



Know Your Next Growth Challenge – before it comes

As entrepreneurs, we encounter a flood of challenges when we are starting our businesses and making them grow and, regardless of how well we perform the tasks, it seems as if new challenges constantly appear and just replace the old ones. So, how can we get better at predicting and overcoming future barriers to growth?

By far the majority of challenges encountered by startups and growth businesses are of the same type. This even applies to businesses in completely different industries that sell totally different products and services. Just like chicken pox in children, there are some challenges that face all businesses, which can even be necessary to build up the business's resistance level. For example, lack of liquidity during the start up can force a business to be good at extracting money from its debtors – a skill that will ensure the survival of the business when it later begins to grow.

For this reason, things that are regarded as problems or conflicts in the day-to-day life of the business should instead be seen as natural or expected phases that the business must live through in order to develop. We can observe how different businesses have almost identical business-related challenges that replace each other as the business matures. This is illustrated in the model “The life cycle” on the next page, which shows six archetypical stages of a business's development: Pre-start, Startup, Pre-growth, Growth, Ripening, and Transition.

Division into these six stages is just one of the many ways in which we can look at a business's lifecycle. They all have one thing in common though, that they point to stages in a

business's life, which have some common characteristics as in a person's life. So, what sort of challenges do startups encounter on their lifetime journey towards growth and beyond?

Pussyfooting around in the pre-start stage

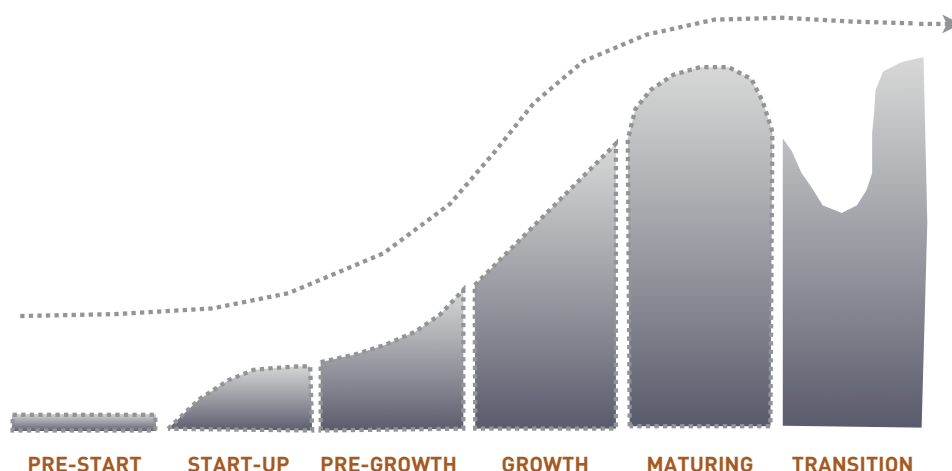
The first stage in the startup business's life cycle is the pre-start stage. This stage exists before the entrepreneur, has even established the business. He/she is considering and preparing the startup. The main characteristic of the pre-start stage is the high level of uncertainty about everything.

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The concept is still on the drawing board and has not yet been thought through and tested. However, the entrepreneur feels strong about his/her concept and believes in its viability – this is actually why many entrepreneurs also fear that their ideas will be stolen.

Another characteristic of the pre-start stage can also be that there is not yet sufficient motivation to get started. Therefore the entrepreneur is still pussyfooting around,

The Startup Lifecycle: Discover activities required to move to the next level



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considering whether to start – in the worst case this is a process that can last for years or never stop. The danger is that the business will die before it even get started. In order to avoid this it is necessary to establish a lot of energy and motivation for the idea in the pre-start stage. If we had to pick out one thing that is most often the driving force behind the development of the business from the pre-start stage to the startup stage, it would be meeting another person.

This person could be the first customer who is ready to order something. It could be a supplier who can supply goods or component parts that the entrepreneur will use in production or sales. It could also be an adviser who helps the entrepreneur to get rid of his/her uncertainty. Or perhaps he/she meets the person who will become a business partner, so there will finally be enough resources to get the project off the ground.

Establishing the right network of people around the business also makes the idea much easier to develop into a business concept. This can generate earnings and allow the entrepreneur to start taking initiatives and begin to perform a large number of tasks that will make the business a reality.

The difficult start in the startup stage

With the decision to start the business the entrepreneur is on the way into the **startup stage**. This is a large step forward, but the startup stage still contains more challenges. The problem may be that the business is not earning enough money. For some entrepreneurs, the reason for this is that there are too many different ideas around at one time – new business ideas arise all the time and divert attention from the activities that could be making money. For others it is the lack of customers that threatens the newly started business.

