

Forever Small?

Why most US companies never grow past \$1 million in sales...

And what ambitious owners can do about it.

Perhaps your company has already achieved \$1 million or more in annual sales. I say perhaps because it's not an easy thing to do. In fact, according to the most recently-published census data (www.census.gov), fewer than 25% of all employer firms in the US produce annual revenues of greater than \$1M. And only half of those – just over 12% of US companies – do more than \$2.5M annually.

While small businesses make up the vast majority of US firms, small businesses are, well... really small.

The main reason for this is not the economy, or competition, or lack of opportunity. These are challenges that every business must overcome, regardless of size.

No, the main reason businesses remain small lies at the very top of the organization. Or should I say, the *center* of the organization.

An Intriguing Call

A few years ago, I was contacted by a business owner in the northeast who wanted to engage me as his management coach. I explained that I initially visit a business for a full-day assessment, and thereafter work with the owner remotely, meeting regularly on-line and by phone.

The owner wanted more. He wanted me to visit his business for *two* days. "I've got a lot of stuff I'd like you to help me fix, Steve."

This sounded intriguing – a business with more complexities and issues than any I'd worked with before. A business that wanted to get twice as much done during my visit.

As I was to learn, however, we needed two days because this was a business that took twice as long to do just about anything.

The Epicentral Owner

Over the course of my visit I discovered that Bob, the owner, was at the center of virtually every company activity. Our talks were interrupted constantly – by customers, by his admin assistant, by his field staff. There were non-stop questions that apparently only Bob could answer.

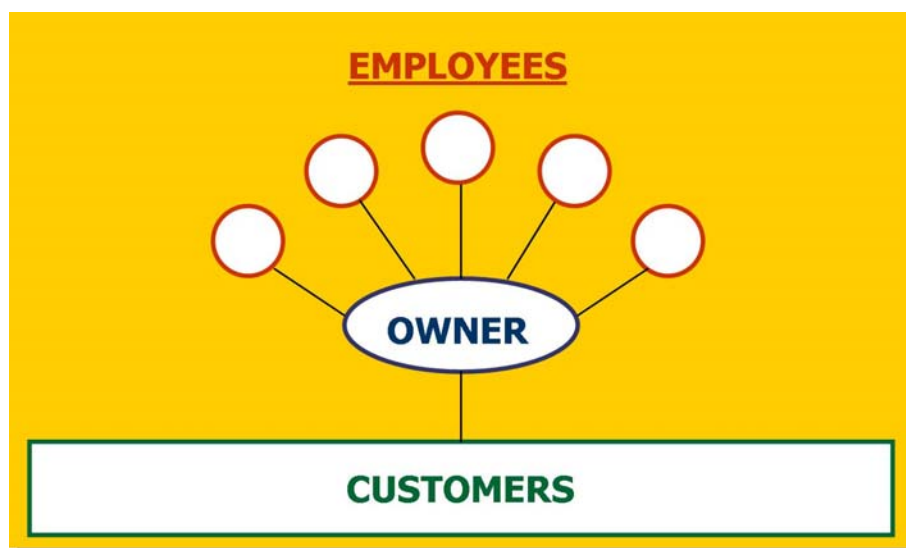
When an answer wasn't good enough, Bob would stop our meeting so that he could do, himself, what needed to be done. He even took me to a jobsite where I got to watch him work for an hour. It wasn't a high-level customer meet or anything at all strategic. No, I got to watch him fix a technical problem his technicians had been unable to resolve.

Bob's epicentral management style was a bottleneck to progress. He was so busy "keeping up", he couldn't even plan his day. The bookkeeping software he'd purchased was implemented only to the extent that his assistant knew how – and she didn't know enough. AP and AR and customer records were in his head, backed up by some documentation filed "somewhere".

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No wonder he wanted me there for two days. And no surprise that, when it came time to implement the changes I would recommend, he was too busy to do any of it.

This story might be funny if it were not so universally true. Small companies often stay small because of the owner's inability to let go and delegate. The organization of such an owner-centric company looks something like this...



This kind of organization can never grow past the owner plus 7-8 employees, because no one person can effectively manage many more "direct reports". This is the growth barrier that I see working with companies across the US. Many get "stuck" at the 7-8 employee size, never able to grow past it and often – because the owner is taxed to be responsible for so much – unable to sustain that size organization. They don't grow. They shrink.

This is confirmed by the data. The census counts about 4.6 million firms with fewer than 10 employees – just over 75% of all employer firms, and about the same number that do under \$1M in annual revenues.

Re-shaping Your Organization for Growth

That 75% of US firms don't grow past \$1M annual revenues may seem sobering, but it doesn't mean yours has to be one of them. You will need to escape the owner-centric dilemma, if you haven't already. You'll need employees who know how to accomplish the daily work of the business. You may need business management skills that you, the owner, do not currently possess. Mainly, you'll need to shape an organization that attracts and retains both good employees, and profitable customers.

Here are some of the best ways I know to do that...

Provide Employees Clear Direction

One of the biggest mistakes entrepreneurs make is expecting their employees to be like them. You know, unafraid to work without a script. Unafraid to take risks. Unafraid to miss an occasional paycheck.

Sorry. If employees were like you, they'd be owners, too. But they're not like you. They like and need to know what is expected of them. This paragraph from the Verne Harnish

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book, *“Mastering the Rockefeller Habits”*, is the best statement I have ever read on the subject:

Employees “need to know what marks they’re supposed to be hitting. They want to understand how they can conduct themselves... They appreciate a reminder when they goof up. And they want to know the rules aren’t a moving target...”

