

READY, FIRE, AIM

Zero to \$100 Million in No Time Flat

MICHAEL MASTERSON

MICHAEL MASTERSON is a serial entrepreneur who has started and grown dozens of companies. He has been a partner in two businesses that grew beyond \$100 million in sales, two more that exceeded \$50 million and half-a-dozen companies which have surpassed the \$10 million mark. He is currently a columnist with *Early to Rise* which has more than 250,000 subscribers and \$20 million in revenues. Mr. Masterson is the author of *Seven Years to Seven Figures*, *Automatic Wealth* and *Automatic Wealth For Grads . . . and Anyone Else Just Starting Out*, and *Confessions of a Self-Made Multimillionaire*.

Michael Masterson's daily e-zine is at www.EarlyToRise.com.

MAIN IDEA

To succeed in starting a business and then keep it growing, you need to understand your business will go through a life cycle with four distinct stages:

1. Infancy – from zero to \$1 million in revenues.
2. Fast-growth – from \$1 to \$10 million.
3. Adolescence – from \$10 to \$50 million.
4. Maturity – \$50 million or more in sales revenue.

Each stage has its own unique problems, challenges and opportunities. You have to understand and appreciate the stage you're currently in and develop the corresponding set of skills in order to move through that stage and keep on growing as you move forward.

No matter where your business is at the present time, you're probably already pushing hard to get it to the next stage. This is the underlying challenge of the marketplace.

“Businesses don't grow big and become profitable by accident. There are reasons why the great ones succeed. Every marketplace is an environment where hundreds, or even thousands, of competing interests struggle to survive. Imagine a jungle of plants and flowers and trees, each one trying to get its share of the soil and water and sun. A new business is like a sapling – tender and small. If it doesn't have the ability to grow quickly, it stands no chance of growing at all. But growing quickly isn't all there is to it. For a sapling to grow into maturity and eventually become a great and dominant tree, it must be able to send its roots deep, resist pestilence and disease, and send its branches where the sun shines.”

– Michael Masterson

“My experiences prove that you don't need a preponderance of natural skills to start or grow a successful business. What you need is a little knowledge and a handful of tricks. The knowledge has to do with what problems, challenges, and opportunities you must pay attention to at any given moment in your business's development. The tricks are simple techniques you can use to overcome these problems, meet those challenges, and take advantage of the opportunities.”

– Michael Masterson

The Four Stages of Business Development

| Stage | 1 Infancy | 2 Fast-Growth | 3 Adolescence | 4 Maturity |
|-----------------|---|---|---|---|
| Description | Taking your business from an idea to a sustainable entity generating cash | Moving from little or no profit to around \$1 to \$2 million a year in steady profits | Getting over the \$10 million threshold to have a solid business making \$2 to \$5 million a year | Generating steady sales growth to move from the \$50 million mark into the \$100 to \$300 million range |
| Revenues | \$0 - \$1 million | \$1 - \$10 million | \$10 - \$50 million | \$50 million + |
| Employees | 1 - 8 (You plus about seven executive or functional employees) | 9 - 50 (Seven functional managers each hiring 7 or so second-tier people) | 51 - 350 (Second-tier people start hiring a layer of third-tier employees to work for them) | 350+ (Your functional employees now start getting organized into business units) |
| Main Problem | You don't know what you're doing | You're breaking even or losing money | Your systems are strained and customers are starting to notice | Sales slow down and may plateau |
| Main Challenge | Making your first profitable sale | Creating additional products which are profitable | To turn the chaos of your business into order | To become entrepreneurial again |
| Key Opportunity | To reach a critical mass of customers | Through ongoing innovation, increase your cashflow and become profitable | Learn how to establish protocols, systems and procedures which work | Get the business to run itself |
| Skills Required | 1. Get going 2. Selling | 1. Get going 2. Selling 3. New products | 1. Get going 2. Selling 3. New products 4. Managing well | 1. Get going 2. Selling 3. New products 4. Managing well 5. Hire superstars |
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Four Stages of Business Dev.

