



Journey through No Man's Land

Phases of Growth for Service-based Businesses

VSPA Meeting, Spring 2013

Memphis, TN

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Phases of Business Growth

Phase One: Start-Up Entrepreneurial Phase

Characteristics:

- The founders are usually actively involved in day to day doing
- The primary emphasis is on producing medical care and delivering it to patients and pet owners
- Management, systems and planning receive minimal emphasis
- Communication is informal
- Employees work long hours and are paid modest salaries
- Management reacts more to customer needs than to employee needs
- The founders are either technically oriented or market builders and are usually not skilled managers
- The growth is greater than inflation but usually slow to moderate

Problem Areas:

- When there are two or more founders or partners or key employees in the practice, it is not clear who is in charge and where accountability lies
- Conflicts between founders, partners, or key employees often arise and remain unresolved
- New employees are less motivated by dedication and more motivated by money and status
- Unqualified people are often in key positions
- Budgeting, cash control, and use of financial performance data are often insufficient
- There are often working capital shortages due to minimal cash planning and misuse of cash
- Entrepreneurial founders are often tempted to diversify into unrelated businesses



Phase Two: Entrepreneurial Expansion Phase

Characteristics:

- A capable leader is at the company helm—may or may not be someone other than the founder (Phase 1 crisis resolved)
- The practice often has multiple locations, or one large / complex hospital
- More attention is given to areas (in addition to producing medical care and delivering it to patients and pet owners) such as:
 - Marketing and Sales
 - Inventory Control
 - Personnel
 - Accounting, Budgeting and Cash Management
 - Systems Development
- Employee jobs are more specialized
- The practice becomes more impersonal due to having more employees
- The growth rate is faster than in Phase 1; sometimes accelerating at a very fast rate

Problem Areas:

- Delegation becomes increasingly difficult for the leader due to wearing multiple hats
- Access to the leader becomes difficult for managers and employees
- Managers feel better qualified than the leader to make decisions in their technical areas, but they are not permitted to make them
- Managers are technically oriented and therefore not skilled at making their own decisions
- Poor decisions are often made in areas such as:
 - Systems improvement
 - Facilities expansion and purchase
 - Recruiting and hiring key employees
 - Use of cash
 - Commitment to new services and/or markets
- Planning and problem solving meetings and processes can be awkward, time-consuming and, at times, ineffective
- Some capable key employees become disenchanted and leave
- The practice has grown beyond the abilities of some key employees
- Financial performance reporting and control systems are often inadequate for sales volume
- Financial and non financial performance data is not effectively used in planning and decision making
- Major shortages of skilled management time and cash often occur
- Entrepreneurial owners are often tempted to sustain faster growth indefinitely and may simultaneously be tempted to diversify into unrelated businesses




Phase Three: Management Accountability Phase

Characteristics:

- The practice's business niche is clearly defined and its products and services fit the niche
- An aligned management team is in place (Phase 2 crisis is resolved)
- The practice has an identity beyond the founder(s) and the current leader
- Efficient financial, control and work process systems that produce quality end products are in place and operational
- Short and intermediate term plans to focus the practice are in place and followed
- Managers are doing more managing than technical work
- Profit centers are established
- The practice effectively uses financial and non financial performance data in planning and decision making
- Growth has slowed to a moderate rate
- Profitability is strong and reasonably consistent
- Cash flow works well
- The practice's financial health is strong

Problem Areas:

- Time needed to react to change increases due to practice size
- One or a few customers may represent a disproportionate amount of the practice's business
- Senior management feels it is losing control as a result of having less direct contact with day-today operations
- It becomes apparent that some of the senior management team members are not developing as skilled executives
- Some long term professional services providers no longer effectively serve the practice
- There is increased vulnerability to competition
- Customer service becomes erratic
- There is increased vulnerability to internal factors, such as:
 - In fighting among managers and supervisors
 - Outdated corporate cultures
 - Inefficient systems and processes
 - Bureaucracy sets in
- New business opportunities are continually identified and reaction to them is cumbersome
- Decision making becomes awkward and "knee jerk" in style
- There is less communication from the top
- Accountability becomes confused and sporadic
- Managers are tempted to grow the practice at a faster rate than the company can absorb and stay in control



Phase 3 Crisis:
Senior Management
Team, Middle
Management Team
& Systems

Phase Four: Strategy & Planning Phase

Characteristics:

- Aligned executive and middle management teams are in place and are staffed with qualified people, and accountability is clear and well managed
- The company has well defined three to five year strategies and plans which include:
 - Organization and staffing
 - Systems and information
 - Market niche and products and/or services
 - Financial plans, goals and KPI's (Key Performance Indicators)
- Customer service is top quality across the board
- Unproductive / unprofitable products and services are phased out
- Unqualified and/or problematic employees have been phased out
- Major systems (ERP) projects are successfully undertaken
- Market research, development and planning are timely and competent in regard to:
 - Products
 - Services
 - Customers served
 - Geographic coverage
 - Competition
- Competent staff, executive, and management development process are in place

Problem Areas:

- The executive team does not function as a team
- Some unqualified long term loyal employees are on the executive team
- Throughout the company relationships become more important than getting qualified people in key positions and clearly defining and enforcing accountability
- Major systems (ERP) conversions become unduly problematic with significant time delays and costly budget overruns
- Customer service quality dissipates
- Vendor relationships become strained
- The company has pockets of both tight and loose cost controls
- The owners—founders start to lose interest in the business. Complacency sets in
- Some capable employees leave
- Growth and expansion into additional markets is faster than the company's systems executives and managers can manage and control
- Work processes and systems break down in key areas, especially related to field managers (e.g., training, recruitment, financial controls and management skill development of field managers)
- Executive Team is slow to react to and understand changing market conditions and increasing competition from more sophisticated companies in the marketplace
- A disconnect occurs between field operations and the corporate office

