

The significance of second stage

When people hear the word “entrepreneur,” they often think of startups or very small businesses. “Yet entrepreneurship encompasses a broad spectrum of companies that make different contributions and require different services to continue to grow,” says Dan Wyant, president of the Edward Lowe Foundation. “Along this continuum, the foundation focuses on second-stage growth entrepreneurs because we believe they have the greatest impact on job creation.”

Indeed, between 2003 and 2017 second-stage companies (those with about 10 to 99 employees and \$1 million to \$50 million in annual revenue) represented about 17 percent of U.S. establishments. Yet they generated 37 percent of all jobs and

nearly 36 percent of sales, according to data from YourEconomy.org. “In addition, second-stagers often have national or international markets, which bring outside dollars into their communities,” points out Colleen Killen-Roberts, the foundation’s vice president of entrepreneurship.

With greater experience and financial bandwidth, second-stage entrepreneurs are more confident and adept at risk-taking than startups. They’re able to expand into new markets and introduce innovations that impact their industries. Their stability and deeper pockets enable them to offer more diverse, high-quality jobs and provide better benefits for employees.

“Second-stagers are also devoted corporate citizens in our experience,”

says Killen-Roberts. “Whether it’s revitalizing a neglected neighborhood with new facilities or supporting local charities and nonprofits, they really care about their communities.”

Understanding the challenges that second-stage companies encounter is just as important as recognizing their contributions, Wyant adds. “Serving second-stagers is a different ballgame than working with startups.”

With that in mind, the foundation has developed programs for peer learning, leadership development, operations and strategic information to accelerate second-stagers’ success. The foundation also educates communities and organizations on how to work with these companies and develop the kind of supportive culture they need to flourish.

Chapter Two

Second stage is a critical time for growth entrepreneurs. On the plus side, they have a proven product or service under their belts, so survival is no longer the daily concern it was in startup days. Yet second-stagers also confront new challenges as they strive to expand their markets, win more customers and hone their competitive edge...

Some of the biggest issues revolve around structure and people, says Dino Signore, manager of entrepreneurial education at the Edward Lowe Foundation. “Flying by the seat of your pants was OK during startup days, but second-stagers need to introduce stability into their companies,” he explains. “They need to create structure, which ranges from implementing standard operating procedures and HR policies to building a management team. They need to stop doing and start delegating — all easier said than done.”

Learning to love structure

“In startup phase, the entrepreneur is the CWO (chief whatever officer). Whatever happens, you have to take care of it,” says Jayson Meyer, founder and CEO of Synergy Billing LLC in Daytona Beach, Florida.

“Yet as the business grows, you must identify which things you should delegate, hire managers to take care of those things — and then trust them,” he adds. “Realizing that it’s not just about you anymore is a tough thing, because founders derive great satisfaction and self-esteem from the business they gave birth to. Letting go requires you to make a real mental shift.”

Meyer launched Synergy Billing in 2006, which provides revenue cycle management services to community health centers. By 2016 the company was generating more than \$8 million in annual revenue with 100 employees.

Growth has been particularly strong since 2013, which Meyer credits largely to creating structure — developing policies and procedures, quality assurance programs, employee training programs and building a management team — which has enabled Meyer to work on the business instead of in it.

“You may think things like strategic planning and performance management sound nice, but you have to be practical and get things done,” Meyer says. “Then you realize you have to make time for those disciplines because they’re what enable you to grow consistently. Profits and revenue

growth should be a specific goal, not an accident.”

Another convert to the “school of structure” is Larry Kooiker, founder of Agritek Inc., a Holland, Michigan-based manufacturer of engineered metal components.

Kooiker admits that he avoided structure for a long time because he associated it with bureaucracy, waste and moving slowly. “Entrepreneurs don’t need a committee meeting to get something done,” he says. “We just do it.”

Delegating was also a difficult concept to embrace. “In early days, you’re the guy who turned the lights on and off, dumped the trash and swept the floor. You try to do everything because you believe you can do it better than anyone else,” Kooiker says. “But you reach a point where you realize this won’t work anymore. You’ve got to delegate and put other people in charge, to create a team of specialists so all your divisions can be more successful.”

