Zafeiri
Corporation

From $10M to $50M Revenue – What You Need to Know

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operational

Methods or manners of functioning.

financial

Actions for acquiring and managing funds, capital, revenue, investments, and credit.

revenue

All the income produced by a particular source.

leadership

The capacity or ability to lead.

profit

Financial gain from a transaction or from a period of investment or business activity, usually calculated as income in excess of costs or as the final value of an asset in excess of its initial value.

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It's So Much More Than Increasing Sales

First, congratulations arriving at $10M in gross sales because you've overcome tremendous odds and earned yourself a measurable place in the United States economy!

As much effort as went into building the business to $10M, there is much more to growing up to $50M in store. Real leadership at multiple levels is critical to execute the desired growth.

Why? There will be many changes and challenges as well as core values which are necessary to preserve the ingredients responsible for bringing the business to its current successful condition.

These new considerations and challenges include scaling operations. As businesses grow from the $10 million to $50 million range, they often experience the need to scale their operations. This involves expanding production capabilities, increasing workforce, and optimizing processes to meet rising customer demand. Managing this rapid growth while maintaining quality standards can be a significant challenge, requiring effective planning, resource allocation, and operational efficiency.

There are new staffing and employee requirements including talent acquisition and retention beyond the more easily accessed people who helped build the firm. Finding and retaining skilled talent becomes increasingly crucial as businesses grow. Competition for top talent intensifies and attracting qualified professionals can be a challenge. Small and medium-sized businesses in this revenue range often face resource constraints, making it harder to offer competitive compensation packages and benefits. Developing robust recruitment strategies, fostering a positive company culture, and providing opportunities for professional growth are essential to attract and retain talented employees.

Financial management becomes much more rigorous and access to working capital crucial. Cash flow management, budgeting, and financial reporting require greater attention. Additionally, accessing capital to fund growth initiatives can be challenging for businesses in this revenue range. Some companies may encounter difficulties obtaining loans or investment capital from financial institutions or investors. Developing strong financial management practices, exploring alternative funding options, and building relationships with lenders and investors are crucial for addressing these challenges.

Increased revenue often comes with heightened market competition. Businesses in this range face the challenge of standing out from their competitors and capturing market share. They need to develop effective marketing and branding strategies, identify unique selling propositions, and continuously innovate to differentiate their products or services. Understanding customer needs and preferences, conducting market research, and investing in marketing and advertising initiatives are key to staying ahead in a competitive marketplace.

As businesses grow, it becomes critical to establish efficient and scalable systems and processes. Inefficient or outdated systems can hinder productivity, increase costs, and lead to customer dissatisfaction. Implementing technology solutions, streamlining workflows, and investing in automation can help improve operational efficiency and support future growth. However, implementing these changes can be a challenge, requiring careful planning, change management, and training to ensure a smooth transition.

These challenges faced by businesses in the $10 million to $50 million revenue range require proactive management, strategic decision-making, and continuous adaptation to the evolving business landscape. By addressing these challenges head-on and implementing effective strategies, businesses can position themselves for sustained growth and long-term success.

Start Planning for Success on Day 1

Many people consider the exit plan from from day one. Some owners talk about selling; being a source or retirement funds; creating a legacy; or even the potential for bankruptcy. Far fewer people consider scaling requirements much less scaling at this level. One of the most difficult scale elements is acquiring capital because it is wholly outside the control of the business – or is it?

A lesson in real life suggests one way to have capital when you need it is not to spend it when you don't need it. Seriously. Companies successful scaling are those firms with the ability to reach back and use resources opportunistically – essentially the rainy-day fund. Building cash assets results from more than just saving; it begins delivering successful products and projects with fair margins resulting in building a deep base built upon client and customer trust. More than being frugal – efficiency counts. For example, obtaining business through referrals may reduce marketing costs and the incredible quantity of staff and owner time spent seeking new business.

Building a rainy-day fund is critical – one way to think of it is to build savings into a budget expense line from day one – a budget line-item profit or BLIP. While this set aside percentage may be small initially – just a blip – over time, it will be **much more than a blip**! Building an expense line for profit serves the purpose of building a rainy-day fund, a pay incentive program resource for high performers, a capital improvement and expansion (scaling) fund.

Scale Velocity

Most firms will not scale quickly for example, going from $10M in sales to $50M in sales in 12 to 24 months. Scaling quickly has the benefit of lower likelihood having to ride the longer macro-economic cycle including recession, inflation, or some unforeseen crisis such as COVID. The challenges confronting rapidly scaling tend towards consuming large amounts of cash prioritizing speed and market penetration over operational optimization. It is very easy to run out of cash in this environment.

Scaling over a longer period has other challenges; the difference is the firm has more time to manage the required changes and each step is more planful. Even when there is a deliberate plan, the situation can change dramatically creating the need to be flexible. For example, as the firm decides to scale to double capacity and puts a new hiring plan into play. Suddenly, market conditions change and there is a requirement to reduce staff. Is there a strategy in place to capture and retain required talent to make it through the downturn? Of course, the simple answer is nearly always last hired, first fired in these situations. However, this is not a very clever or strategic approach.

