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COVER STORIES ALL-STARS

What CEOs of ultra-fast-growing companies
know that you don't—and how you can use it
to build a powerhouse business of your own.

ALL-STAR ENTREPRENEURS READY, SET, GROW by VERNE HARNISH

FIVE YEARS AFTER FOUNDING HIS COMPANY, ALAN RUDY WONDERED WHAT EXACTLY HAD gone wrong. No, the business wasn't headed for financial ruin; in fact, it had grown to more than \$30 million in revenues by 1999. But no one could have guessed that from Rudy's demeanor. "I was angry all the time," the entrepreneur admits. He wasn't the only one, it turns out. Upon arriving at his office at Express-Med, a mail-order medical supplies firm based in New Albany, Ohio, Rudy heard stories of how employees the night before had been having fistfights in the parking lot. One employee even went so far as to knife the tires of a colleague's car. "We didn't have good control over our hiring and firing. We were hiring anyone we could get," Rudy now says, adding, "We didn't have any direction. The stress was a little high."

It wasn't exactly reduced when Rudy learned on March 30 of that year that the company would post a projected quarterly profit of \$300,000, only to have that figure corrected two days later; it ended up losing \$350,000. "For several hours I thought it was an elaborate April Fool's joke," says Rudy. Once he discovered it wasn't, Rudy—who canceled a ski trip with his father and two brothers for the first time in ten years because "the business needed me to hold things together"—began taking steps to reverse the trends that had made Express-Med so disillusioning. Two years later

PHOTOGRAPH BY
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his seven-year-old firm has grown to \$65 million in revenues. More important, he now says, "it's fun again, and we're making money."

Express-Med is one of those rare companies that survive the transition from a small business to a fast-growing gazelle. In fact, it is among the elite 3% of all small companies—the "gazelles," a name coined by former MIT researcher David Birch, founder of Cognetics Inc., a consulting firm in Waltham, Mass., that tracks statistics on business growth. Birch defines a gazelle as any firm growing at least 20% a year for four consecutive years. They are not the huge, old "elephants" that are cutting back on employees. Nor are they the

two-thirds of the continent's economic growth and essentially all of its job creation, reckons Birch.

As the statistics indicate, becoming a gazelle isn't easy. Making the leap to fast growth means navigating a specific set of challenges, all of which are potentially life threatening. The good news: Those barriers are known, and the rules for handling them are within every entrepreneur's grasp. At their simplest, they boil down to these: the need for managers who can delegate and can predict the trajectory of the business; the need for systems and structures to handle the complexity that accompanies growth; and the need for CEOs to navigate the increasingly tricky market dynamics that mark their company's arrival in a larger arena. No matter what stage your company is in, all it takes to make work both fun and profitable is the discipline to find the right tools and then to use them well. Fast growth may look like something that happens to some companies and not others, but more often it's a conscious choice that entrepreneurs make.

Few have learned that better than Molly Bolanos, whom I met through my consulting practice (as is true of the others in this story). Bolanos had in mind a little muffin company, a bakery and delivery business that would cater to offices in downtown Seattle. It was 1987. She was 21 and fresh out of college. Bolanos had majored in business, and Mostly Muffins was to be "kind of a case study"—just to see whether she and a partner could pool their savings and start a company. The startup took four years to hit \$1 million in revenue. Then the coffee craze hit. Today Mostly Muffins sells more than 50,000 items a day and expects to hit \$10 million in revenues this year. In the middle of tremendous growth and expansion, the company has managed to add six percentage points to its gross margin while also doubling its cash and tripling the industry average for profits. And Bolanos herself is in full bloom as a CEO. "I've got my head up and my eyes looking around for opportunity," she says with satisfaction. "I think \$30 million would be great for us."

Her confidence about getting to that goal comes from the fact that she has confronted the stumbling blocks that every potential gazelle must overcome. "I've found that the stages of growth and the issues you face in a company and as a CEO are very predictable," Bolanos says. Here are the big three.

READING LEADERS WHO CAN DELEGATE COMFORTABLY

DOUIG HARRISON RECALLS VERY CLEARLY THE shift in thinking that sped his business up. Says Harrison, founder and CEO of the Scooter Store, a \$200 million provider of power wheelchairs and scooters for the disabled: "We had spent 7½ years struggling to just make our local operation work. We knew our systems weren't ready, and we knew growing the business would take us away from our families. But we also knew, once we started making a small profit, that we had a business that could grow." The threat of a new competitor also helped nudge him toward choosing hypergrowth for his New Braunfels, Texas, company. "That kicked us off the edge," he says.