This epiphany came when Agritek’s staff had grown to about two dozen employees, and Kooiker noticed a change in attitude. Instead of focusing on increased production and quality, employees were more concerned about punching out at the end of the day.

Expanding his staff had caused a lapse in communications, Kooiker explains: “When you only have a few employees, it’s easy for everyone to be excited and motivated. They know what needs to be done because you’re working with them on a daily basis — it’s like they’re an extension of your right arm. Yet once you go over 20 employees, you lose that direct contact, and it’s easier for people to become disengaged.”

In response, Kooiker created employee manuals, production goals and documentation for operating equipment correctly. He began holding quarterly companywide meetings to discuss how employees’ jobs aligned with the company’s mission and goals. He hired senior managers and gave them equity in the company so they would think like owners.

Although Kooiker misses the spontaneity of his

startups days, developing infrastructure and relinquishing control has enabled him to grow Agritek to more than 120 employees and \$20 million in revenue — while simultaneously increasing profit margins.

Building the team

Personnel issues loom particularly large in second stage. For example, finding the right senior managers is no cakewalk. Just ask Bridget Lorenz Lemberg, founder of Forensic Fluids in Kalamazoo, Michigan.

Lemberg launched her drug-testing business in 2005 and has grown it to more than 85 employees and \$20 million in annual revenue. She began building a leadership team in 2013 and experienced more churn than she expected. “Most came from very large pharma companies, and on paper, they looked great,” she says. “Yet they weren’t a good culture fit for a smaller company like us. We needed them to wear multiple hats and take on different responsibilities than they were used to. That can be overwhelming for someone who has been focused on one large job for many years.”

Personnel challenges also include constant assessment and development of staff. Not everyone can grow along with the company, even though they remain good performers, points out David Schlaifer, founder and CEO of DAS Health, a Tampa, Florida-based provider of health IT and management solutions with more than 70 employees and \$12 million in revenue.

DAS Health entered second stage in about 2011, and growth became “turbo-charged” in 2015, Schlaifer says: “Having the right people in the right senior positions is different today than five years ago. And moving people into other spots can be an ego hit. Even if it’s a larger position, it may seem less prestigious to them because they are no longer reporting to me.”

“Sometimes the people who started with you are not a good fit as your company evolves,” says Jena Gardner, owner of JG Black Book, a New York-based global hospitality consulting firm, and Heritage Tours Private Travel, which together have about 40 employees and nearly \$15 million in annual revenue.

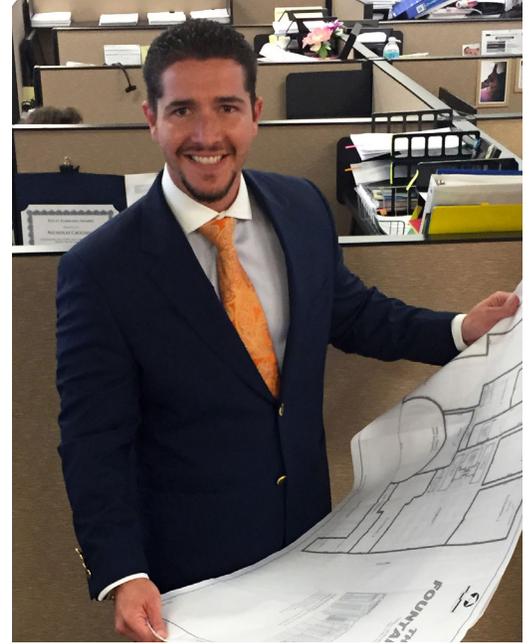
Gardner has found that establishing core values helps attract employees who mesh better with company culture and goals. For example, her company advocates travel as leading to a more connected, peaceful world, and Gardner operates a nonprofit organization that supports socially responsible tourism.

“We had some people for whom those values didn’t resonate and who thought the funds we set aside for our philanthropic efforts would be better served as staff bonuses,” Gardner explains. “That made it easier for them to leave — and for us to find talented people who believed in and were excited about our larger mission as a company.”

