

# The significance of second stage

The Edward Lowe Foundation began to narrowly focus on second-stage entrepreneurs in the early 2000s due to the important role second-stagers play in economic prosperity — and misperceptions about entrepreneurship.

“People frequently use the term ‘entrepreneur’ to refer to small businesses,” says Mark Lange, the foundation’s executive director.

“But entrepreneurship encompasses a broad spectrum, and there’s a big difference between small-business entrepreneurs and growth-oriented entrepreneurs.”

For example, some individuals, often referred to as “lifestyle entrepreneurs,” may be self-employed because they like being their own boss, but creating jobs isn’t a priority for them.

Then there are small businesses that provide jobs in a community; however, the local trading area they serve often restricts their growth.

In contrast, growth entrepreneurs are significant job creators because of their appetite — and aptitude — for expansion. And because they often have national or global markets, they bring outside dollars into the community.

The foundation defines second-stage growth entrepreneurs as having 10 to 99 employees and annual revenue ranging between \$1 million and \$50 million.

“These are soft boundaries and will fluctuate depending on industry,” Lange stresses. “The important distinction is that these companies are focused on growth, and they are powerhouses when it comes to job creation.”

Indeed, between 1995 and 2009, second-stage companies only represented 10.9 percent of U.S. resident establishments, but represented 36.2 percent of jobs and 38.6 percent of sales, according to YourEconomy.org, the foundation’s online research tool.

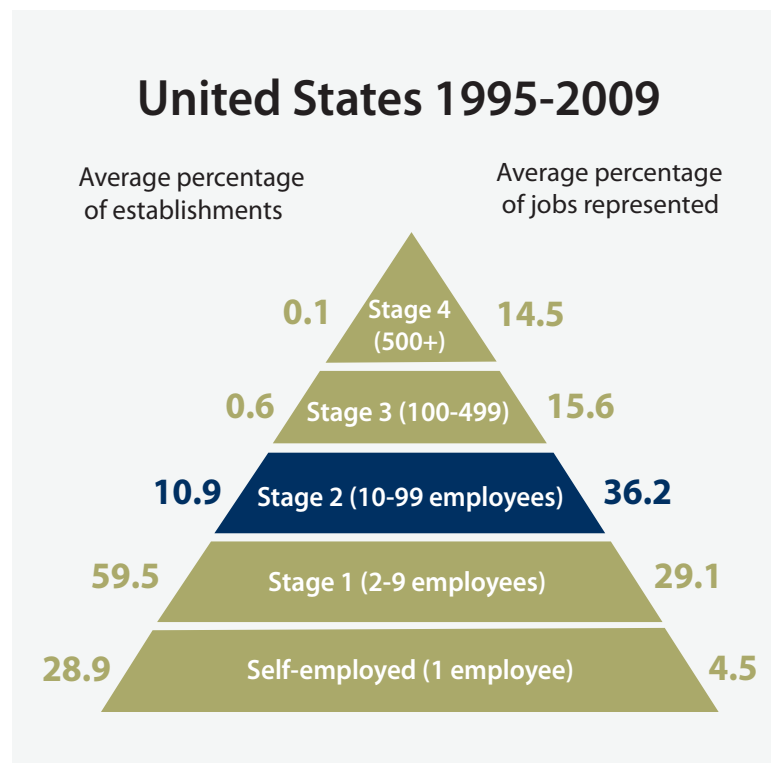
Many people associate second stage with gazelles (companies that grow 20 percent or more each year), but that’s only part of the story. Second stage also includes companies with potential for high growth and those with steady growth that may be less dramatic than gazelles but is still impressive.

“Granted, growth entrepreneurs pass through a variety of stages, but second stage is a critical juncture,” Lange says. “In his book ‘No Man’s Land,’ author Doug Tatum calls this the adolescence phase in companies’ lifecycles where they are ‘too big to be small but too small to be big.’”

Although funding and resources exist for

small businesses and startups, second-stage entrepreneurs have different needs to continue growing. For example, second-stagers wrestle with refining core strategy, adapting to industry changes, expanding their markets, building a management team and embracing new leadership roles.

“It’s important to treat these growth entrepreneurs differently than small businesses,” Lange adds. “Communities need to identify their second-stage entrepreneurs and make sure they have the right services and resources in place to help these existing companies continue their growth trajectory.”



# Chapter Two

Second-stage entrepreneurs discuss the new challenges they face transitioning their businesses from small to large

Second stage is a critical time for growth entrepreneurs because they face an entirely new set of challenges. “What made you successful in first stage may not make you successful in second stage,” says Dino Signore, manager of program development at the Edward Lowe Foundation.

On the plus side, second-stagers have a proven product or service under their belts and have attracted initial customers, so survival is no longer a daily concern. Yet second-stagers now face more strategic issues as they strive to gain a stronger foothold in the market and win more customers.

