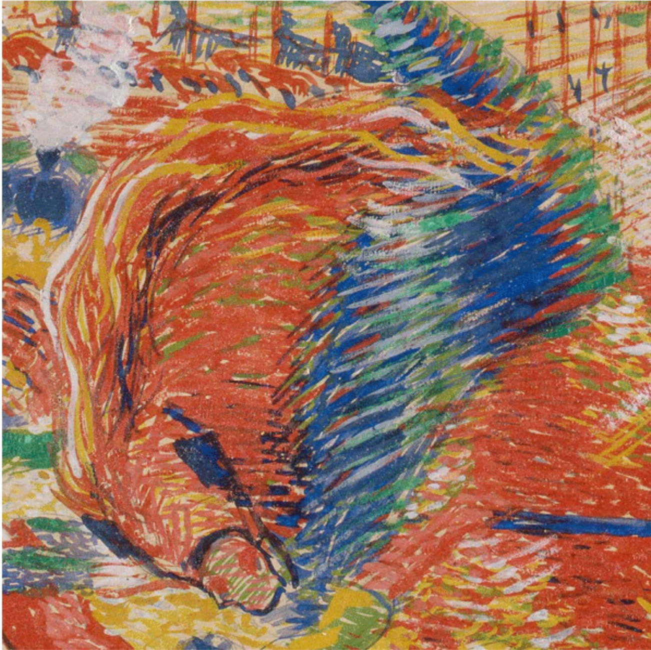

The City Rises, Umberto Boccioni

Sprint

Growing Your Company's Revenue 3X In 3 Years

j3warner@gmail.com · 864-561-6609
linkedin.com/in/swampfox

The CEO's Anxiety

I recently reached out to a long-time friend about how I can help him grow his two-year-old company 3X in 3 years. He replied, "Today has been a record sales day for us." I responded, "This is crucial evidence that you are beyond customer discovery and ready to scale. Organize and execute a growth sprint by narrowing your focus to this bright spot and doing more of that."

Another young entrepreneurial founder beamed with pride that he was working 16 hours a day, 7 days a week. I told him not to mistake a frenetic schedule with being productive. He needs to free up personal time for "essential but not urgent" tasks by eliminating "urgent but not essential" tasks so he can focus on his business, rather than merely work in his business.

To execute their growth sprints, these CEOs must define clearly the focus essential to achieve their goal for their company. They need to attract the internal and external team with the skills to execute what is necessary. They must hold their teams accountable for what is essential. Then they must get out of the way and let team members do their jobs in ways only they can.

Focusing and letting go are two emotional challenges most leaders face. The problem with focus is not what you choose to do, but what you choose not to do. Simplifying the business is key to growing rapidly. But eliminating options feels like you are leaving something on the table.

It's hard for leaders to let go when they are responsible to others, from investors to customers to regulators. CEOs can delegate authority. They can't delegate responsibility. The buck always lands on the CEO's desk. It's one thing to let go where there are 7 people you know well in the company. It's another thing when that grows to 70, or 700, or 7,000.

The most effective growth sprint results in a dynamic culture where everyone is creative and accountable, freeing up the CEO's to focus on growing the business further. Universal principles for creating that culture are described in the companion article, "Dynamism: Empowering Creativity While Being Accountable For Results," which can be downloaded for free at InnoVenture.com.

Visualize Success

Organizing a growth sprint starts with documenting the plan in writing and preparing a financial projection showing the required investment and anticipated results. Organizing specific action steps of the plan in an online project management tool helps keep internal and external team members aligned.

Writing the plan down is harder than it seems. Writing provides specificity that exposes cracks where the team lacks consensus. Well done, the process of writing down a plan creates a meeting of the minds among team members so there are fewer conflicts as the plan is executed. If a team member doesn't agree with what is essential, that doesn't make them a bad person, but they can't be on this team. Getting the right people on the bus and in the right seat is a hard, but crucial, job for the CEO.