Becoming more strategic

Second-stagers also face fiercer competition and shifting market dynamics as they scale, which can require them to tweak business models and restructure their organizations. “As they become more strategic, of particular issue is a better understanding of industry forces, how they compete for the market and what they are internally capable of,” says Signore.

Take Jill Bishop, who launched Multilingual Connections (MLC) in 2005. The Chicago-based company initially provided English and Spanish



Photos from top: Jayson Meyer of Synergy Billing LLC, Jena Gardner of JG Black Book, and Larry Kooiker of Agritek Inc.



workplace language training, then added translation services, followed by language classes for adults and children. Yet in 2014 Bishop had a realization: She was trying to be everything to everyone. She decided it was time to focus and closed her language training offerings.

It was a tough decision because Bishop loved the language training side of her business. “We had parents and children coming in and out of the building, and there was so much energy in the space,” she says. “Yet the language training wasn’t scalable — the translation division was.”

With time to refine processes and focus on business development, MLC is now running more efficiently. The company generated \$2 million in 2016 revenue, reflecting a 25 percent increase from the previous year, and Bishop aims to hit \$2.5 million in 2017.

Expanding services

While some second-stagers refine offerings, others expand and diversify.

“In the IT arena, customer needs are constantly changing — and that means we need to be constantly changing,” says Michelle Vondrasek, CEO of Von Technologies in Oakbrook Terrace, Illinois, which has more than 200 full- and part-time employees and more than \$14 million

in annual revenue.

Launched in 2006, Von Technologies designs and installs wireless and wired telecom networks, and projects vary in scope and complexity, says Vondrasek. “The big projects are nice and last for a long time, but when they are done, they leave a gap you have to continually plan for.”

In 2015 Vondrasek took a hard look at how her company could build stickier relationships with customers and decided to expand into managed services. “This wasn’t in our roadmap when I started the company, but the complexity of networks continues to increase,” she says. “Mid-sized companies in particular don’t have the internal IT staff to monitor and manage network performance on an ongoing basis.”

Although managed services is a crowded space, Vondrasek believes her company has an upper hand. “Because we design and install networks, we really understand how they are built — and not many organizations offer life-cycle services from initial design to Day-2 support,” she says. “There’s also an advantage in building out service today versus competitors that built their support infrastructure before they could leverage cloud-based technology.”

As she scales the company up, Vondrasek is mindful about not straying from her core competency.

“This is not about reinventing the business but adding a new set of resources,” she says. “I’m identifying what I need to grow and finding partners to augment gaps I don’t see us filling but need to offer to serve our customers.”

Built to last

Vondrasek exemplifies an important point about being strategic, Signore observes. “A core competency is the only thing that creates a sustainable competitive advantage. When it comes to challenges in the external environment, business owners don’t have a lot of control except how they react and adapt. Yet developing core competencies is something they can control — and can help them build a lasting business.”

In second stage moving into a strategic mode is critical to sustainable growth, he adds: “Strategy has nothing to do with what you are doing today or what ‘fires’ need to be extinguished. It’s more about discovering the primary questions the organization needs to answer in order to scale and thrive in the future.”

Supporting second-stage companies

The Edward Lowe Foundation has created a variety of programs to help entrepreneurs be successful in second stage and continue their growth journey. For example:

- The System for Integrated Growth® (SIG) gives second-stage CEOs access to a SWAT team of business experts to help address issues impacting growth. Vetted by the foundation, SIG specialists work virtually to provide information and best practices that help CEOs strengthen company infrastructure, enter new markets and find new customers.
- Leader retreats at Big Rock Valley, the foundation’s 2,000-

acre campus, help both second-stagers and leaders of entrepreneur support organizations with strategic direction and leadership development.

- PeerSpectives® is a CEO roundtable methodology (available in both virtual and in-person formats) that enhances leadership abilities of participants and improves decision-making.

“Although each program stands on its own, they work in concert with each other and create important synergies,” says Colleen Killen-Roberts, the foundation’s vice president of entrepreneurship.

For more info, visit www.edwardlowe.org or call 800-232-5693.