A downturn is also an opportunity to hire good talent other firms discharged for their own reasons (or lack thereof). During the downturn, take advantage of education and certification opportunities not easily accomplished during normal times. Offer lunch and learns and engage in education and outreach activities perhaps not in the schedule during normal times. Look to diversify offerings as possible or to re-purpose the products perhaps meeting other needs to ensure cash flow. Be creative - leverage conditions to your advantage!

Executive Staffing

As a business scales, the need for senior level executives increases. The position of Chief Operating Officer (COO) may be an obvious need to lead staff activities while the CEO manages strategy, top clients, vendors, and works capital revenue issues. Newer to corporate landscape is a Chief Revenue Officer (CRO). A CRO is part of a solution to grow revenue and acquire capital. The CRO reports to the CEO, COO, or CFO depending on the organizational composition. The CRO performs in the following areas: (1) develop revenue growth strategies; (2) obtain alignment between revenue generating, influencing, retention, and expansion functions; (3) use data to inform decision making; (4) build and lead high performing teams.

The CRO differs from a Chief Sales officer by working more broadly across the organization to include sales, marketing, customer success, pricing, and revenue operations teams work together effectively. A Chief Sales Officer keeps focus on the sales team and activities alone. The CRO is valuable for scaling because there must be alignment, consistent sales, and expanded market penetration to assure success.

Nuts and Bolts

The early stages of the business bring many surprises including discoveries the expected customer may not be the ideal customer. As scaling comes into play, seriously assess the ideal customer profile (ICP) and do not only use history as the guide. Think future and think strategically – who does your company truly want to serve? What is the future market outlook vs the past market performance? What is changing the landscape? To a degree, the business is re-building during the scale and the new effort must match the future prospective client.

Through the evolution of the firm, deals involve exceptions; CEO interaction; product road maps and multiple forms of promises or side deals. Over time the firm needs to mitigate and reduce these non-standard activities and when the firm is heading north of say $20 million, these have to disappear. Deals need to be wholly process driven based on a clear understanding of the ICP and how to convert the ICP in the sales funnel. Beyond uniform contracting, invoicing must be uniform; though there may be ICP segments (small market large market for example in B2B) where there is segment uniformity.

During the scale process the question will arise regarding wider and deeper on a customer vs. developing a new customer. The next decision, of course, is when to age out the “new” customer to migrate to the customer experience team so the new logo hunters can focus on their game.

Data driven decision making despite its possible overuse, is a real tool. With disparate processes, deriving data does not always yield the information required to drive the best decision. However, as processes become consistent across the organization, the ability to see and use more granular data becomes a valuable asset for decision makers.

Key performance indicators can be leading and lagging. As the organization scales, leading indicators increase in importance while lagging indicators are less of bellwether. Leading indicators may include number of ICP customer meetings; pipeline open; pipeline coverage and average opportunity size. Lagging indicators include ramping and ramped figures such as quota attainment; conversion across stages; and close rates. These KPI’s should be in place well in advance of scaling efforts. However, as the scaling effort trends north of $20 million, new business vs expansions and business by segments need to be part of the conversation. These analytics used and interpreted will drive investment strategies.

Incentive structures are vital almost from the early days of the business. When ownership decides to scale, the incentive structure for the people who will drive the business is another critical decision.

Particularly important is recognizing the need for the structure to support sustained growth over the growth spurts taking the firm to $20 million of annual recurring revenue (ARR).

While network effects dominate technology and internet growth success, network effects may also play a wider role in other business models. Network effects simply means the network increases in value with more users. An obvious example of network effect is an AI product; the more people who use the AI, the more the system learns and thus the better the result for subsequent user. Network effects may change rapidly and vary between industry. While scaling (particularly deliberately over a more traditional business cycle) capitalizing on network effects requires knowing the firm's value proposition; users and or invent tory; the competitive ecosystem.

To gain value from any network, the network must be active. Consider ways to activate customers and employees alike to build buzz and interest (stickiness). Who are your alliance partners? How are you incentivizing them?

Of course, this discussion is full of mechanics. Before digging the hole or laying the first foundation, start envisioning where the firm wants to be 1 year, 5 years and 10 years out. What does $1 million in revenue look like and what does $10, $30, $50 million look like? Make a plan to navigate and resource various levels. The likelihood is the firm will scale long before the sale. Put the time, thought, and effort into framing the firm to minimize stress as you build the firm.

Scaling a business from $10 million to $50 million in revenue entails numerous challenges and considerations that require proactive management and strategic decision-making. Operational efficiency, staffing and talent acquisition, financial management, marketing and branding strategies, and implementing scalable systems and processes are all essential elements for successful growth.

Build a rainy-day fund from the beginning through a budget line-item profit; it can provide a crucial resource for capital acquisition and expansion. The timing and speed of scaling also present unique challenges, with both rapid and gradual scaling requiring careful planning and adaptability. As the business expands, executive staffing needs evolve, and the role of a Chief Revenue Officer becomes valuable in driving revenue growth and ensuring market penetration.

Strategic considerations such as identifying the ideal customer profile, streamlining processes, leveraging data-driven decision-making, and incentivizing employees play pivotal roles in navigating the scaling process. Finally, anticipating future market trends and envisioning the company's long-term goals are crucial for planning and resource allocation. By addressing these factors head-on and implementing effective strategies, businesses can position themselves for sustained growth and success in the ever-changing business landscape.