In both cases the consequence is that the earnings are often not enough to pay a full salary to the owner and the

first employees. As a result, the owner (or owners) is forced to perform all the tasks himself and therefore takes on an enormous workload – a workload that can be so oppressive that the entrepreneur tires himself out, loses passion and enthusiasm, and in the long run, the business itself.

The biggest problem seen in businesses during the startup stage is, however, that the startup takes much too long. It can drag on for years and some startup businesses never manage to get past this stage. They remain businesses that never ever experience the certainty that there will be turnover next month to pay salaries.

The solution to the “startup crisis” is several different initiatives that must occur simultaneously. If we want to point again to one single thing that will be able to lift the business to the next level, it will be to find a good, big customer – a customer that may give an order for a whole year’s work or that will enter into an agreement on a long-term collaboration. With a customer like that there are suddenly also sufficient funds to develop the right product portfolio; one that is attractive to the customers. The owner then gets time for more than just the daily operations, including, among other things, learning the basic disciplines necessary for building a strong business.

Standstill in the pre-growth stage

When the business starts to get a fixed income and regular customers, it has survived the startup stage. A big obstacle has now been surmounted and the business is now in a stage where it is generating income, where the owner gets a good salary and a good profit and where a handful of people have now been employed to look after sales and deliveries. Although this scenario sounds attractive, it is not necessarily satisfactory for businesses in the pre-growth stage. Many businesses have ambitions to go further and create a growth company, but it seems as if something is preventing growth.

STAGE OF LIFE	TYPICAL SITUATION IN THE COMPANY	THREE TYPICAL GROWTH CHALLENGES
PRE-START	<ul style="list-style-type: none"> The company is still just an idea that is fragile and not thought through. There is still not sufficient motivation to actually start the company. There are great insecurities about a lot of issues, and the entrepreneur is afraid that others might steal the business idea. 	<ol style="list-style-type: none"> Finding the right idea and develop it into a business idea. Establishing the right network around the company (first customers, suppliers, advisors and partners). Taking the initiatives and solve the tasks.
STARTUP	<ul style="list-style-type: none"> The company has been established, but makes no money. A lot of different ideas are being worked at and even new business ideas arise all the time. There isn't enough money to pay the owner full salary or to pay the first employees. 	<ol style="list-style-type: none"> Finding the right customers that create revenue in the short and the long run. Developing and creating the right product portfolio that is attractive to the customers. Learning all the basic disciplines that it takes to build a business.
PRE-GROWTH	<ul style="list-style-type: none"> The company has regular customers and a steady income. The company is really busy and to some extent there is state of chaos due to lack of systems. The sales efforts are sporadic or reactive because a certain amount of customers look for the product themselves. 	<ol style="list-style-type: none"> Systematizing the sales efforts and ensuring continuous increase in customers from existing or new markets. Establishing systems that document the company's business processes so they can be delegated to new employees. Finding the right market position to make the company an attractive alternative to the customers.
GROWTH	<ul style="list-style-type: none"> The company has created an attractive business concept and has employees to sell and deliver it. New employees are being hired almost every month. The liquidity is under pressure from investments and the increasing volume of orders. 	<ol style="list-style-type: none"> Controlling the liquidity and get financing for further investments that can sustain the growth. Recruiting the right employees who can grow with the job and become leaders. Developing a management culture and developing or winding up the entrepreneur as the director.
MATURING	<ul style="list-style-type: none"> The company functions well and has various divisions or subsidiaries that manage themselves. The liquidity is good and there is capital for further investments. A competent management group with complementary competencies has been hired. 	<ol style="list-style-type: none"> Maintaining the innovation and make room for developing new business areas or spin-offs. Keeping and attracting the best employees to create a strong and healthy organizational culture. Maintaining and developing competitiveness with new competitors in the market.
TRANSITION	<ul style="list-style-type: none"> The market suddenly disappears due to new competitors, technologies or trends. The group of owners is breaking up or leading employees leaves the company. The company is bought or fusions with another company. 	<ol style="list-style-type: none"> Re-thinking the company's idea and business model. Creating new partnerships with suppliers and distribution channels. Seeing through changes and building momentum for the new development of the company.

You try to accelerate, but there is no more horsepower. You try to change gear, but it seems there are no gears left. At the same time there is always a lot to do in the business and chaos reigns due to a lack of systems.

It is precisely the missing systems that are preventing the business's further development and growth. The lack of systems means that too much knowledge lies with the owner/manager, who is thus also always the decision maker. It will not be possible to delegate more tasks and more responsibility to other employees, to free the manager's time for growth creating tasks, until the business's business procedures have been documented in the form of e.g. price policies, operations manuals or checklists. The lack of systems is also seen in the sporadic sales efforts in the pre-growth business. Responsibility for new customers lies with the owner/manager and this is an area that only gets worked on when there is time for it. The business can get away with this because a certain number of customers come of their own volition, but creating growth demands a systematic sales effort that ensures regular customer additions from either existing or totally new markets.

