

Starting New Ventures -64-361.202

Chap 13 Preparing for & Evaluating the Challenges of Growth

Dr. Jack M. Wilson

Distinguished Professor of Higher Education, Emerging Technologies, and Innovation



Why need to grow?

What are the challenges?

How to grow?



PurBlu Beverages

- Ben Lewis
 - Shadyside Academy HS student in 2007
- Give Bottled Water
- Bottle Colors directed money to charities (10c per bottle)
 - Blue: children, pink: breast cancer, orange-muscular diseases, green:environment
- Entered Wharton fall of 2007
 - Kept going and adopted name “PurBlue”
- Give Energy
 - Whole Foods Market Best Seller
- 2010 strategic partnership with Green Shoots Distributor



And then the product line is extended.

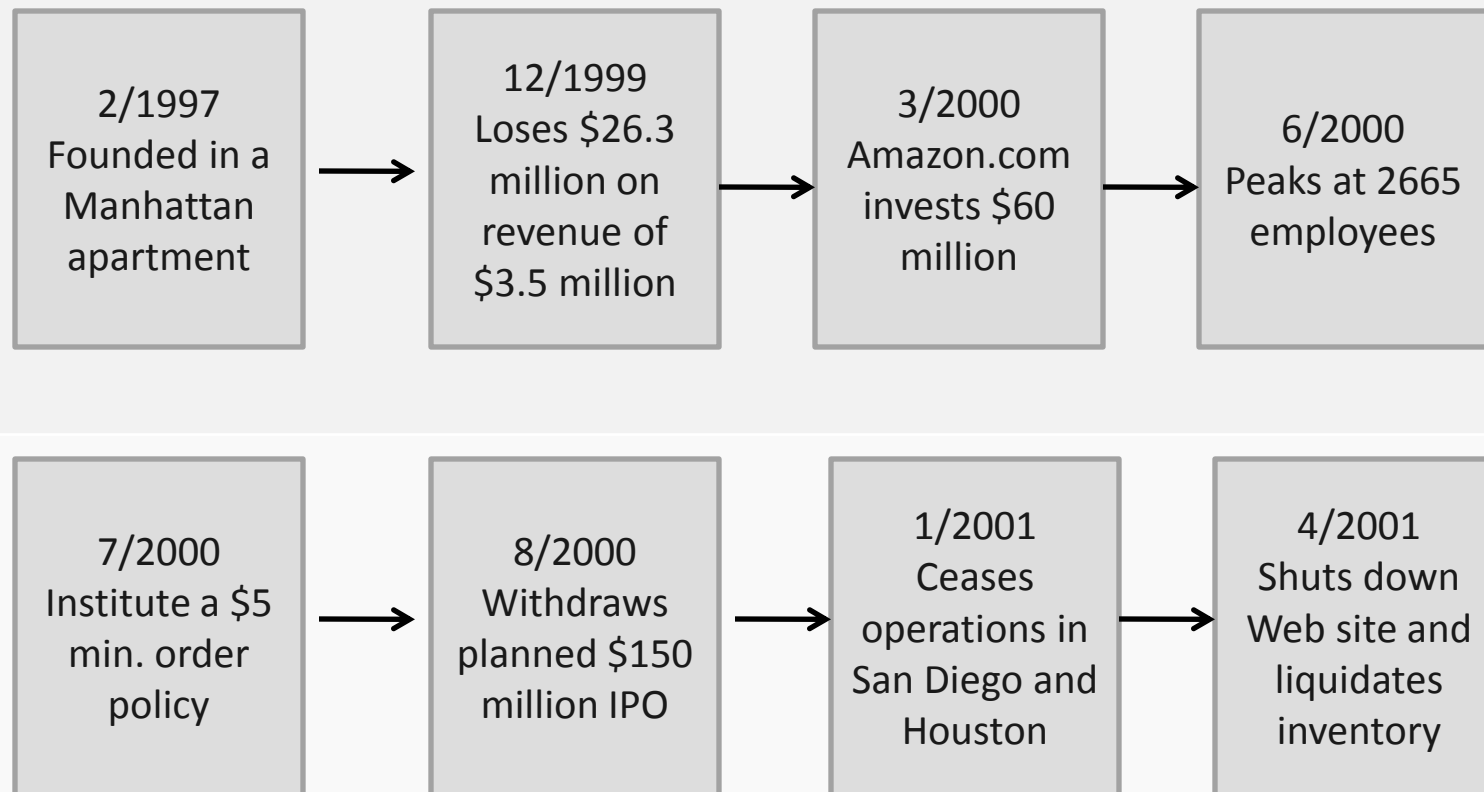


Preparing for Growth

- Not all businesses have the potential for aggressive growth