1

Infancy

| | |
|-------------|---|
| Description | Taking your business from an idea to a sustainable entity generating cash |
| | \$0 - \$1 million in sales revenues |
| | 1 - 8 employees |
| Problem | You don't know what you're doing |
| Challenge | Making your first profitable sale |
| Opportunity | To reach a critical mass of customers |
| Skills | 1. Get going 2. Selling |

Stage 1 --- ➔ Challenge

Until your new business makes its first sale, it's really nothing more than an unproven idea you're spending money on. You won't know whether or not you have an idea you can build a new business around until you get out in the marketplace and generate sales. Accordingly, the key priorities for any start-up should be:

1. Get your first product ready enough to sell (which generally means it won't be perfect yet).
2. Sell it.
3. Once your product or service starts to sell, you can then start working to make it better.

Don't worry about spending money on fancy logos, glossy brochures, leasing office space, hiring employees or even filing your business or tax forms just yet. All of that stuff can be put in place later on once you've established you've got a viable product or service to offer. Selling is all that matters in Stage One so get out into the marketplace and offer what you have. Worry about making your first sale and then obsess over making additional sales until the small revenue stream turns into a bigger one. Once that happens, everything else can be sorted out.

You need to start to figure out your optimal selling strategy (OSS). In simple terms, your OSS is the best way your startup business can acquire new customers. To determine your own OSS, find the answers to four questions:

1. *Where are your customers?*

When you first start out, you probably won't have enough money to do much if any advertising at all so you've got to figure out how to get lots of bang for your buck. You must get creative. You have to figure out where the people who are most likely to buy from you hang out. The best idea is generally to do what everybody else is already doing in your industry or niche. Look at how the established players currently generate new customers and clone that when you first get started. You're far better off having a mediocre advertisement placed in the best location rather than an incredibly creative ad which prospective customers never come across.

2. *What product are you going to sell them first?*

You probably already have a product in mind but you don't yet know whether or not it will sell in the marketplace. Therefore, put aside your preferences and focus on what prospective customers actually want. To do this:

- Find out what products are already selling well in your marketplace or niche.
- Look closely at whether or not the product you have in mind fits that trend.
- If it does match up, then get selling. If not, think a little more first.
- If your first product idea does not match, see if you can come up with a "me-too version" of something which is already hot.
- Integrate into your product features or benefits the originals are lacking

Remember, to start a successful business, you're going to need to build on the foundation of a successful product. It's impossible to tell whether or not you have a successful product idea until you start selling, so be prepared to test several product ideas until you come up with something that works. Don't expect the market to change to suit you but be flexible. This will increase your chances of ultimate success.

3. *How much will you charge for it?*

Generally speaking, you should start selling your product for about the same price your competitor is currently charging. They will more than likely have done some price testing and will be using the optimal selling price for your industry. You can test some higher pricing at a later stage but it's best to try that only after you have first sold at the going or industry standard price point. Once you've sold a few, you can then better evaluate how differences in pricing are likely to be received by the marketplace. If you're selling at a price that considerably undercuts the established players, you'd better be prepared to explain why. Most people will assume you're either cutting corners or providing an inferior product – both of which will be unsustainable over the long haul. Bear in mind also you can always ramp up your sales by doing some back-end marketing of additional products once customers get used to buying from you.

4. *How will you convince people to buy?*

At any one time, there will be a great way and a not-so-smart way to attract new customers. Your job is to figure out which is which, and the only way to do that is to test different elements of the marketing mix and learn what works best. You'll probably have some idea what features and benefits you'd like to emphasize and how to do that. Test your ideas. Create two or three variations of your marketing copy and test each. Finding the right copy can make a huge difference in your advertising response rate and ultimately your profitability. You should test two or three different pricing points and two completely different copy platforms when you first start out so you can figure out which media and which customer offers work best for you. Developing effective marketing copy is an art, so it may make sense to hire an experienced copywriter and let them handle this for you at first. Great copywriters know:

- The difference between wants and needs.
- The difference between features and benefits.
- How to build a unique selling proposition (USP).
- How to sell that USP.
- How to set up an effective sales effort.

Unless you're experienced in these areas, you'll probably be better off getting someone with know-how to put together your marketing campaign.