Harrison realized he couldn't grow without help. Although others were telling him that it was too soon to shell out big salaries for experienced managers, he has never regretted it. Around 1995, Harrison added an operations manager and a controller to his eight-member payroll—paying each of them more than he was earning. The controller replaced the company's outside accountants. "They were a small firm, and we had big-world plans," says Harrison. Pursuing those plans meant he had to free himself up from what he was doing, which was why he hired an operations manager. Delegation is just as crucial as management thinkers claim it is. And Harrison knew it was crazy that he was the one deciding whether the bathroom towels would be plain white or blue-striped. He needed a managerial structure in place to let him focus on his real job: growing the company. "We went from two locations to five that year, yet we felt we were in better control of the business," notes the former petroleum engineer. "I was pumped up."

At what point does an entrepreneur need outside management expertise? "By about \$8 million or 50 employees, it just gets too big to keep it all in your head anymore," explains Shannan Marty, CEO of Tracer Research Group, a \$15 million, Tucson-based tank and pipeline leak-detection company. Marty looked to the *Fortune* 500 when hiring outside managers. These senior hires brought with them systems that her existing employees, who'd grown up with the company, didn't know: salary schedules, performance evaluations, information systems, and strategic-planning processes. However, as she learned, bringing in outsiders can also be tricky. "I probably overhired," says Marty, who co-founded the company in 1983. "A culture clash developed from the regimented, hierarchical communication structures they were used to at their mega-corporations. It was strangling us. Our long-term technical employees were very unhappy, and turnover was up."

Eventually Marty replaced some of the outside hires with the people who had been with her from the start. The difference now was that they had learned the tricks of big business and were ready to step into larger roles. Even so, Marty will tell you that the company would not have grown without the infusion of new, more experienced talent.

SETTING SYSTEMS TO HANDLE INCREASED COMPLEXITY

THE ULTIMATE GOAL OF IMPOSING structure and instituting systems is, of course, predictability. Unless a CEO can pinpoint where his company is today and can project where it's going to be this week, this month, this quarter, and this year, it's not on a trajectory for growth. In fact, it might not be on track for survival. At McKinney Lumber in Muscle Shoals, Ala., Joe McKinney inherited a \$5 million family business and built it to more than \$50 million in revenues in just over a decade—thanks, he says, to his almost slavish devotion to metrics and measurements. McKinney started by training his entire work force to understand terms like "cost of sales" by having them operate a sandwich business at lunch. He also established and popularized an internally understood "critical number," a

measurement of plant productivity. Through that number, or “dollaring the production costs,” as he calls it, everyone at the company can tell, daily, how much profit, if any, is headed for the bottom line. “The number gives you a firm foundation that lets you know where you are, even if you don’t like the answer,” McKinney says.

Like everything else associated with growth, predicting the course of a business becomes more difficult as revenues increase and the stakes grow bigger. “When we were measuring for a cake, a measuring cup worked fine,” McKinney says. “But we needed a bigger bowl for a state dinner, and the accuracy has to be there—because a 2% error rate on ten is nothing, but on 1,000, it’s a miss by 20. So the tolerances of the system have had to tighten up as the company grows.”

Of course, the best-designed system will work only if you get everyone reading off the same page. Many gazelles find it useful to set priorities for each quarter—no more than five—and then to identify one goal that supersedes the others. That is known as a Top 5 and Top 1 of 5 priority list. At Carney Interactive, an Alexandria, Va., software company that has grown to \$4.3 million in revenues this past year from \$1.9 million the year before—and hopes to double again this year—founder John Carney keeps the Top 5 corporate priorities for the quarter and the company’s eight core values on 8½-by-11-inch laminated sheets posted near his employees’ noses. There’s also a place for each employee to write his own Top 5 priorities for the quarter, aligning them with the company’s Top 5. The postings remind the work force what’s important, like the necessity of bringing projects in on budget, and core values such as the need to manage corporate resources wisely. In addition, the postings serve as a simple but effective quarterly-performance-appraisal system. But Carney also likes the impression the signs make on visitors. “It sends a clear indication to a client, a banker, or a prospective employee that there’s something different about how we do business,” he says.

Like many gazelles, Carney’s company drives quarterly priorities under the rubric of a theme. Choosing a space motif, Carney first set a “launch” theme and introduced it at an all-company event held at the Challenger Center for Space Science Education, in Alexandria, Va. “Our current theme is ‘escape velocity,’ because as the organization is growing, we’re escaping the old bonds of how we used to do business,” Carney says. “It’s like a spaceship escaping gravity—you’ve got to exert a lot of energy to do it.” Each time the 40-member work force hits a sales goal, there’s a theme-related celebration, with prizes and recognition.

While many companies tend to concentrate on sales goals, it’s important to focus on other areas too. “We tend to pick a nonsales goal in our fourth quarter each year,” says the Scooter Store’s Harrison. One year he established a robotish Sy-Fi (systems-finance) theme, which identified critical areas for improvement—including a call for zero defects, “which was at that time ridiculous.” The following year Harrison defined a “customer wow” theme, which aimed to have customers saying “wow” whenever they interacted with the company. (Harrison created the first “wow” by riding an elephant into a kickoff meeting for the new program.) Harrison set another

challenge: cutting back on the time it took to get a customer’s malfunctioning wheels fixed. “The industry average is seven days,” he says. “We got it down to a day.”