 - Must solve a significant problem or meet significant need
 - Best bets: healthcare, technology, social media, entertainment.
 - Average men's clothing store: 1.3%; average biotech 7.8%
- Businesses can grow too fast!
 - Manage your growth
 - Many firms have failed by over extending themselves.
 - Pampered Chef growth pains –limited new sales consultants for some time.
- Business success does not always scale.
 - Individualized service or high quality, high price, low volume sales

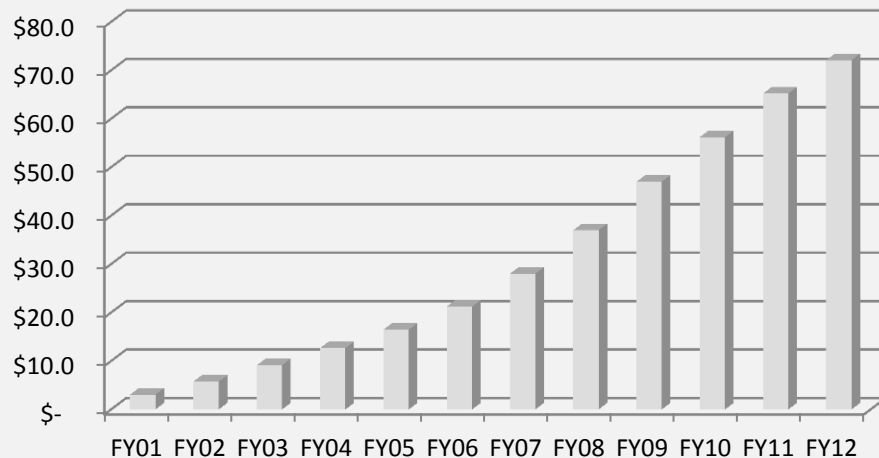
KOZMO.COM INC

Lifecycle

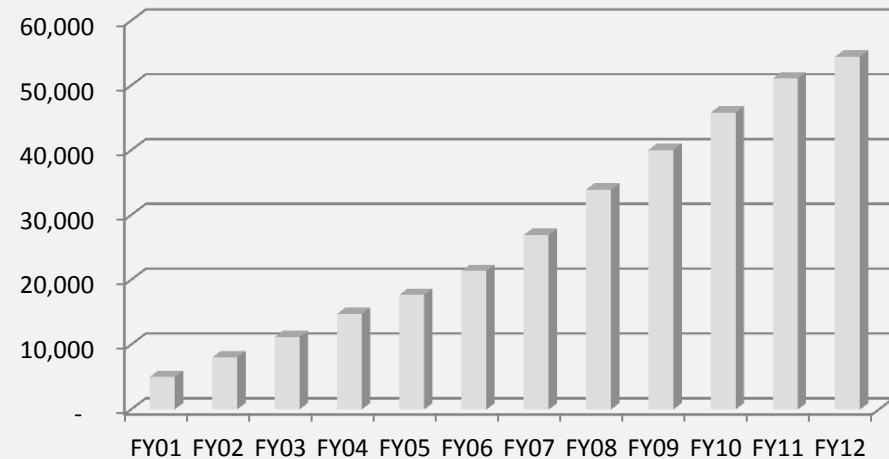


UMassOnline Growth 2001-2012

Revenue (\$ Millions)



Enrollment



Had to limit growth to avoid degradation of quality and our ability to deliver.
By doing so, we managed to avoid both recessions in 2002 and 2008

