

# The Five Stages of

# Business

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By Gregory Neil

**These five functions must be controlled no matter where a company may be:**

- Leadership & Ownership
- Marketing, Sales & Estimating
- Production
- Finance & Administration
- Employee development

*Editor's Note: This article is based on the presentation given by Mark Labourdette and Gregory Neil at the RIA Convention in Palm Springs.*

The theory is that all companies, regardless of product or market, pass through the same predictable five stages of growth as they move from the entrepreneurial state to organizational maturity. This theory is valid where growth is defined as an increase in organizational size and complexity.

## The Benefits of Growth

No matter what level a company is at, there are some good reasons for growth: to provide a future path of opportunity for employee security, allow for sharing in owner's responsibilities, and the potential for the owner to have more freedom.

Some owners choose not to grow for the wrong reasons. They associate growth with an increase in stress because they don't know how to

grow without it being a painful process. Hence the saying, "businesses grow to their own level of incompetence."

That might have been true 20 or 30 years ago, but today there are many resources available. The purpose of this article is to help identify what stage a business is at, to learn what steps can be taken to be more successful at that stage, and how to move up to the next one.

## Stage One

In a Stage One company the owner does everything. If there is one job at a time — the owner sells it, estimates it and is personally involved in getting the work done. The business is very lean and efficient. Work is typically done with no employees and one or two helpers. The office is in the home; bookkeeping is cash based; marketing is done as needed; and contracts are simple, often time and materials.

The dangers at this stage include: competing on price against tremendous competition; cash flow ebbs and flows to match the sporadic marketing efforts; there is very little in cash reserves; and the owner is typically working way more than 40 hours a week.

Success comes with ensuring complete customer satisfaction; achieving GP margin to protect profitability; and developing systematic habits and good time management. Only the strong survive to push on from here.

## Stage Two

Stage Two is an important, challenging and critical stage where the owner moves from being the chief technician to hiring employees. The sales volume grows faster than profit margins. Separation of overhead and job costing begins, with job cost estimate to actual reporting. Accounting moves to accrual-based bookkeeping and standard documentation for contracts, project management and invoices is established.

Building systems that create some order and a business identity, “this is how we do it here,” are implemented. Results are no longer dependent on what the owner can personally accomplish, but what the owner can accomplish through employees. How employees are managed determines whether one gets their best effort or business as usual. Set up job descriptions to determine each person’s accountabilities with built-in benchmarks. Set up weekly meetings to support team reports.

This is a critical point for determining whether the owner remains as the driving force for the business — or begins to build systems and practices to place employees in the driver’s seat.

Dangers at this stage: Fearing loss of control as one starts to delegate to employees; owners step back in and do it for them or micro-manage how they get it done. The owner is now putting in “extra time” to build new procedures and train employees; but overhead creeps up as gross profit creeps down.

Success looks like: Employees clearly understand what their accountabilities and goals are; production crew shows reliability in producing work; and sales demonstrates the ability to close new business.

## Stage Three

In Stage Three a company incorporates; often has multiple jobs going at one time; and the quality and complexity of information increases. The owner learns leadership and management skills, while employees become the driving force of the business. They solve problems; begin planning for one to two years out; their practices for the capture and delivery of information at meetings improves dramatically; and job cost controls are tied to standardized estimating. The owner creates a management team with one person from each division.

The results from national surveys over the last 25 years show employees are asking for more recognition, more acknowledgement, and more responsibility and accountability.

Dangers at this stage: The owner is micro-managing or commanding and controlling, which creates employees who are afraid to think for themselves and underutilizes their capacity. Benchmarks are not dialed in to support company success and growth, with the owner and key managers unskilled in inspiring leadership and coaching employees, expensive mistakes can force the company to regress back to an earlier stage.

Success looks like: The teams solidify and the owner trusts office/finance, production, sales/marketing teams to get the job done. There is cross training, leadership, and mutual accountability with employees who show signs of the company’s successful company culture. The owner is successful at coaching employees to give their best effort. Benchmarks are set to challenge the growth of employees individually and are consistent with the company’s vision and direction. In team meetings employees move from reporting on what happened to solving problems and making promises for what will happen in the next week. Management team does Strengths, Weakness, Opportunities and Threats (SWOT) planning for the next one to three years. The company has a full benefits package and complete employee manual.

## Stage Four

A Stage Four company operates independent of the owner. Sales are successful independent from the owner; key managers are good at strategic thinking and financial analysis; multiple jobs demand multiple marketing channels; and the management team and key managers become the driving force of the

## Overview of all the 5 Stages

- **Stage 1:**  
The owner moves all the pieces.
- **Stage 2:**  
The owner continues to move most of the pieces, but learns patterns of game success and begins to delegate.
- **Stage 3:**  
The owner develops a manual of play and coaches employees to move the pieces; employees begin to become self-managing and self-generating.
- **Stage 4:**  
The owner trains, coaches and mentors team performance to be the driving force of the business.
- **Stage 5:**  
The owner lines up championship games challenging team’s performance, team vision, and team’s strategies for success.