Stage 1 – – – → Problem

During the start-up phase, selling is your number one priority. It will necessarily consume 80 percent of your time and attention. To get through the process of creating your first big promotional campaign:

- Make a list of all the features of your new product.
- Make a second list of every possible benefit those features will provide.
- Identify a rising trend which is just starting to be seen and felt in your target market.
- Ask: “Which of these product benefits could tie in with and piggyback on that trend?”
- Develop a few unique selling propositions (USPs) based on the applicable benefits.
- Talk to experienced industry people and potential customers. Find out which of your potential USPs has the strongest appeal.
- For your best USP, create a “Big Idea” – a main idea you can use to sell your product.
- For each Big Idea you come up with, create at least one and ideally more headlines that express a “Big Promise” – something specific that will happen if people buy what you have to offer. For an example of how all this comes together:
Business: Sell a public speaking course.
USP: Only course based on Confucius’s teachings.
Big Idea: Speaking well increases earning power.
Big Promise: Turn a \$35,000 income into \$175,000.
Proof: Ten people who have done exactly that.
- Work with a copywriter and make a list of claims for your product along with proof for each of those claims.
- Create at least two versions of your advertisement using two different copy approaches, and test these ads to see which works best.
- Take the version that works best and make that the basis for your start-up sales and marketing efforts.
- As you roll out your advertising, start the process again so you can keep refreshing and updating your selling as you move onwards and upwards.

Stage 1 – – – → Opportunity

As mentioned, selling will take up 80 percent of your time in Stage One. The other 20 percent should be spent on these types of activities:

- *Find a mentor* – someone who has been through the same experience and who can give you firsthand guidance and help. Ask questions, listen to the answers, make the best decisions you can and then take personal responsibility for them.
- *Form a team of your best (and perhaps only) executive employees* – and pass along to them everything you learn. In the early stages, everyone will need to be a generalist but assure them specific job functions will be assigned once the business ramps up. In the meantime, though, everyone will need to think and act like a marketer. Get them interested and engaged in making your business enterprise sustainable.
- *Set written revenue and profit targets* – and get all your core employees up to speed with what the numbers mean. These are the people you’ll be depending on for help so give them all the information you have available.
- *Don’t waste any time or money on corporate marketing at this stage* – but focus intensively on selling your product. This will involve direct marketing where you can see the results immediately and with a clear line of sight.
- *Forget about fancy offices, nice furnishings, state-of-the-art logos or any of that stuff* – they can all come later if you manage to keep the doors open long enough. These factors are irrelevant. Instead, focus on creating happy customers.
- *Listen only to those people who you know for a fact have done things you admire* – and actively seek out their advice and help. Forget about consultants or experts. They’ve probably never ever started their own businesses.
- *Don’t for a minute think you know more than the market* – because that kind of hubris always leads to a big fall. Never forget customers are the final judges of whether what you offer has value. Test your ideas and see what works before committing resources.

- *Learn everything you can about sales and marketing* – make this your spare time obsession. Read books about it, take courses and speak to the experts. Give yourself a world-class grounding in sales and marketing. Not only will this be helpful at present but it will also stand you in good stead should you start another new business in the future.
- *Keep tinkering until you’ve established your optimum selling strategy (OSS)* – the best combination of media, pricing and positioning. In all likelihood, your OSS will be similar to that of your major competitors but one element should be unique to you. You’ll probably do best in determining your OSS if you use direct marketing vehicles rather than customer surveys or focus groups. Base your marketing on what people do, not what they say they would do in a hypothetical situation. Figure out how to use the media of your choice to do direct marketing. There’s always a way with a little creative thinking.
- *Give all your marketing one main goal* – to bring in whatever number of qualified customers you need to provide enough cash flow to fund ongoing business growth. Nothing else matters in Stage One.

Remember the key to staying in business is to achieve a critical mass of customers. You need to know how much you can spend on marketing to acquire a new customer so you can then do well from the lifetime value of that customer. Obviously, the less you can charge for your lead product, the easier it is for people to become your customers. The balancing act comes in bringing in as many customers as possible before you run out of cash.