Stay Committed to Core Strategy

- Losing focus or getting distracted can be fatal.
 - eBags –core strategy online sales of handbags, luggage, backpacks
 - Tried to enter shoe sales, but did not have the core competencies
- The Fox and the Hedgehog
 - Jim Collins, Good to Great, took from Isaiah Berlin (British-Russian)
 - Fox is cunning, sly, strong, and tricky
 - Hedgehog only knows one thing: curl up in a ball and stick out sharp spines.
 - Fox does it all, but the hedgehog always wins by doing ONE thing well and only one thing.
 - See the essential and ignore the rest

Reasons for Firm Growth

- Capturing Economies of Scale and scope
 - Executing a Scalable Business Model
 - Variable Costs vs Fixed costs
 - Are variable costs scalable through discounts?
 - Leverage (FC/VC) once fixed costs covered, marginal cost goes way down
- Market Leadership
 - like being King of the Hill –hard to dislodge
- Influence, Power, and Survivability
 - Set standards, market acceptance, recover from mistakes
- Need to Accommodate the Growth of Key Customers
 - Intel had to meet growth needs of computer companies!
- Ability to Attract and Retain Talented Employees
 - Growth makes companies more attractive to employees
 - Hold down turn-over



Managing Growth

- Growth often requires up-front investment in people, facilities, and equipment.
 - Too much invested and you go broke
 - Too little invested and you cannot grow –and may lose out to competitors

Stages of Growth

- Introduction –start-up
 - Primary challenge is getting the business model and product/service right!
- Early growth stage
 - Increasing sales and heightened complexity
 - Takes more founder's attention and time.
 - Founder must transition from hands-on supervisor to a more managerial capacity. (Text)
 - The Truth: Founder needs to make an honest assessment of whether or not the company might benefit from another leader who might bring new experiences or skills. The founder may then take a new role –or in some case step aside.
- Continuous Growth Stage
- Maturity
- Decline



IInc Example

- Jack Wilson founding CEO and Chairman of the Board
- Founders decided I would serve 18 months and then we would re-evaluate.
- At 18 mo. Board asked me to leave the University and become full time CEO. We already had \$3 million/yr revenues.
- I decided NOT to do so. They already had my skills and now we needed someone who had experience in growing a computer software company to the next level.
- On New Year's eve, I (Chair) fired myself (CEO) and hired a new CEO who had just finished taking a software company public.
- The next New Year's eve, I fired him and brought in a new CEO who had experience at the NEXT level.