Survival, Growth & Profitability Strategies

	Phase 1	Phase 2	Phase 3	Phase 4
Emphasis	Survival – Growth – Profitability	Growth – Survival – Profitability	Profitability – Growth – Survival	Profitability – Growth – Survival
Survival	<ul style="list-style-type: none"> • Emphasize cash flow • Create viable services • Develop strong basic accounting: • Monthly financial statements • Cash flow projections • Operating budget • Short term business plan 	<ul style="list-style-type: none"> • Emphasize cash flow • Emphasize building an asset base • Create a strong management team • Expand and improve accounting systems to include return on asset accounting • Externalize: • Knowledge of economy • Knowledge of own and related industries • Knowledge about competition • Intermediate business plan 	<ul style="list-style-type: none"> • Emphasize cash flow • Emphasize building an asset base • Emphasize management development • Create strong accounting, financial control and financial performance reporting systems • Create strong work process systems • Create strong employee support systems • Expand externalization • Longer term business plan 	<ul style="list-style-type: none"> • Emphasize cash flow • Emphasize expanding the asset base • Emphasize executive leadership development • Maximize production of and use financial and non financial performance data • Take work process efficiencies to increasingly higher levels • Create superior staff development process • Emphasize timely, accurate assessment of competition • Short and long term strategies and business plans • Develop a strong outside board • Re-systematize the company with capable people and tight cost controls
Growth	<ul style="list-style-type: none"> • Develop customer and revenue base which will survive indefinitely and can be built upon • Define and cultivate the most viable markets within limits of financial resources, size, management ability, distribution capacity, etc. • Do not diversify into other businesses 	<ul style="list-style-type: none"> • Expand market base and product line by plan, not by whim • Capitalize on product and market knowledge and technical skills acquired in Phase 1 • Do not diversify into other businesses • Emphasize acquiring and developing key personnel 	<ul style="list-style-type: none"> • Expand into other market segments by plan • Emphasize new product development and old product discontinuation • If diversification is a must, expand only into very closely related businesses which can capitalize on parent company's management, marketing and technical strengths 	<ul style="list-style-type: none"> • Plan and carefully manage geographic expansion • Emphasize quality and efficient R&D capabilities • Cautiously plan and manage diversification if to be undertaken • Develop and use timely, accurate customer input
Profitability	<ul style="list-style-type: none"> • Owners must be committed to building a company rather than high personal income and free time • Make cash flow and some growth more important than high profitability 	<ul style="list-style-type: none"> • Increase profit rate, but plan to invest in longer term product and market development • Achieve adequate return on assets • Make building a viable organization more important than high profitability 	<ul style="list-style-type: none"> • Achieve consistently strong profitability and return on assets • Strive to make company financially balanced to retain and attract outstanding middle and executive management and technicians 	<ul style="list-style-type: none"> • Strongly emphasize budgetary control and use of KPI's • Carefully assess capabilities, cost and time requirements necessary to re-systematize (ERP) the company • Carefully assess the management and leadership skills and experiences required to grow the company • Make necessary investments in people and systems Make profit goals attainment a must

Phase 3 Scorecard

3	Completely
2	Mostly
1	Partly
0	None
105	Maximum Score

Practice Name:		Date:	
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1. Owner / President / Practice Director	Well-defined leadership role	
	Effective leader	
	Leader understands talents and blind spots	
2. Management	Key management positions are right for size and growth rate	
	Qualified people in all key positions – management and technical	
	Managers are systems-oriented and technically skilled	
3. Communication	Meetings are productive and efficient	
	Managers receive productive feedback, coaching, and training	
	Doctors, Leaders, and Manager are available to Clients	
4. Accounting	All accounting, financial performance reporting and control systems are in place and working	
	Financial and non-financial performance information is produced and used by key employees	
5. Work Process Systems	All work process systems are efficient and produce quality end products	
	The difference between marketing and sales is understood, and systems for both are in place and working	
	Strategic planning is well developed as a formal regular management process	
6. Information Technology (IT)	Practice has a consistent focus on utilizing technology to increase efficiency	
	Practice has a technology renewal and upgrade plan	
	IT failure risk is planned for and managed (data, hardware, network, etc.)	
7. Staff Development	Training: technical, customer / client service, supervisory / management	
	Performance Feedback Processes	
	Compensation Plan	
8. Market Niche	Practice is focused in a well-defined niche	
	Products and services fit the practice's business niche	
	Diversification into unrelated service areas / businesses has been avoided or corrected	
	Leader and Key Managers are externalized in their profession	
	Expansion within existing and new markets is systematic / planned	
9. Client Service	Technical and service quality are continually evaluated and improved	
	What constitutes superior client service is clearly defined	
	Superior client service is continually practiced throughout the practice	
10. Controllershship / Financial Management	Practice has the effect of a strong controllershship department	
	Controller is an integral part of the management team	
11. Expense Control	Budgeting is successfully employed	
	Expenses are closely monitored and improved	
	Key Performance Indicators are established and monitored	
12. Debt / Equity Management	Debt equity objectives are established and performance monitored	
	Practice is committed to minimizing or eliminating debt capital in relation to equity capital*	
* Note: May always borrow for Physical Plant & Equipment, within appropriate debt structures		
Total		

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