The plan should answer seven questions:

1. Who are your customers, and what are they trying to do that is difficult, expensive, or inconvenient?
2. What alternatives do your customers have to solve this problem, and why do they choose you?
3. What is your vision that is big enough to attract the talent and capital necessary to realize it?
4. What are 100% of the capabilities required to completely satisfy your customer?
5. What milestones must be achieved for your business to succeed?
6. Who are the leaders with successful track records of doing what is essential?
7. What resources are required, and where will they come from?

Successfully answering and then executing a plan addressing these questions is much more difficult than it seems. Get them all right, and your growth sprint results in a heck of a business. Miss one, and your business will underperform at best and fail at worst.

After the sprint plan is developed and the internal and external team is identified, everyone should be kept accountable for their piece of the plan through regular, scheduled team calls. If everything is on track these calls may be short. If there are issues to resolve the calls may go longer. If a team member identifies that a milestone won't be achieved by the due date, they must speak up as soon as possible so the team can decide whether to provide additional resources to achieve the milestone on time, to extend the due date of the milestone, or to change the scope of the milestone so it can be achieved by the due date. An online project management tool is particularly valuable to identify dependencies that are impacted by changes in the plan.

Who are the customers, and what are they trying to do that is difficult, expensive, or inconvenient?

In 1997, Capital Insights, an angel investment fund I managed, invested in Carolina Phone. The company introduced a new wireless phone service in the face of robust, built-out networks of incumbent providers it could not compete directly with.

In the early, high growth phase of the cell phone market, almost all of the early leaders focused on affluent customers at the high end of the market. To get a cell phone contract, customers had to have credit. At the time Carolina Phone was founded, there was a large segment of potential customers at the low end of the market who had no credit.

Carolina Phone pioneered a prepaid phone-in-a-box, which was marketed primarily through convenience stores, a new sales channel for cell phones. The company's vice president of marketing insightfully noted that the competition was not other cell phone providers, who wouldn't sell to these customers, but cigarettes and beer. A customer walking into a convenience store with $20 in his pocket had a choice of a pack of cigarettes, a six-pack of beer, or a prepaid card for their cell phone. Carolina Phone's growth sprint was designed around distinctively meeting the needs of a focused group of customers not well

served by market leaders. These customers were profitable for Carolina Phone in a way that incumbents found hard to respond to.

Because the infrastructure was being built out, the quality of Carolina Phone's wireless service wasn't great. A real estate agent friend called me exasperated that the service was spotty. She returned her phone and got a phone contract from a larger wireless company. She could, because she had credit. Carolina Phone's target customers couldn't.If you otherwise couldn't get phone service, spotty service was good enough. Carolina Phone wasn't for everyone, and that was OK.

What alternatives do your customers have to solve this problem, and why do they choose you?

Zen-like, market-based competitive barriers created during growth sprints can keep potential competitors at bay, even if they see what you're doing. For Furba Care, a technology startup up I co-founded, the total available market is small. While it can be very profitable for us, large companies don't compete because they find the market too small to move their dial. Carolina Phone created a new feature, prepaid phone cards, to meet the needs of customers without credit outside of the sweet spot of large incumbent competitors.

Several companies I have worked with, from the global capacitor manufacturer KEMET to the startup Accessible Diagnostics, chose to keep their most proprietary technology trade secrets. They found it better to keep innovations secret than to publish them through patents that let the world engineer around them. Non-technology companies, like the grocery store chain Earth Fare I helped grow, can have valuable trade secrets. We sold Earth Fare at a high valuation because our most guarded secret, our store location model, could accurately predict the revenue of new stores opened in new cities.

Some companies create value through the brute force of receiving a patent on an invention. Patents can be particularly important when raising capital from venture capital firms or selling the company to strategic buyers. Patents can provide a false sense of security to smaller companies with limited resources to defend their position in court. Capital Insights invested in Specialty Electronics, which had invented and patented very small electronic connectors used in new and rapidly growing cellular phones. A few months after filling the first order for our largest customer, Motorola, a second source appeared in China. As a young professional, I stormed into a Specialty Electronics board meeting demanding we sue our largest customer. A grizzled board member laughed at me, "Son, they will come to the fight with the 82nd Airborne. You'll show up with six-shooters. You need to rack this up to experience."