## New questions to answer

Take Luke Ford, president of My Computer Works (MCW) in Scottsdale, Ariz. A pioneer of remote computer-repair service, Ford founded MCW in 2005, and today the company has about 65 employees and \$5 million in annual revenue. Instead of asking, “Can we make it?” he’s now asking, “How do we grow the business affordably, and what channels do we use?”

Marketing channels that generated initial growth for MCW may not be adequate to take it to the next level. “It’s like a space shuttle that uses certain boosters to get off the ground, but needs different accelerators to move higher in space,” explains Ford.

During MCW’s first year, Ford won clients by using salespeople to call on local prospects. Then he had enough momentum to launch a national TV and radio advertising campaign, which attracted customers from around the

country. Ford now has added social media into his marketing mix including training videos on YouTube and a Facebook page that boasts more than 1,700 “likes.”

Another key issue for Ford is refining a sustainable competitive advantage.

Like many entrepreneurs with an innovative product or service, Ford faced little competition when he launched MCW. But today it’s a different story as the remote computer repair market becomes increasingly crowded.

“As our industry evolves, we need to understand what we do better and adhere to those principles so the marketplace knows how to categorize us — and the customers we want to serve know who to go to,” he says.

A subscription service that uses only U.S. technicians, MCW’s sweet spot is serving the home-business user — individuals who rely on their computers and need reliable, efficient service. “You can’t be the best at everything, and we plan to compete on quality rather than having the lowest price,” Ford explains.

In addition to fiercer competition, market dynamics can require growth entrepreneurs to tweak business models and restructure their organizations.

When Mike Hawksworth founded MSS Technologies in 1986, the Phoenix-based company provided consulting services to implement custom and vendor software systems. In the 1990s, when software providers changed their sales and distribution channels to partners, MSS added software sales and integration services. “It didn’t change how our consulting business worked, but meant we had to hire product salespeople, causing

MSS to shift into two business divisions,” Hawksworth says.

Although MSS traditionally has served mid-sized companies, the current market environment has provided opportunities with larger enterprise clients, prompting Hawksworth to hire consultants with Fortune 500 experience.

As a result, 2011 was the company’s best year since 2006, and 2012 looks even better. In fact, Hawksworth expects 2012 annual revenue to increase 35 percent.

## Building management teams

Personnel issues loom large in second stage.

As their staffs expand, entrepreneurs need to bring on senior managers. “Although many entrepreneurs are born marketers and naturals at business development, management skills aren’t always part of their DNA,” points out Signore.

It’s a pain point that Bridget Lorenz Lemberg knows all too well. “I’m a scientist, not a manager,” admits Lemberg, founder of Forensic Fluids Laboratories, a drug-testing company in Kalamazoo, Mich.

Lemberg founded Forensic Fluids in 2005 and built annual revenue to \$5.5 million in 2011. With the addition of four new regional sales reps, the company aims to hit \$10 million in 2012.

“Yet for us to get much bigger, I need help with the HR piece,” she says. “Right now there is no one here to replace me — my staff is very young, and I need more experienced scientists who can do what I do.”

Building a solid management team



*For Jena Gardner, CEO of JG Black Book of Travel in New York, defining core values and communicating them to employees has helped her address some of the personnel issues that spring up in second stage.*

has been a priority for Bryan Debshaw during the past five years — and doing so has enabled the CEO of POLARIS Laboratories to think more strategically and focus on global expansion, which is the company's big push.

Headquartered in Indianapolis, POLARIS Laboratories provides testing and analysis for oils, fuels, coolants and water-based industrial fluids. Since its launch in 1999, the company has been doubling in size every few years, and by mid-2012 it had more than 200 employees and \$22 million in annual revenue with six locations in three countries — most recently Guatemala.

### **Planning for growth**

Yet even though POLARIS Laboratories has more resources than it did during startup days, there are still challenges to acquiring human capital. "If you're growing fast, you must anticipate what you'll need four or five years from now and try to hire accordingly," Debshaw explains. "And typically you don't have the budget for that kind of talent. It's like being the coach of a small market football team and trying to recruit for the Super Bowl."

Personnel issues also include constant development of existing staff — and

sometimes having to cut them loose.

"Often the people who started with you are not a good fit as your company evolves," says Jena Gardner, founder of JG Black Book of Travel, a New York-based travel consultancy with 23 employees and \$3 million in revenue.

Gardner, however, has found that defining and sharing core values can make cleaning house a lot easier. For example, among her company's core values is the belief that travel has the power to make a positive change in the world, and Gardner has co-founded a nonprofit organization that supports socially responsible tourism. "We had some people who didn't believe in those values and thought our philanthropic efforts weren't appropriate during the recession when they weren't getting bonuses," Gardner explains. "That made it easier for them to leave — and for us to find talented people who are aligned with our values."

A more recently defined value at JG Black Book stipulates that everyone in the company is responsible for customer satisfaction, regardless of their department. To execute that, Gardner assigned a specific group of clients to each staff member. But some employees weren't comfortable with these new responsibilities. "I realized I

had brought on a number of people that were nurturing but didn't like conflict and couldn't handle it when clients called them with problems," she says, noting that this core value also helped clarify which employees were best suited to grow the company.

