How to Build the $100 Million Business

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A client and good friend started his business on the kitchen table of his town house. Less than 10 years later he pushed his chair back from his executive desk and saw a business with annual sales of more than $100 million.

How did he do it? How do entrepreneurs build lasting, thriving businesses? How do they create businesses that provide superior services or goods, consistent profits, and excellent jobs for their employees?

Satellite phones or Starbucks?

First, the core of any successful business is a profitable business model. Do you make money virtually every time you sell your goods or services? The story of the lemonade stand versus the global satellite network illustrates the point. The successful lemonade stand sells lemonade for a given price. With a quality product, good location, reliable and reasonably compensated labor, there is a profit, if not from the first glass sold, at least from the first pitcher sold. No one is waiting until the third year of business to turn a profit. And if your lemonade, your location or your labor won't support a profitable business, you pack up your card table and pitcher and head home.

On the other hand, consider the global telephone satellite network, projected to earn billions in its fifth year of operation. The global satellite network invests in research, risks satellites exploding on the launching pad, spends months fine tuning earth-to-satellite transmission and then seeks out its first customer. Unfortunately, in the three years that it took to get that far, cell phones proliferate and telephone service charges drop. Profit projections proved unrealistic. Bankruptcy welcomes the multi-billion dollar project with open arms.

Meanwhile, former lemonade stand entrepreneurs are exchanging high fives as the mega-successful owners of Starbucks and Marriott. Thank you, Henry Ford.

To preserve your profits and remain successful, you need a competitive edge. You need to add value that others can not. Otherwise, your initial profitability will attract competition that can and will replace you. There are countless examples of innovators with profitable business models that could not fend off copycats that entered the same market with a competitive edge. Henry Ford did not invent the automobile. Ford used the assembly line to produce affordable automobiles. The guy who invented the automobile well, we don't even remember his name, much less know what happened to him.

In a service business, a competitive edge can be unparalleled responsiveness and quality standards. The premiere national chain of coffee shops has the discipline to throw out freshly brewed coffee once it is 20 minutes old, so no customer ever has a bitter cup of coffee. Think of that, knowing that you will never have a bitter cup of coffee ever again and all you have to do is to remember to buy your coffee from one particular store. I would do that. I would pay more. I would be their customer for life.

In other businesses, a competitive edge can be derived from a contract that gives your company exclusive rights to an ingredient that is key to your success, such as a most favored nation clause that guarantees you better pricing. Your competitive edge might come from a patent, trademark or trade secret, or noncompete agreements with potential competitors, extensive training of employees, or care and compassion for your clients.

When was the last time your doctor called you after an appointment to see how you were doing? And, if he or she did call you, would you tell other people and use that doctor as long as you could? Each business presents different opportunities to distinguish its goods and services. But to succeed, you must distinguish your business pick me because and then deliver.

Size matters. So does a deep bench.

Once you have developed a profitable business with a competitive edge, you need to be able to grow your business. The ability to grow a business scalability provides your employees with the opportunity to advance and your business with the ability to meet the increasing demands of new customers. Even more, scalability is required for any successful sale of your business.

Inevitably, to merit a purchase price that convinces you to sell, the purchaser must be convinced that your business can be grown (and that, ultimately, this growth can occur without your participation). With scalability, the purchaser can pay a generous purchase price and recover not just the purchase price, but make a considerable profit. Without scalability, the purchaser is better off buying bonds.

Scalability can be many things: a reliable source of raw ingredients, enduring vendor relationships, or a pool of qualified potential employees. Scalability can mean that your products or services will be successful in other towns and cities, not just your hometown. Scalability, however, almost always requires bench strength.

Bench strength means having a team of executives that can run and grow your company with only minimal guidance from the founder. The creation of bench strength is one of the most difficult tests of whether the successful small business can grow into a successful large business.

The founder must demonstrate different skills than were required to run a small company. Now the founder must let go of the reins and find talented executives who can do an equal or better job in critical areas. Instead of personally creating the best product, the founder must build a team that can deliver the best product. The task of creating bench strength doesn't just require the founder to exercise new skills. The founder must also relinquish his or her achiever identity and become a recruiter and supporter. This new role for the founder, this new type of achievement, demonstrates that the company can grow and succeed without the founder.

Without scalability, your company is doomed to stay small. With scalability, your company can grow and a purchaser will be justified in paying a hefty price based on the potential of your business.

Sustainability

In the life of every business and every business person, there will be difficult times. No business or person has ever escaped this fact and no business plan should count on instant and uninterrupted success. A successful business will require certain reserves in order to sustain itself through a slow building period, unanticipated problems and even the various cycles of the seasons and the economy. This reserve, in all its many forms, comprises sustainability.

One key reserve is capital cash in the bank. It is a well-known fact among experienced business consultants that the lack of capital foils many businesses and is one of the leading causes of business failure. Inadequate capitalization forces bad decisions and does not allow a business to reach its potential.

