Stages of Company Growth

A Checklist for Growing Your Company

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

Is Your Company at the Best Stage?

As companies grow they become different – not just bigger. If you're not prepared for it, that difference can actually kill your company. Or it can keep you from growing your company.

What is the Best Stage?

The best stage is the one that gives the company owners what they want from the company. There's no reason your company has to grow or shouldn't stay at stage-one forever. Many companies do. This checklist is for those who aren't getting what they want from their company and want to learn how to move to another stage.

Most people describe a company's growth by revenue or number of employees. This is a mistake. It's more useful to look at the primary activities of the person at the top - whether owner, founder, or CEO. Their job, their activities, their mind-set all change with each stage.

Stage 1 They are focused entirely on making and selling the product. Employees are there to help. The person at the top is responsible for everything. Many companies don't grow beyond that. It can provide a living for the owner but no wealth. The company can't be sold for much. Stage one companies usually max out around 10 employees and 200K in owner compensation though that varies by industry.

Stage 2 They are focused on building the company. There are managers in place, and a real team. If privately held, this can generate a lot of wealth for the owner but it's usually taken out of the company in salary/profits. These firms can get quite big and owners can make millions. If they are sold, the owner usually has to go with the company because it's not as valuable without them.

Stage 3 They are building a brand or building an empire. They often acquire other companies and use sophisticated financial arrangements. The person at the top is focused on expansion. Someone else has P&L responsibility for the operations - often different people for different divisions. These produce real wealth inside the company either for the founders if privately held, or for the investors.

PRE-TEST – based on the paragraphs above, how would you rate your company?

How would you rate your company?	☐ Stage-1	☐ Stage-2	☐ Stage-3
What stage would you like it to be?	☐ Stage-1	☐ Stage-2	☐ Stage-3

If the two answers are the same – congratulations! If not, keep reading.

(The idea for these stages came from a book by John H. Brown called *Exit Planning: The Definitive Guide* though I have embellished them quite a bit based on my experience working with business owners.)

STAGE ONE – Hands On, Head Down

Business owners at this stage do the heavy lifting themselves, and when they hire people, it's to assist them in getting things done. They spend their time building their product and selling it. Stage-one companies stay pretty small - usually less than 10 people - and the earnings can provide the owner a decent living but not much real wealth inside the company. The actual numbers are dependent on the industry you're in. In general, the owner of a stage one company can take home between 100k - 200K but in some industries the superstars can make much more.

As a result, these companies are often run by the founders (or the founder's children). But they can't be sold for much money because all the real value walks out the door when the owner leaves.

FOCUS: Stage-one owners focus on making & selling product.

TIME: Mostly spent interacting directly with customers – sales or production or both.

PEOPLE: Employees are directed by the owner. They usually do production. Personal effort gets results. Stage one companies are usually small – less than 10 people.

ENERGY: Can vary from an adrenaline rush to disappointment or even despair when cash is tight.

ACCOUNTING: They use check book accounting – if there's money left at the end of the week they can go out to eat.

PLANNING: Not much beyond the next month or the next project.

TIME AWAY: When the owners are not present things go haywire. They own a job not a company.

OUTSIDE ADVISORS: Only a CPA (who just does taxes) and a payroll firm.

SALES: Happen when they put effort into it and slow down when they don't.

COMPENSATION: Owners often don't earn market rates for their work. They consider their time "free." However, they can generate a nice living of 100 or even 200K if run well.

WEALTH: Owners earn a living (sometimes a good one) but not much wealth in the company.

Many companies are at this stage no matter how long they've been around. It can be frustrating when things don't go right and incredibly rewarding when they do because you're right in the middle making things happen.

When companies start out the owners typically work for very little money as they are building the company. Too often companies never grow out of this situation. However, in a **mature stage-one company** the owner is compensated much or more than market rates for the work they do. But that work is split among several jobs so it's hard to calculate market rates.

