

## The Five Stages of Small Business Growth

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Small businesses face common challenges throughout the various phases of their growth. Using a framework to understand the commonalities between firms helps business owners evaluate current challenges and prepare for changes. Doing so also enables owners to assess the impact of government policies and get more tailored problem-solving support from professionals such as accountants.

### **Developing a Small Business Framework**

Small business growth frameworks have relied on two characteristics to evaluate: size and growth stage. This particular framework describes each stage by size, diversity, and complexity. It also explores management style, organizational structure, formal systems, strategic goals, and the owner's involvement in the business.

### **Stage I: Existence**

In the Existence Stage, the newly opened business is acquiring customers and providing its product(s) or service(s). The firm's structure is simple with the owner at the center and directly supervising any employees. Formal systems and planning either do not exist or are minimal and the primary goal is to exist. The owner is completing all essential tasks, contributing most of the energy and direction, and coordinating capital. Many businesses fail at this stage because owners cannot develop the customer base, run out of capital, or quit because the business takes too much of their time, energy, and finances. Surviving businesses move to Stage II.

### **Stage II: Survival**

In the Survival Stage, the business has satisfied customers and keeps them. Balancing revenues and expenses becomes more important and focus turns to generating enough cash flow and earning a return on assets and labor. The owner is still the ultimate decision maker even if a manager is executing on their plans. Systems are minimally developed and cash forecasting is the only planning taking place, if at all. The business' major goal is survival and it is still defined by the owner. Many businesses remain at this stage, such as "mom and pops," operating on small returns on time and capital. They are eventually closed by the owner or are sold, usually at a loss. Businesses that grow in size and profitability move on to Stage III.

### **Stage III: Success**

In the Success Stage, the owner decides whether to maintain stability and profitability (Disengagement sub-stage) or leverage the company and pursue business growth (Growth sub-stage).

In the Success-Disengagement sub-stage, the firm seeks to maintain its economic health and the status quo indefinitely so the owner can pursue other activities. Competent managers are hired and

responsible for functional areas, along with the first professional staff members. The main goal is to not drain cash in good times in order to endure challenging times. Systems are in place across the company and planning through budgets facilitates departmental delegation. Gradually, the business and the owner begin to separate. At this stage, the business can either adapt to changes and remain as is, be sold or merged for a profit, or pivot toward Stage IV growth.

In the Success-Growth sub-stage, the owner risks the business' cash and capital access to grow. The owner is actively involved to ensure continued profitability and to develop managers that will help the company grow. Systems are established with a focus on future needs, and planning with budgets is supplemented with deeper strategic planning led by the owner. If unsuccessful with this initial growth, businesses can shift to disengagement or return to the survival stage. Success in this stage moves a business to Stage IV when the owner commits to a growth strategy.

### **Stage IV: Take-off**

In the Take-off Stage, the business is challenged with growing quickly and financing that growth. Responsibilities are delegated rather than abdicated and competent managers effectively oversee increased growth and complexity. There needs to be enough cash to meet the financial demands of growth. Cash flow must be strong with expense controls and prudent management. The company is decentralized, with systems continually improving through growth. Certain relevant managers participate in operations and strategy planning. The owner's presence and investment in the business still overshadows their separation from it. Owners should take into account their quality and strength of staff, systems, cash and borrowing power, and manager delegation in order to flourish in the Take-off Stage. Trying to grow too quickly, running out of cash, and delegation can all challenge businesses during this stage and stall or set back growth. This is the stage of action and those that succeed move on to Stage V.

### **Stage V: Resource Maturity**

In the Resource Maturity Stage, the business must consolidate and steward financial resources from growth while maintaining key strengths like nimble responsiveness and entrepreneurial spirit. Management is fully staffed and experienced to maximize efficiency through growth. They lead on the implementation of budgets, management by objectives, and standard cost systems. The business is further decentralized, with deeply rooted systems in place. Operational and strategic planning are thorough. If at all, the owner is minimally engaged in financial and operational capacities. At this point, businesses need to leverage their advantages of size, financial resources, and management talent while maintaining entrepreneurial spirit to adapt to the changing environment.

### **Varying Demands**

It is important for entrepreneurs considering a business launch and owners at all business stages to understand how their personal activities and managerial needs will change. Owners need to regularly revisit how different strategies affect personal and business demands. Financial needs and risks differ from stage to stage. Preparing for changes such as the varying importance of cash is important. People, planning, and systems resources become increasingly important as the growth stages progress. Business resources such as market share, customer and vendor relationships, and technology become relatively less important as a business grows and can more easily respond to a

loss in one or more of these areas. Owner flexibility is essential to adjust to changing priorities over the growth stages.

### **Applying The Model**

This model can be used to evaluate all small business situations, even those that may appear to be exceptions. For example, franchises and software companies can both have skilled founders with early advantages that struggle to adapt to the necessary evolutions of growth. Companies can appear to be at one growth stage while, in reality, factors actually vary across different stages. Such misalignment can be problematic and emphasizes why owners must prepare for changing factors as they become relevant. Knowing a business' growth stage and plans allows for informed decision making and preparation for upcoming challenges.