“Getting a business (or new product) started is like moving a stopped train. It takes lots of energy to break it free from its stationary physics, but once it is put into motion it accelerates with relative ease. Keep this metaphor in mind when you begin your entrepreneurial venture. I have had the good fortune to be involved with hundreds, literally hundreds, of new products and business start-ups. And every single one of them took effort – usually more effort than anticipated – to get rolling. But once in motion, things get easier. It’s critical to devote most of your time and effort in the beginning to selling the product. When you ignore that and spend too much time fooling around with fun things, the business doesn’t go anywhere.”

– Michael Masterson

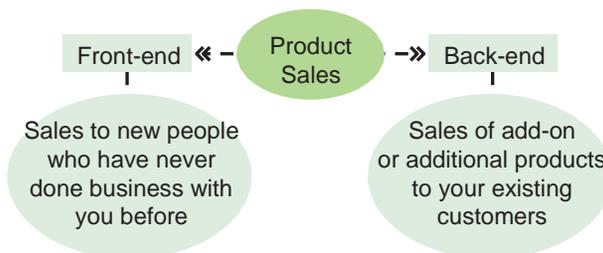
Four Stages of Business Dev. **2** Fast-Growth

| | |
|-------------|--|
| Description | Moving from little or no profit to around \$1 to \$2 million a year in steady profits |
| | \$1 - \$10 million in revenue |
| | 9 - 50 employees (Seven functional managers each hiring 7 or so second-tier people) |
| Problem | You're breaking even or losing money |
| Challenge | Creating additional products which are profitable |
| Opportunity | Through ongoing innovation, increase cashflow and be profitable |
| Skills | 1. Get going 2. Selling 3. New products |

Stage 2 - - - -> Challenge

The majority of Stage One companies derive all their revenues from a single product offering. The challenge of continuing to grow your business through Stage Two is to bring to the market a range of new products targeting additional market niches. To keep growing, you have to develop and market additional products which you either sell to your existing customers or which you use to enter into new market niches.

One of your keys to growth as a Stage Two company will be to make the distinction between front-end and back-end marketing. Stage One companies typically focus on getting front-end customers only. Stage Two companies grow their revenues by ramping up their front-end sales efforts at the same time as they harness the back-end to grow revenues and profits.



In other words, product innovation is the key to second-stage growth. You have to find new ways to attract customers and then create a line of back-end products your customers will want to buy.

The traditional view of innovation is that you come up with a breakthrough idea which is completely new and revolutionary. That's all well and fine, but the odds of pulling that off are actually very low. A much safer route is to develop innovations which are variations on what is already successful in some other market – a knock-off idea rather than something completely out of left field. You want something which is not entirely new but which is genuinely better than the hottest product in your market at the present time.

To continue to bring in new front-end customers at an accelerating rate, you need some “tipping-point” innovations which align with rapidly growing consumer trends. You can then sell more and more back-end products over time because you'll be appealing to a growing base of customers. And importantly, you can usually sell back-end products at a higher price point than your front-end products because people know and value what you have to offer.

To come up with innovative front- and back-end product ideas which are worthwhile:

- Look for “one step removed” ideas – new ideas which build on the competencies you already have. To illustrate this concept, suppose you operate a successful steak restaurant. You could then look at:
 - Opening a similar restaurant specializing in fish.
 - Go into selling wholesale steak to other restaurants.
 Both of these concepts are one step removed from what you already know. You'll be selling to a different market niche admittedly but you'll have a fair idea of what systems will be required to succeed in both.

- Use the “magic product cube” approach – look at the three basic dimensions of your product and develop three variations on each dimension. For example:
 - Price – inexpensive, moderate, expensive
 - Service – self-help, assisted, fully managed
 - Type – product, service, add-on
 You then look at what hybrid product offerings could be made available if you vary those three dimensions away from where you're positioned at present.
- Form an executive brainstorming creative team – who get together and bounce new ideas around. If you rotate in and out different smart people on a regular basis, you can generate an ongoing stream of new ideas. The more people you get involved, the better this becomes and the more fresh new product ideas you can come up with.

Whatever you do and however you work, you need to do things quickly. Speed is of the essence in a Stage Two enterprise. To change from being a one-dimensional mom-and-pop operation into a fast-growth commercial enterprise with a sound future, you need to teach everyone how to move faster. The amount of growth you achieve as a Stage Two company will be in direct proportion to your ability to generate and then market test new product ideas quickly.