What is the vision that is exciting enough to attract the talent and capital necessary to realize it?

Furba Care's predecessor, Accessible Diagnostics, developed Vet-Tab, a smartphone-based, painless glucose monitor for diabetic dogs. Pet parents can test their diabetic dogs' saliva to determine its glucose rather than lancing the dog in the lip to draw a drop of blood. When successful, Vet-Tab can generate tens of millions of dollars in revenue and millions of dollars in cash flow.

I've pitched Accessible Diagnostics at numerous investor conferences from San Francisco to London. Inevitably, Silicon Valley-style venture capital firms ask when we will be a unicorn that achieves a valuation of $1 billion. That's not in the cards for Vet-Tab, so these investors are not a good fit.

Generating millions of dollars of cash can be a great business for the co-founders with the technical skills and business expertise to bring the product to market. It's a great fit for angel investors, which is where Accessible Diagnostics has raised its capital to date.

Neither being large nor small is inherently right or wrong. A successful growth sprint must be framed to attract the team with the talent and the investors with the resources to execute it.

What is 100% of the capabilities required to completely satisfy the customer?

Business Marts of America sold 2X4s and other building supplies to independent lumber dealers across the country. In the early 1980s, a BMA executive, Richard, got frustrated when he discovered the huge profit margins that AT&T received on long-distance phone calls. He wrote an exasperated letter to the Chairman of AT&T complaining about what he perceived to be obscene prices. Richard got back a perfunctory letter basically explaining that AT&T was close to a monopoly and BMA had little choice.

Unfortunately for AT&T, Federal Judge Harold Greene decided about that time to break up the AT&T monopoly. New competitors could buy long-distance phone service from AT&T at a wholesale price and resell it to end customers at a profit. The judge's order prohibited AT&T from lowering its retail rates on long-distance phone service causing AT&T to lose market share to new competitors who rushed in to provide long-distance phone service.

Richard co-founded Tel/Man to provide long-distance service initially to BMA customers. The Tel/Man team understood the wholesale/retail dynamic of serving small businesses with small profit margins who had to keep a close eye on cost. AT&T's phone bills could be huge stacks of paper that made it very difficult for companies to manage their telephone expenses. to provide small businesses not only lower long-distance rates but also phone bills organized in a way to better control costs. Tel/Man was very successful, very rapidly. Shortly after an initial public offering, the company was sold to a large competitor, generating a huge profit for Tel/Man's leadership and their investors. Tel/Man's growth sprint succeeded by delivering not only the core product others also sold, long-distance phone service, but also better billing and other intangibles that its small business customers loved. For the longest time, the framed AT&T letter hung on the wall in Richard's office.

What milestones must be achieved for the business to succeed?

Roger had run a small organic grocery store in Asheville, NC, for many years. When I met Roger, he had done an excellent job of creating a new, larger organic grocery store concept, Earth Fare. When touring the store for the first time, I was amazed when Roger told me half his customers had a vegetarian in the family. Capital Insights invested to achieve the initial milestone of successfully opening a second store in Charleston, SC, which was the first step to growing a large, regional organic grocery chain.

Initially, the second store's revenue was significantly below our projection. We weren't going to open more stores like that. Missing a milestone during our growth sprint isn't necessarily a failure because we were able to learn from it. Eventually, the Charleston store got on track. We engaged a real estate consultant to develop a better store location model for new stores. We identified that most vegetarians in the southeast at the time were educated and affluent, so our model was designed to identify that demographic. Our new milestone was demonstrating this new store location model was effective. We Successfully opened a third store in Athens, GA, and a fourth in Columbia, SC.

