had not only erased that $80K/month loss but were profitable. To this day, that unit is one of the top producers in that organization's portfolio. The take home message is that while geographic expansion offers a distinct opportunity for next-level growth, it is important to keep in mind what your differentiator is, and what your best client looks like and to ensure that such a client resides in your new target geography. Geographic growth is far more complex than picking a spot on a map.

We have already acknowledged that new product launches are the most common next-stage strategy, and based on that understanding, we would like to spend a little bit more time exploring what implementing that type of strategy looks like. If you believe that launching a new product is the best direction for your organization, the first thing you will need to focus on is determining what that product should be. This will require collecting and analyzing the voice of your consumer (VOC), as well as a keen awareness of overall buying patterns and preferences. Steve Jobs is famous for asserting that the consumer doesn't know what they want until someone shows it to them, which is partially right. Consumers are acutely aware of what they want, but they frequently fail in imagining how those wants can be delivered. The iPhone was not the first smart phone, but it was the smart phone that revolutionized the industry by removing buttons, creating a space for applications, and repackaging a myriad of operations the average consumer engaged in every day using multiple devices. If your company is planning to launch a new product as its next-stage growth plan, you should ask your team some probing questions:

- How does your product improve life for your target clients?
- How does the new product strengthen your core competencies and brand identity?
- How will you launch this product without compromising current operations?
- What do your EXISTING clients want that they are not directly asking for?

The reality is that new products are easy to conceive of, but not so easy to turn into the next big thing. Personally, in my second business, I fell in love with my next product before I made my first product a success. This hindered my initial product launch, strained relationship with my stakeholders, and ultimately reshaped the future of one of my companies. This was a hard lesson to learn, but one that every entrepreneurially minded individual will face repeatedly. Keep in mind that while your default will likely scream “New Product!” every single time, your rational brain and the future of the organization will benefit from some consideration of the other options.

It is always imperative to keep a close eye on where you are in relation to your overall market. There are several meaningful reasons to know your market and all of the players within it. The first of these is to identify what the overall growth potential of your organization is. If you operate within a $1M market, it is not appropriate to expect to become a $10M operation without some meaningful disruption. Remember that a threshold is not a limitation, but a question of how. It is imperative to know where your operation is compared to your target market because this knowledge will help to inform your long-term strategy. If you are pushing the limits of your market, what can you do to change the boundaries? Does it make sense to consolidate? Does the market open itself to new entrants? Where do your organizational skills and capabilities combine to present a new opportunity to dominate? Addressing these questions openly and consistently will position you as an organization ready to identify and attack opportunities to pivot and to disrupt.

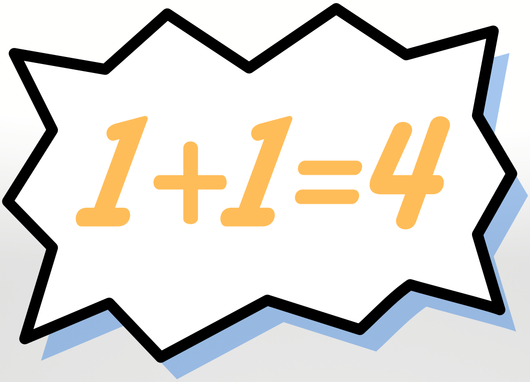
Once you have looked into all of the opportunities your organization has to continue to grow beyond its initial product offering, you will need to look at the integrity of the organization you have built. By this point, you have built a company that is much bigger than yourself. If you are like most of the founders we have met, your principal objective at this point is to not mess things up. You have poured the best years of your life, tremendous amounts of your cash and time that could have been sent with family, into making this idea a reality. Now the business is performing beyond your wildest dreams, and you don't even recognize it. This is one of those defining moments where a true leader redefines what the company meant at its inception and ties that to where this company is at today.

Did the integrity of the vision prevail?

If not, can it recover?

If it has, can it leverage that integrity into the next level?

The next consideration at hand for a successful operation looking to continue its accelerated growth trajectory is to employ acquisition strategies. Whether you are looking to diversify your end market reach, integrate verticals, launch new product offerings end or expand to new geographies, there are significant opportunities to expand your reach without compromising your brand integrity. As a firm built on relationships and long-term results, it does not surprise us to find that a significant majority of M&A



transactions (>80%) fail to achieve investment expectations. This is almost a result of spending the entire transaction process exploring potential and negotiating the terms of a deal, and very little time working through how the transfer of control and knowledge will actually work. At the heart of every

M&A transaction that achieves or exceeds expectations is a well-developed plan for navigating these transitional phases. Be sure that your due diligence process includes clearly defined milestones, detailed accountability, and consideration of the cultural implications of the transition as well as the basic mechanics of the hand-offs. Success relies heavily on building upon existing cultural synergies and frequent, clear communication.

While all of these large-scale efforts are fundamental to establishing new periods of rapid growth, to staying competitive in a dynamic economy, and to ensuring long-term success, you must always keep a strong focus on the things that got you here. Don't forget to remain vigilant to monitoring shifting markets and adjusting your long-term vision to account for appropriate changes you see on the market horizon. It is also important to continue to challenge your team to strengthen your client relationships by increasing touch points and revenue opportunities. Remember that it costs your company much less to sell to an existing client than to secure a new one. Continually seek new opportunities to leverage relationships into revenue. While every rapid growth cycle will eventually taper off, declining growth should always be seen as an opportunity to innovate, not a harbinger of impending doom.

Declining or Plateaued Growth Self Assessment

Are there opportunities to position your product in new end user environments?

Are there new geographies with growth potential?

Do you understand the root cause of your declining growth?

Are you consistently doing the things that inspired your rapid growth?

Are your leaders overwhelmed or over comfortable?

Do you have a system for ensuring that you have the right people in the right places to continue growing?

Are there opportunities within your revenue model to spur existing client revenue growth?

Is your infrastructure capable of continued growth?

Have you considered acquisition either of a competitor (for a book of business or their work force) or a vertical integration in your strategy?

Have you considered how can you leverage your organization's core competencies to disrupt your industry?

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