Business builders come up with and then implement good ideas as fast as possible. The advantages of more speed are:

- You can test new product ideas quickly in the marketplace and find out which are worth developing further and which are a waste of your time and resources.
- You can offer new products to your existing customers in pre-launch or beta format as a good heads-up indicator of how they will perform in the broader marketplace.
- By accelerating your failures, you can get to what will work faster.

In fact, so far-reaching is the impact of enhanced speed on a Stage Two business you can use this rule-of-thumb:

$$80\% \text{ of Stage Two growth} = \text{Innovation} \times \text{Speed}^2$$

Speed is of the essence as you move from being a single-product company into an organization that develops and markets many products.

Stage 2 ---> Problem

By the time your Stage One growth has flattened out, your business will probably be moving towards break-even or losing a little money. This will be the spur for you to undertake some serious Stage Two growth initiatives. The best way to approach these is:

Ready > Fire > Aim

When you have an idea that looks promising, don't put it on the back burner until you can perfect it. Test it as soon as possible, even if in draft format. You then make adjustments later on once you know the basic idea is working. The Ready-Fire-Aim methodology is all about creating velocity and deriving the benefits of moving from an idea into action as fast as possible.

Ready

In the ready phase, you need to find the answers to seven essential questions

1. *Do I have a good idea?* – Is this genuinely better than an existing product or can I sense this is something the market needs and will respond to?
2. *Does it feel like this will work?* – Does your gut say you can pull this off?
3. *Are my sales targets realistic?* – If your costs are double what you anticipate and your sales are half what you project, will it still make money?
4. *Can we afford to test the idea?* – Can we do test marketing on a small scale to see how it pans out?
5. *Do we fully appreciate what's involved in making this?* – Are the tasks that we would need to complete within our current capabilities and competencies?
6. *Do we have the people who can do these things?* – Are there champions who will push the idea forward, superstars who will sell it and workers who will do everything else required to fill the orders?
7. *Do we have a Plan B or an exit strategy if the idea turns out to be bad?* – Can we identify in advance a stop-loss point at which we will either make the idea work or drop it entirely to stop incurring further expenses?

It's extremely helpful at this point to put together a brief Ready-Fire-Aim business proposal. This should take 24-hours or less to prepare so momentum is not lost. Your business proposal:

- Will be between one and four pages long.
- Sets out your initial ballpark financial projections, including costs.
- Identifies the critical tasks involved.
- Names your product champion and his or her key support people.
- Sets out a rough timeline for the major tasks to be completed.
- Describes your Plan B options and sets out in writing your stop-loss point.

Brevity is the soul of velocity so developing your business proposal is not intended to slow you down. Rather, it is intended to keep you in the Ready-Fire-Aim mode rather than descending into the potentially destructive mode of Fire-At-Will.

“The key to being successful with start-ups is having a good general idea of what you want to do but being flexible enough to change plans quickly as you discover the invisible secrets of the market you've jumped into.”

– Michael Masterson

Fire

It's amazing how many good ideas never get off the ground. There are two general reasons for this:

1. *People have an uncontrolled desire for perfection* – and therefore they keep thinking they need to get the new idea absolutely perfect before launching it. Unfortunately, things keep on cropping up and therefore nothing ever gets to the marketplace. It just disappears into some internal corporate back hole.
2. *Little chores keep getting in the way* – and taking up all the time that should have been applied to getting the new product to market post haste.

The very essence of Ready-Fire-Aim is you should begin while you're enthusiastic about an idea. You can't tell in advance what will work and what won't work so you're better off getting something imperfect out there and then steadily work to improve it if it sells.

Software companies are particularly good at applying Ready-Fire-Aim. The first version of any new Microsoft software is used to establish the viability of the market. Subsequent updates and upgrades then develop the software into something that is more useful and more bulletproof. Packages that bomb in the early market are then quietly dropped never to be seen again.

You're always better to get your products ready and launch them immediately. There's plenty of time to perfect them later if they sell well. For every product which follows this pattern, there are probably a hundred or more which never get launched because their developers get caught up on the make-it-perfect-first treadmill.