What makes a quarterly goal achievable is a daily and weekly rhythm aimed at keeping everyone informed, aligned, and accountable. “It’s amazing what you can accomplish when you get 100 people all working on just one priority, instead of 27,” says Bolanos. One of the most successful practices any company can implement is that of a daily huddle—no more than 15 minutes per group, in a room or on a daily conference call, just to celebrate progress or identify barriers blocking that progress. The great petroleum tycoon John D. Rockefeller held such a meeting with his executives every day of the 19 years he spent building Standard Oil (see box). The meeting not only keeps people informed but also helps put out fires that could burn up time at the weekly meeting, where the main topic should be the quarterly goals.

This rhythmic “pulsing” of daily and weekly meetings constitutes the heartbeat of a growing company. To make the best possible use of these sessions, some companies set aside a huddle area where the walls are mapped with priorities, core

HOW TO ACT LIKE A ROCKEFELLER

YOU DON’T NEED A ROCKEFELLER’S MONEY TO BUILD A company. But you might very well need something else the founder of Standard Oil has handed down: his habits. Though John D. Rockefeller died in 1937, the three fundamental barriers to growth he identified—and the trio of “Rockefeller habits” that he developed to cope with those barriers—haven’t changed in their importance.

THE THREE BARRIERS

- **Leadership.** Can the leadership team keep growing in its ability to delegate and predict the course of the business? Can it develop other leaders?
- **Systems and structures.** Will accounting, personnel, sales, and operational systems be installed to help drive timely decision-making? Will organizational structures be set up to keep clear who’s accountable?
- **Market dynamics.** Will the organization be prepared to deal with the changing competitive and economic pressures that come with growth? Will the organization recognize when it must shift its economic model?

THE THREE ROCKEFELLER HABITS

- **Priorities.** Does the company have five top priorities for the year and the quarter (even the month, if expanding over 100% annually) and a clear No. 1 priority along with an appropriate theme? Do everyone’s personal priorities align with the company’s?
- **Data.** Does the business have sufficient data on a regular basis to provide insight into how well it is running? Does everyone have at least one key daily or weekly metric driving his performance?
- **Rhythm.** Does the organization have an effective rhythm of daily, weekly, monthly, quarterly, and annual meetings to maintain alignment and drive accountability? Are the meetings well run and useful? Nearly a century ago Rockefeller instituted daily lunch meetings with his managers. If handled properly—that is, if they aren’t allowed to go on too long—they can still be a surprisingly powerful tool.

values, metric charts, and market data. “Our executive team calls ours the situation room, because we’re surrounded by stuff that’s big picture to us,” says Harrison. “The fact that we meet there keeps us focused.”

GROWING IN SYNC WITH THE FAST-CHANGING MARKET

WITH GROWTH, MARKET PRESSURES increase, and strategic decisions come with higher stakes. When a company’s revenues reach \$10 million and above, a CEO often feels his attention is being pulled inside the company just when he most needs to be focusing on what’s happening in the market. “You have to understand where you are in your industry and know you have everything handled before you step up to the next level,” McKinney says.

For architect Steve Smith of the Lawrence Group in St. Louis, that point came about six years into his practice. Specializing in designing and building radio stations, Smith knew he needed to respond to the consolidation of the radio industry he was witnessing. Yet he wanted to think in a different way from the vast majority of his competitors, who viewed architecture as a profession, not a business. “Most architects think about designing a building,” he says. “We decided that we’re about designing an architectural business, and then finding people who design the buildings—which, in our case, is mostly radio station buildings.” This change of mindset,

combined with the rise of the Internet, enabled Smith to create a business model that includes a centrally managed (and thus more efficient) network of architectural practices across the country. So far the Lawrence Group has expanded to five cities, increasing from 20 people to 125 and from \$1.5 million to \$16 million in revenues since 1996. Smith firmly believes that as many as 30 locations are possible.

To achieve their ambitious goals, the wisest CEOs habitually re-examine their businesses. “I don’t have to manage the numbers anymore because I have a structure doing that for me,” says Bolanos. “The potential now seems endless. The key strategic question now when I think about how to grow the company is, Who do I need to be, and what do I have to do to get there?”

Alan Rudy of Express-Med also backed away from the day-to-day, giving many of his oversight functions to a newly hired president. Thanks to the management structures he has put in place, along with the measurements and meetings that keep it all humming, he’s free to work on new projects and acquisitions. In just the last year, Express-Med has made ten acquisitions, launched new partnerships, and begun the process of raising capital. Now the company is back on the 50%-plus annual growth path. And Rudy is creating the kind of gazelle that is generating all types of dividends for him, including fun.

“When I am stuck focusing solely inside the company, I cannot move it ahead,” says Rudy, voicing the struggle of many gazelle builders. “I am much more the CEO than before.” □