For example, when a business is pressed for cash, the owner will be tempted to hire less qualified personnel or avoid hiring altogether to conserve scarce funds. Likewise, a dearth of cash prods the entrepreneur to forgo the most appropriate technology and equipment for the business. Many retailers have picked the wrong location for their business to save on rent when the cheaper location doomed the business to failure and the appropriate location might have cost more in the short term but produced long-term success.

Sustainability can take a variety of other forms as well. In some cases, sustainability can take the form of starting your business with a key client or contract. That is, if you begin your business with one or more important customers or contracts, you provide yourself with a base of business that generates not only critical cash flow but also credibility. Many prospective customers will be reassured about giving you business if they see that a notable industry participant already trusts you with their business.

Sustainability also applies to you, the founder and prime mover of your business. Many of the greatest athletes shared at least one characteristic: enduring health. Look at some of the great record breakersCal Ripken, Joe Montana, Michael Jordan. In addition to their tremendous talent, they achieved great success in part due to the many years they competed. To paraphrase Woody Allen, 90 percent of winning is showing up. You can't build your business from a hospital bed. You are not going to overcome all of the many challenges that you will undoubtedly face unless you are healthy and able to work hard.

Especially in the early years of a business, you will need to perform many tasks and address a variety of situations and, sometimes, crises. Often, the successful entrepreneur initially fills many roles in his or her business, from actual production of the goods and services, to marketing, to hiring and firing employees, to negotiating with vendors, to communicating with customers. Even with success, the business owner still will be very involved in building the executive team and guiding the strategy of the company. Throughout all of this building of a successful company, the owner must have considerable time and energy. Indeed, until you have your executive team on board and have charted the long-term course of your company, ill health and other distractions can sink your business.

The lesson here is to preserve and enhance your health. Essential ingredients include proper diet, regular exercise, and sufficient sleep. My dear friend who built his $100 million business began every morning with an hour-long workout. He knew that the less he worked out, the less energy he had in the long run. The time devoted to exercise actually made him more productive and clear-headed and, ultimately, saved him time. Further, while he never needed much sleep, as he built his company he realized that a healthy diet also kept his weight in check, gave him more energy and reduced his down time from sickness. He improved not just his own health, but also his performance at work and the health of his company.

Aligning your value system

What is a company's value system? A company's value system is what your company believes in and how your company prioritizes and reinforces these beliefs.

We recently assisted a client with the sale of his company for well over $100,000,000. This company had been guided, quite successfully, by a very simple but appropriate and effective value system: the employees were charged with taking care of the customers; the satisfied customers took care of the company with renewed and expanded contracts; and the company, successful because of its satisfied customers, took care of its employees with compensation, training, promotions and the like. Notably, when the company was sold, tens of millions of dollars of the sales price were shared with the employees.

Each business has an actual value system, and many businesses also have a stated value system. We see these stated value systems in many places, including employment manuals, compensation plans, and advertising and marketing materials.

Typically, value statements begin with a flowery pronouncement of respect for employees or customers. All too often, however, there is a marked disparity between what companies say and what they do. A company might say that it respects the needs of its customers and yet this company keeps its customers in long lines, or on hold, or waiting virtually naked for 30 minutes in a cold room for the doctor to show up. A company might say that it values its employees and yet this company fires employees with obsolete skills instead of re-training them.

Successful companies align their actual value systems with the mission of the company. These companies produce their goods and services in a manner that adheres to their values. And these companies compensate, reward and promote employees for fulfilling company values.

An experience that one of our $100 million clients had dramatically illustrates the need to adhere to a value system. This company was making the painful, sometimes chaotic, but classic journey from a small, profitable start-up to a larger, $100 million company with a capable executive team and a culture of respect for its employees.

R-e-s-p-e-c-t?

Despite its professed belief in respect, however, the company promoted a sales and marketing director who disregarded the company's value of respect for others, but who appeared to be able to increase company sales. His lack of respect for others was ignored as company sales were temporarily prized above all else. After some time, it was even suggested that this individual would be made president of the company. A minor mutiny ensued.

It quickly became apparent to the CEO that he would pay a great price for ignoring the company's value system, that respect for others was essential to a sustainable business model and that short-term sales are not more important than the health of the company in the long run. The CEO instead promoted the vice president of human resources, an individual who had always faithfully honored the company's essential value of respect for colleagues.

This promotion, and the resulting loyalty of the company's employees, helped the company succeed and become a $100 million company. Consistent with company values, the sales, and marketing director was offered re-training, but in the end, he resigned rather than adopt the company's reinvigorated value system.

Remember, you reinforce the behavior that you reward. The reward, while often monetary, need not be entirely or always economic. Many other rewards may be appropriate, such as recognition within and outside the company, challenging new tasks and positions, time off from work, etc. Likewise, sticking to company values should guide advancement within a company. You should promote those employees who fulfill, not flout, your company's values.

The most successful companies recognize that they must identify the behavior that is most conducive to their success, and then reward the achievement of this behavior.

Adherence to these lessons will help ensure the growth of your business. While you may not achieve the rare air of a $100 million company (but I hope you do) these lessons provide the core principles for success.

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