In businesses where the sales process already functions well the problem can be a lack of focus on developing other areas in the business – for example its business model, supplier relationships or the business's brand.

Turbulence in the growth stage

If the business manages to start growing, the owners can be glad that they made the right decisions and spent time on tasks that gave results. An attractive business concept has been created, an organization has been built up to sell and deliver, the customers are satisfied and keep coming back and at the same time, the business's operations are under control, so they are making money. However, the growth stage is also one of the most dangerous life stages. In the growth stage everything is being changed and the actual growth itself contains potential crises.

One of these potential crises is when e.g. new people are being employed every month. This does not only put a lot of pressure on the business's physical framework, but also on the management's resources and on the business's culture, which changes in step with the new reality. The business's

liquidity also comes under pressure from investments the rising order book. The more that is sold, the more money is needed to purchase raw materials, build up stocks or to introduce new employees who will not earn their salaries until later. One might think that the worst cash crisis would occur in the business's earlier stages, but the most serious liquidity crises are seen in businesses that are growing.

Therefore, one of the most important development tasks for businesses in the growth stage is to manage liquidity and ensure financing for continues investment that can maintain growth, either through good credit limits in the bank or by getting outside capital. The capital will be used, among other things, to recruit the right employees who can grow with the job and be developed into managers, or maybe even to recruit an administrating director who can take over from the business's founder in that role. Some entrepreneurs manage the big task of transforming themselves from entrepreneur to manager – but others ensure the survival of their business by being clever enough to make the change to another role and let a new manager take over operations. Sometimes the business's founder can actually prove to be the biggest barrier to the business's growth.

Prosperity in the ripening stage

When the business has successfully come through the growth stage, it arrives in the ripening stage. Here the owner seriously begins to reap the rewards of the effort required to build up the business. The business now functions well on a daily basis and perhaps subsidiaries or separate, independent offices have been established. One of the reasons for the success is the employment of a well-functioning management group, in which the expertise of each member supplements the others. Because the business makes a profit, there is also capital available to continue investing in developing new products or new markets. This sounds almost too good to be true, and it is. For mature and well-functioning businesses also have challenges that they pay attention to – special challenges that come from the business's competitors. The competitors may very well be just as strong and have taken part in the growth that was in the market – this can therefore give rise to a race, which one either wins or loses. The race can be about retaining the initiative and creating space for developing new business areas or establishing new subsidiaries or "spin-outs". Or it could be about keeping and attracting the best employees. The businesses that are successful in the ripening stage have shown themselves capable of maintaining their competitive edge and keeping their customers. Perhaps they have also been lucky in preventing new players from coming along and taking over a part of the market.

Changes in the transition stage

Unfortunately, for most businesses the ripening stage does not last forever. Few businesses become just as old as their founder and seldom end up in the form in which they were originally established. The reason is that events take place

that necessitate the business transforming itself in order to survive. It can be that the market for the business's product or service suddenly disappears, a new, strong competitor has appeared or a new, radical technology or a new trend.

It can also happen that internal circumstances create a need for comprehensive changes; e.g. a dispute between the owners can lead to a break-up or the business can lose employees that have important management positions or are indispensable specialists. Lastly, it can happen that the business merges or is bought up – which in itself can ensure continued growth or survival.

In this way a transition stage can take the life of a business – but it can also be the starting point of new development that brings the business to a new development step and to new growth. It can be necessary for the business to re-invent its basic concept and its business model, to create renewed partnerships with suppliers or to establish new distribution channels, e.g. some businesses choose to make an online platform for their sales.

The growth challenges in the transition stage remind us of the challenges confronting the new-born business in the pre-start stage. We have come full circle and in the transition stage there is once again a need for the entrepreneur's expertise in creative thinking, carrying out changes and creating momentum for the business's new development.

Growth can be learned

Although the life cycle illustrates some classic challenges that most entrepreneurs will recognize, there is a difference in when and how fast the challenges come. Some entrepreneurs can live through the whole life cycle in less than a year, while for others it can take years for the business to develop from one life stage to the next. Regardless of the time span, the well-known development patterns mean that it is possible both to predict the next challenge and to observe what other businesses have done in this situation. This can give great insight and inspiration for how you can lead your business through the same development. It means that there is a recipe for growth and that it is possible to learn for entrepreneurs with extraordinary ambition, who have a visionary ability and who can imagine how the future will be, before it happens.

Suggestions for the next step

- Use the life cycle as inspiration to clarify which growth challenges are over and which are waiting round the corner.
- Find out how other entrepreneurs and growth businesses have dealt with their growth challenges and learn from them.
- Have a meeting with a sparring partner, your Board or an adviser about which steps you can take to get ready for the next period of change in the business.

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