It wasn’t until I had children that I began to understand just how differently employees, compared to entrepreneurs, think about things. You tell a child to do something, they ask, “Why?” You tell them why, they ask, “How?” And if you don’t tell them exactly When you want them to do it, it doesn’t get done. (Interestingly, children never ask, “When?” They somehow know that this is their “out”, if When is not specified.)

Think about your company. Is the Who, What, Why, How, and When of their work clear to each employee, each day? If it isn’t – if there is any ambiguity, or if you’re asking them to figure it out on their own – don’t be surprised if you don’t get the outcome you desire. Your employees need your help to succeed.

Have Goals and Share Them

One of the biggest breakthroughs for my company was learning to quantify what we hoped to achieve. Over my first five years as company president, we went from minimal planning (“how much cash do we need this week?”) to comprehensive annual and monthly targets for sales, GP, net profit, and cash. Company-wide goals were broken down into operating targets for each of our stores, which in turn allowed us to create quotas for each department and each salesperson.

These goals allowed us to clearly enunciate another thing employees love to know, namely, Where is the company going? It allowed us to make demands, without sounding unreasonably demanding. And over time it helped us refine all our daily processes: what we needed to do, and how we needed it done.

Every month, we would have a meeting to compare actual sales & GP results to the goals we’d set. The results weren’t always “on plan”, but the culture was both rewarding and motivating. You might not expect that employees would care, but they do.

There is another interesting benefit to all this. Employees hate chaos. They will always, always seek a more orderly environment (remember, they don’t think like owners). Goals – and regular communication to discuss them – bring order. Employees will be less attracted to other opportunities.

Make Time for Strategy

Strategy is the exclusive domain of high-level management. Brand strategy, marketing strategy, organizational strategy, financial strategy. The Epicentral Owner is so often overwhelmed by the needs of the moment, s/he never has time to think about these things. But the growth-oriented company will stall without it.

Prior to my final year as company president, my family & I moved 235 miles north of my company’s HQ. For over a year, I drove those 235 miles to work every Monday, stayed three nights in a hotel, and returned home on Thursday.

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Necessarily, I had to completely remove myself from daily operations. Close to 100% of my time was spent on strategic issues.

It was the most productive year of my career. Every division of our company grew. We made record profits.

I recommend to all my clients that they set aside some strategic time each and every week. Don't move out of town to make it happen, just get in the habit of devoting a scheduled period of time each week to closing the door, turning off the phones & e-mail, and thinking about what needs to happen to help your company grow.

I call this the "pause button". You'll be amazed at what consistent strategic pauses can help accomplish.

Never, Ever, Forget Your Customers

As you go about re-shaping your organization, it can be easy to forget who you are re-shaping it for. You won't successfully grow without enhancing your company's ability to serve customers.

You should consider every new strategy, process, and policy in terms of its customer impact. Something convenient for the company – automated phone answering, for example – might be a turn-off to customers. Burdening revenue producers with excessive administrative responsibility reduces the time they have to serve customers. Having an owner who is the only person who can make customer service decisions, limits the number of customers who can be served.

At the same time, your customers cannot be allowed to forget why they chose to do business with you. This suggests you maintain your relationship with them, long after that first sale is made. Newsletters, text messages, phone calls, holiday cards, social media, your website. You have multiple ways to stay in touch with the people most likely to bring you future business...

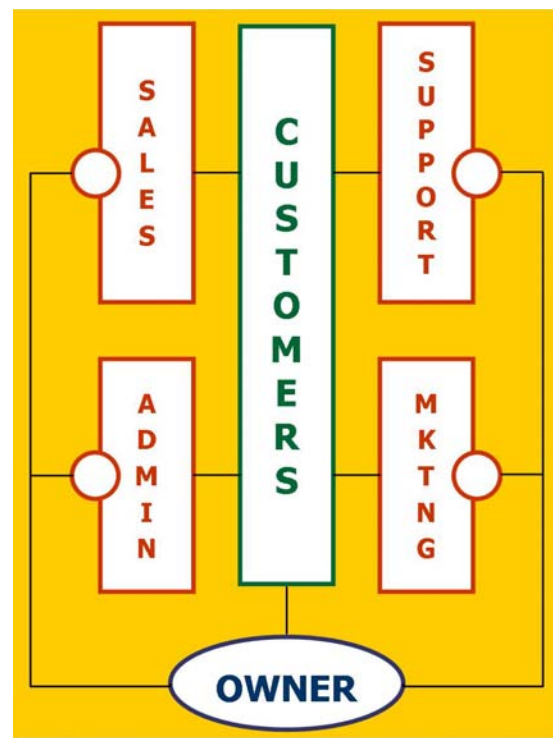
Your customers. Put them at the center of your organization. When you're done, your re-shaped company might look more like the org chart at right.

A "Customer-Centric" org chart. Each department communicates with customers. Each department manager reports directly to the owner.

Start Somewhere, Starting Now

Here are the action items for "re-shaping" your organization:

- Let go & start delegating
- Help employees succeed by clarifying Who, What, When, Why, & How
- Set goals and share them
- Pause weekly to consider strategy
- Put customers front & center



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My final recommendation is to get help or mentoring. It is admirable to try and figure out everything on your own, but it is costly: it takes too long, you make mistakes, and you don't always come up with the best solution. There are trade groups, coaching groups, local business associations, retired executives, and professional help resources available to you. Don't be afraid to reach out.

May you Grow & Prosper!

About the author

Steve Firszt is a 30-year veteran of the consumer electronics industry. For 20 years he served as president and co-owner of a full-service A/V retailer/installer that grew to 4 stores with 75 employees. Today, as owner and "Head Coach" of Fast-Forward Business Coaching, he works with the owners of retail and installation companies in the consumer electronics industry. You can visit his website at www.ffbizcoach.com.