In a **robust stage-one company** the owner earns money for what they own (the company) in addition to market rates for the work they do.

STAGE TWO – Hands Off, Head Down

Owners at this stage are good at delegating and have hired managers. As a result, these companies can grow quite large and provide a lot of wealth for the owners. A mix of salary and profits can be over $250K and even into the millions. There is also equity being built up in the company.

At the early stage-two, the owner's motivation is often to work less and get more time away from work. But as these companies mature, the owners get that time. Then they can spend time on growing the company or on other endeavors such as charity, politics, hobbies, travel, or even unrelated business.

FOCUS: On building the company – others build the product.

TIME: Owners spend time mostly with employees and managers.

PEOPLE: Managers are hired. Processes are in place to support people's best work. Often there are managers of managers. These companies can have dozens or even hundreds of employees.

ENERGY: Steady with occasional highs and lows.

ACCOUNTING: Regular accounting reports are used for managerial insight, not just taxes.

PLANNING: Thinking further out than stage-one, but often annual plans are missing.

TIME AWAY: Owners can get away for personal or business reasons and things are fine.

OUTSIDE ADVISORS: They have many: a coach, lawyer, advisory board, accountant. These people give advice, not just conduct transactions.

SALES: Happen constantly. Sales is treated like a process often done by full-time salespeople.

COMPENSATION: Including profits, pay can be very lucrative. Some owner's comp. is in the millions for stage two companies.

WEALTH: These companies can provide wealth (through profits are taken out of the company).

Warning! The hardest transition is from stage-one to stage-two. This is where things really get different – not just bigger. For that reason, I call it taking your company through puberty.

So much has to change from stage-one: your schedule, your focus, your business model. This changes your cost structure which affects your selling price which often affects who you market to, what you sell and how you sell it.

That's a daunting change to those who are unprepared, and it often results in a dip in profitability until you push through that dip and proceed up the slope on the other side. So, don't do it without some preparation.

STAGE THREE – Hands Off, Head Up

This type of owner has built a company like the second type but doesn't take all the profit out of it. Their take-home may be high (250K or more) but they limit it and put the rest into growing the firm. They've hired not just managers, but directors - some with P&L responsibility in different parts of the organization.

By "organization" I mean they not only grow their company, but often buy other companies in adjacent (or even unrelated) industries and run them under the same leadership. Their strategic relationships are within their industry not necessarily within their company. They become power houses regionally, nationally or even globally.

These folks function like CEO's of public companies. They take advantage of sophisticated financing options available at this level. While their personal wealth may be diversified, they have also created substantial wealth inside the company. These folks spend their time expanding their empires and building their brand. Others build the product and the company.

FOCUS: Building an organization or brand often through acquiring other companies and organic expansion

TIME: Mostly spent outside the company with industry leaders or joint venture partners

PEOPLE: Directors are hired. Some have P&L responsibility.

ENERGY: Like stage-two but not everyone feels the same way at the same time due to the size of the organization.

ACCOUNTING: Sophisticated financing options are used for growth internally and acquisition

PLANNING: Planning is critical. Often plan 3-5 years out or more.

TIME AWAY: No problem. Often required for business reasons

OUTSIDE ADVISORS: Have many and use frequently including industry-specific consultants

SALES: Full sales teams include strategy at the VP level

COMPENSATION: Earn a lot but put most of the profits back into building the organization

WEALTH: These companies contain a lot of wealth. It’s realized when the company is sold or passed to future generations.

Tips to Consider

Succession & Exit Strategy

If you're planning on selling your company, it will be more valuable if it's less dependent on you for the day to day operations. So, one way to use this information is to move your company up the ranks. That means not just making it grow bigger – but also grow it to a different stage.

At some point you will exit your company. It's best if you plan for that. If there's wealth in the company, plan to maximize it. If there's not, plan to build up wealth in a portfolio outside the company.