We opened a fifth store in Greenville, SC, which was not as successful as we hoped. The Greenville store seemed to have similar demographics as Athens and Columbia but failed to produce the same results. After much thought, we realized that Charleson, Athens, and Columbia were college towns with liberal faculty, many of whom were vegetarians. Greenville's population was more conservative with fewer vegetarians among educated, affluent people. So we modified our store location model to take into account universities and politically progressive organizations like environmental or animal rights groups.

We ultimately opened fifteen stores, tweaking the store location model as we learned more. By the time we sold the company, the model was highly effective at forecasting what revenue in a new store in a new city would be. The pitch to the private equity firm that bought Earth Fare was “just add cash.”

Who are the leaders with successful track records of doing what is essential?

It was clear after opening Earth Fare’s second store that we didn’t have the skill set in the company to open and manage multiple stores. I had breakfast with Roger in the Blue Moon Bakery in Asheville to ask him, “Do you want to run a company or grow your net worth, because those may be mutually exclusive?” Initially, he took that about as well as you might expect. Breakfast extended into lunch. To his credit, by the time I left, Roger was chairman of the search team for a new CEO.

An Earth Fare board member, Jim Cockman, had deep experience in the food industry. Over several days, we carefully compiled a long list of the skills a new CEO would need to organize and execute a growth sprint into a regional grocery chain. I looked at Jim, “That person doesn’t live on the planet.”

We sharpened our pencils and kept working. We decided which few on our laundry list were the most essential skills. What the company most needed was operational skills, like distribution logistics and running commissaries shared by stores.

We organized a national search, from which we selected three candidates. Two were very impressive marketing types. The third was an operator, who lacked the personal pizazz of the marketing folks, but had the experience we needed. He previously had been president of an eighteen-store, gourmet grocery store chain. His lack of natural and organic product knowledge wasn’t a problem, because Earth Fare was deep in that knowledge with a strong store concept we believed in. Because we had created a very clear profile, the final selection of the operator was easy.

What resources are required, and where will they come from?

I co-founded the technology company Hoowaki with Ralph, Michelin's former Director of External Research, and Bill, an academic researcher at the University of Illinois Urbana-Champaign. Hoowaki’s platform technology puts nano-scale microstructures on flexible surfaces to provide a wide range of functionality, like making a surface low friction or sticky.

One September, Ralph, Bill and I had dinner to decide whether we wanted to start Hoowaki together. We each invested $5,000 to fund some prospective customer visits. At the end of the calendar year, we liked where this was heading so we agreed to keep going.

We needed more resources to achieve the next milestones. Clemson University leased us a low-cost lab space in a university incubator. That qualified us to receive a small grant from SC Launch, a program of the South Carolina Research Authority, to foster university-based start-ups. We got some capital from sales of research samples to our initial early adopter customers. Ralph decided to personally invest the capital necessary to get Hoowaki six months or so down the road.

Previously I had been an executive at KEMET, a global electronic capacitor manufacturer. Jim, a former KEMET colleague, left and called me looking for new opportunities. We shared our progress with him so he’d consider investing. We continued to talk with SC Launch to understand what it would take to get a larger investment from them. We began to explore other sources of capital, in particular the Federal government’s Small Business Innovative Research (SBIR) grant program.

Ralph continued to have visits with prospects that went well, getting more orders to produce research samples. This revenue from early adopter customers was important both in terms of cash as well as

validation. It didn't dilute our equity. Based on our progress, Hoowaki successfully attracted a federal SBIR grant. SC Launch matched that grant with state funds, and also provided additional capital in the form of a loan.

Jim decided to make the first significant investment outside of the original founders to take the company to the next level. I personally invested alongside him. New resources allowed Hoowaki to significantly expand our team, from bringing on a young PhD engineer from Bill's lab to a business development experience professional. The brain trust Hoowaki was putting together was impressive.

The next milestone became generating enough revenue to cover all the company's overhead. Attracting new customers, established that we had found traction in the marketplace. That allowed Hoowaki to attract a multimillion round of capital, which was the funding for our growth sprint. Each step along the way, the next milestone in Hoowaki's growth spring was defined by what was required to attract the next round of resources to achieve it.