Founder's Role

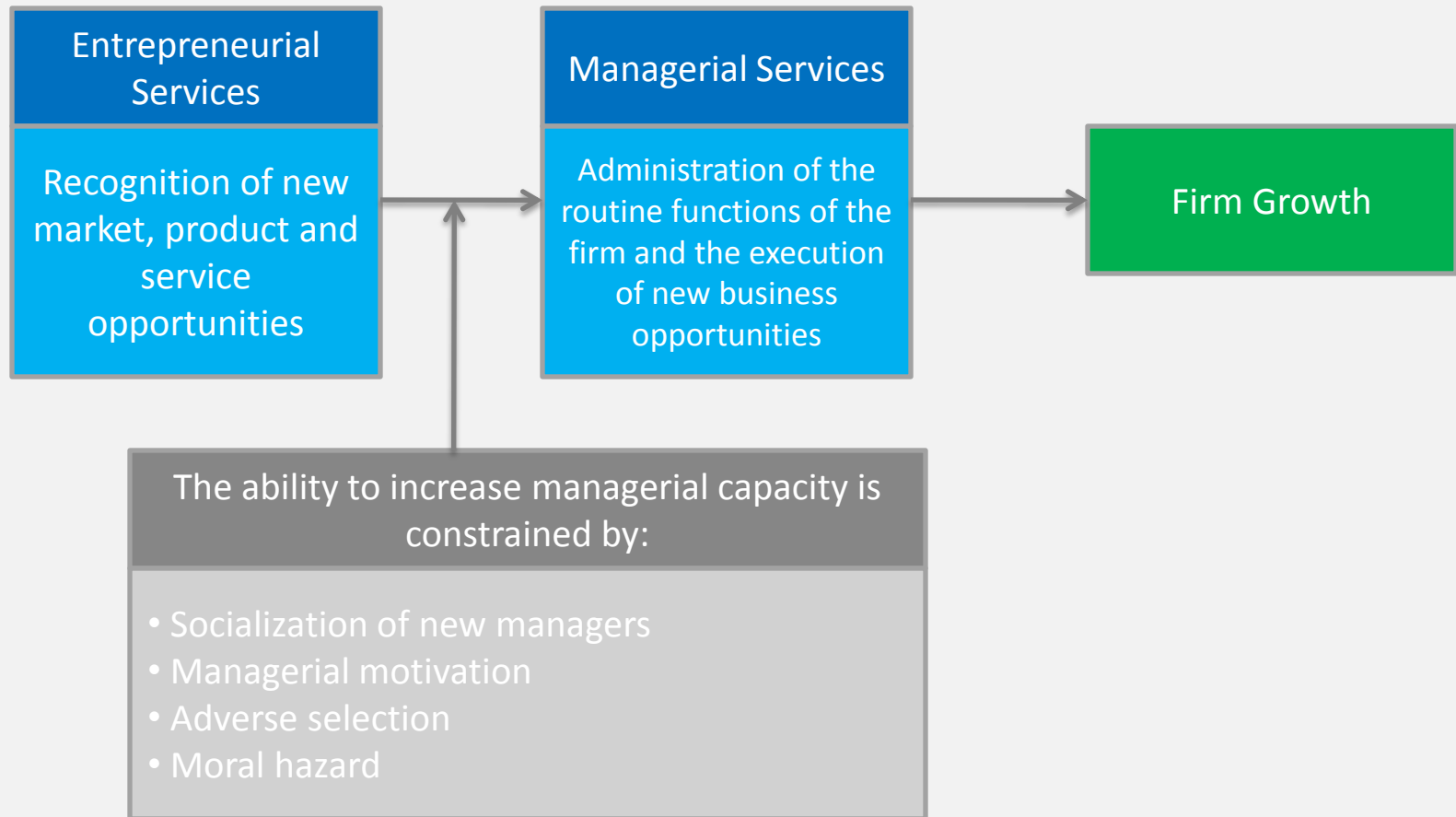
- This is one of the most difficult things to accomplish in any new company. Many fail.
- For that reason, some VC's demand that the Founder step aside into a lesser role (Chief Technical Officer, etc) as a condition of investment.
- That said, many companies have indeed kept the founder all the way to becoming a major public company.
- This is a vexatious issue on which founders, CEO's, and investors often disagree.
- Microsoft –Bill Gates; Oracle-Larry Ellison; Apple-Steve Jobs; Google-Larry Page; Hewlett-Packard –David Packard and Bill Hewlett; Dell Computer-Michael Dell; Sun-Scott Macnealy; etc.



Challenges of Growth

- Managerial Capacity
 - Productive opportunity set.
 - Entrepreneurial Services
 - Managerial Services
 - Managerial Capacity Problem
 - Adverse selection –growth makes finding, placing, and training employees more difficult.
 - Moral Hazard - later employees have less natural commitment (and ownership) than early employees. This requires costly managerial hierarchy.

Overarching Challenge – Managerial Capacity Problem



Day-to-day Challenges of Growing a Firm

Challenge	Explanation
Cash Flow Management	As discussed in Chapters 7 and 9, as a firm grows, it requires an increasing amount of cash to service its customers. Growth usually increases rather than decreases the challenges involved with cash flow management because an increase in sales means that more cash will be flowing in and out of the firm.
Price Stability	If firm growth comes at the expense of a competitor's market share, a price war can result. Because a price war typically helps no one but the customer, any growth strategy should consider competitors' responses and their effect on price stability.

Day-to-day Challenges of Growing a Firm

Challenge	Explanation
Quality Control	Firm growth is typically accomplished by an increase in firm activity. This means that a firm must handle more service requests and paperwork and contend with more customers and vendors. If a firm does not increase its resources to manage growth, then product or service quality may decline.
Capital Constraints	Capital constraints are an ever-present problem for growing firms. Growth increases rather than decreases the challenges in this area.

Three Things a Business Can Do to Prepare For Growth

#1: Appreciate the Nature of Business Growth

#2: Stay Committed to a Core Strategy

#3: Plan for Growth