You Don't Have to Change Stages

I help clients all the time who aren't moving to a different stage but want to move up in the stage they're at. They want more money, more time away from work, or a better work environment. I believe your company should serve your life, not the other way around, and I've been helping business owners live like that for 25 years. It can happen in companies at any stage.

You Might Be in Two Stages at Once

A company is composed of many systems. Some systems make the product, some sell it, some build the organization. It's not uncommon for those systems to be operating at different stages especially as the companies themselves are transitioning from one stage to the next.

What Stage Is Your Company At?

	Stage-One	Stage-Two	Stage-Three
FOCUS	Owner or CEO is focused on making & selling product.	Owner or CEO is focused on building the company – others build and sell the product.	Owner or CEO is focused on building an organization or brand, often by acquiring companies and organic expansion.
TIME	Mostly spent interacting directly with customers – sales or production or both	Owners spend time mostly with employees and managers.	Mostly spent outside the company with industry leaders or joint venture partners
PEOPLE	Employees are directed by the owner. They usually do production. Personal effort gets results	Managers are hired. Processes are in place to support people's best work.	Directors are hired. Some have P&L responsibility.
ENERGY	Can vary from an adrenaline rush to disappointment or even despair when cash is tight	Steady with occasional highs and lows.	Like stage-two but not everyone feels the same way at the same time due to the size of the organization.
ACCOUNTING	They use check book accounting – if there's money left at the end of the week they can go out to eat.	Regular accounting reports are used for managerial insight, not just taxes.	Sophisticated financing options are used for growth internally and acquisition
PLANNING	Not much beyond the next month or the next project.	Thinking further out than stage-one, but often annual plans are missing.	Planning is critical. Often plan 3-5 years out or more.
TIME AWAY	When the owner's not present things go haywire. They own a job not a company.	Owners can get away for personal or business reasons and things are fine.	No problem. Time away is often required for business reasons.
OUTSIDE ADVISORS	Only a CPA (who just does taxes) and a payroll firm.	They now have a coach, lawyer, advisory board, & accountant.	Have many and use frequently including industry-specific consultants
SALES	Happens when they put effort into it and slows down when they don't.	Happens constantly. Treated like a process often done by full-time salespeople.	Full sales teams include strategy at the VP level
COMPENSATION	At the low end, owners often don't earn market rates for their work. They consider their time "free." At the high end, 100-200K	Salary + profits can be very lucrative. Sometimes in the millions.	Earn a lot but put most of the profits back into building the organization.
WEALTH	Owners can earn a living (sometimes a good one) but not much wealth in the company.	Can provide wealth (though profits are often taken out of the company).	These companies contain a lot of wealth internally. It's realized when the company is sold or passed to future generations.

Your company probably isn't at the same stage in every category. Circle the cell that indicates what stage the company is at for each category.

Are you happy with the stage you company is at? ☐ Yes ☐ No

If not, what's the first change you want to make?

It's common for some parts of a company to be in one stage, and some parts in another. Check off what stage each function is in your company.

Process or Function	Look at the previous page. Rate the stage of this function in your company.	What's the next thing you can do to improve this function?
FOCUS		
TIME		
PEOPLE		
ENERGY		
ACCOUNTING		
PLANNING		
TIME AWAY		
OUTSIDE ADVISORS		
SALES		
COMPENSATION		
WEALTH		

SUMMARY

Stage One – Lifestyle

Focus on profit and repeatable sales. Make money. Make unit economics work

Stage Two – Wealth

Focus on systemization. Provide foundation for growth. Adapt the business model to a scalable organization.

Stage Three – Powerhouse

Focus on growth. How fast? Organic or by acquisition?

How would you rate your company as a whole?	☐ Stage-1	☐ Stage-2	☐ Stage-3
What stage would you like it to be?	☐ Stage-1	☐ Stage-2	☐ Stage-3

How do your answers here compare to the ones you gave on the Pre-Test?