Implementing the right systems are as critical for second-stagers to grow as wooing the right people.

Take Tom Senecal, CEO of Lasers Resource, a Grand Rapids, Mich.-based company that has evolved from selling printing supplies to becoming a full-service print management dealership with 16 employees.

In the past three years, annual sales have plateaued at about \$3.5 million, which Senecal is anxious to scale. To do so, he's fostering a "culture of discipline" that includes connecting the organization's mission and vision with quarterly goals and implementing more documented processes — especially those that affect customers, such as order fulfillment, contract renewal and customer account review.

### **Market alignment**

Senecal is also segmenting customers according to how they contribute to the bottom line. "In the early days, you can give all customers the same level of service, but to grow you must spend the company's resources directly and proportionately to where your profitability is," he says. "You may not like it, but you have to treat some clients differently."

Investing in a new cloud-based CRM system will enable Senecal's staff to automate customer service for less profitable accounts and free up more time for high-profile ones.

In addition to the CRM system, Senecal is turning to the cloud for other technology solutions. "I've drawn a line in the sand when it comes to adding more servers," he says. "This probably only translates into a 10 or 20 percent savings in hardware, but it means a big savings in time by not having to manage that technology anymore."



In second stage, entrepreneurs need to embrace new roles. For example, they must stop wearing multiple hats and start delegating. They need to shift from being doers to being coaches.

“Your new job is enabling people, helping employees learn how to do their jobs better,” says Donald Hicks, CEO of LLamasoft, a technology company in Ann Arbor, Mich., that ended 2011 with more than \$10 million in annual revenue and 80 employees and is targeting growth of 30 to 40 percent for 2012.

“At first this is frustrating because you think others won’t do as good a job as you think you might have,” he says. “But it starts to get fun when you embrace the fact that your being good at something doesn’t matter — what’s important is helping others to get even better. That’s how you get all the things done that need to be done.”

### No longer a sprint

Hicks has not only altered his leadership style, but also his lifestyle. For example, he no longer takes his laptop home every night, so he can focus on his family.

“In startup mode, everything has to defer to your business, including sleep and your family,” he explains. “Yet moving into second stage is like going from a sprint into a marathon. Burning

the candle at both ends makes you a lousy growth CEO. Your company needs you to be more stable.”

Another change: Hicks reads fewer trade publications and local newspapers; instead he opts for literature and poetry — and a healthy dose of global news as LLamasoft has clients in more than 20 countries including China, the United Kingdom, Columbia and South Africa.

“As the CEO, people expect you to connect your organization in a very complex world,” says Hicks. “You need to have perspective on what’s happening around the world, which is something you can’t fake.”

Second-stage CEOs must also communicate more frequently — to internal audiences as well as external ones.

“During startup days, I had a vision, but it was my vision, and I didn’t share it well throughout the organization,” admits Kathie Fuce-Hobohm, president of SPACE Inc., a Midland, Mich.-based interior design firm and office furniture dealership with more than \$21 million in annual revenue.

Fast forward to today. Everyone at SPACE is crystal clear on the company’s mission and vision — and there is annual strategic planning. “The business is better because of it,” says Fuce-Hobohm. “There is a clear direction that drives our decision-making. And,



Moving into second stage requires CEOs to make both leadership and lifestyle changes, says Donald Hicks of LLamasoft.

because everyone understands the vision, we’re aligned. Instead of one person working toward a goal, we now have 32 people working together to achieve it.”

At POLARIS Laboratories, Debshaw has dramatically increased the amount of information he shares with managers. “Today we’re very metrics driven and post everything from top customers to revenue to cost per sample,” Debshaw says. “That’s important because as I become further removed from daily operational decisions, I need my managers to make the kind of decisions I would, which means they need access to more information.”

## Supporting second-stage companies

The Edward Lowe Foundation has created a variety of programs, delivered through entrepreneur support organizations (ESOs), to help entrepreneurs be successful in second stage and continue their growth journey:



- Leader retreats at Big Rock Valley, the foundation’s 2,600-acre headquarters, help second-stagers and ESO leaders with strategic direction and leadership issues.

• PeerSpectives, a unique CEO roundtable methodology based on peer learning.

- Companies to Watch, a recognition program for high performing second-stage companies.
- The National Center for Economic Gardening delivers strategic research services and maintains national standards for state and regional economic gardening networks.

“We help position ESOs to make a real difference with second-stage companies,” says Penny Lewandowski, the foundation’s director of entrepreneurship development. “Experience tells us that second-stagers learn best from each other; so peer learning is an integral part of everything we do. We also understand the importance of recognizing success, so programs like Companies to Watch give communities an opportunity to tell the good news about their growth entrepreneurs.

“Although each program stands on its own, they work in concert with each other and create important synergies,” Lewandowski adds.

For more information about the Edward Lowe Foundation and its programs, visit [www.edwardlowe.org](http://www.edwardlowe.org) or call 800-232-5693.