The other key benefit of being action oriented is you avoid all the potential pitfalls of procrastination. By getting your products in reasonable shape and then launching them immediately, you start down the learning curve. You start accumulating the hands-on knowledge you will need to make your product better in the future. Procrastination is a real emotional barrier you need to get through in order to move your Stage Two company onwards and upwards.

“Getting things going quickly is more important than planning them perfectly.”

– Michael Masterson

“Ready, Aim, Fire doesn't mean you are willing to produce mediocre products. On the contrary, it is the best and most efficient way to achieve product quality. And product quality matters. It's how you maintain a good and productive and long-lasting relationship with your customers. Nothing else matters as much. Not even customer service. The difference between the traditional do-it-right-the-first-time approach to product development and my Ready, Aim, Fire approach is that Ready, Fire, Aim is more realistic. Ready, Aim, Fire is a more practical way of developing good products. Being more practical, it is more likely to work. Ready, Fire, Aim ultimately results in higher-quality products, because there is less money and time wasted on features, mechanisms and details the customers simply don't care about. Fewer resources wasted at the Ready stage means more resources are available at the Aim stage. And that's what you need to create good products.”

– Michael Masterson

Aim

To aim in this context means to do two different things:

1. *To improve your product* – so you sell more and more over time because you're adding features which deliver more value to customers. The Ready-Fire-Aim approach is if a product fails to sell well initially, drop it and look for something which will sell. Once you have a product which is selling, you then work to improve and enhance it still further. Incremental improvements should be feeding through all the time rather than waiting for a big bang relaunch. This also means you can contact your past customers again and again and invite them to exchange their old model for the new and improved models you now offer.
2. *To fine-tune your marketing* – so you become better and better at attracting new customers. Once you clear away all the usual marketing myths and misperceptions, you're left with the plain truth there are only three ways you can increase the revenues of your business:
 - *Sell your product to more people* – by developing additional lead products which target new niches and market segments you've never before approached.
 - *Sell more products to your existing customers* – as add-ons or upgrades to what they have already purchased from you. These are the back-end sales which can be so profitable.
 - *Charge more for your products* – by moving your product line to a different part of your market where you can charge more for a premium offering.

Generally speaking you should keep your best marketers working on generating more front-end sales during Stage Two. Put together a second team to concentrate on back-end sales which can be priced differently and direct-marketed. Back-end sales depend on building the customer relationship whereas front-end sales need to take into account all of the dynamics of the marketplace as a whole. The back-end team can find out what customers want and devise products which deliver that in spades.

To become great at marketing, master these lessons:

1. Always remember customers don't care about your company. They care about themselves.
2. 80/20 applies – a small number of customers will be highly profitable. Target these people.
3. Try to learn why customers buy from you all the time.
4. Use direct-marketing to generate leads.
5. Don't ever rely on just one channel, but generate leads three or four different ways.
6. Treat your customers the way you want to be treated and your sales will flourish.
7. Inject in every marketing campaign a Big Idea (which is engaging), a Big Benefit, a Big Promise and solid proof of your claims.
8. Use customer complaints and objections to learn how to sell better.
9. Avoid dead ends – once you sell one thing, figure out what your customers will want next and offer that.
10. Make additional purchase automatic if at all feasible – the "bill-till-forbid" business model.
11. Treat your best customers like VIPs.
12. Have a unique selling proposition (USP) for every product you're trying to sell.
13. Give each of your product lines a unique identity.
14. Always track the effectiveness of your marketing and sales initiatives individually.
15. Understand your customer's core worries, fears and desires. This will unlock their lifetime value to you.
16. Use reciprocity – give valuable things away before you ask them for an order.
17. Keep talking with customers so you know their intimate interests and preferences.
18. Be confident and enthusiastic when you sell, and never be afraid to pitch what you have.
19. Don't push or bribe your customers. Focus on the benefits you will provide and always pre-qualify.
20. Base your marketing culture and mindset around three sentiments:
 - You want to provide genuine value to customers.
 - Delivering value is the heart of all marketing.
 - You will be genuine and sincere in what you do.

Stage 2 – – – ➔ Opportunity

The key to Stage Two growth is not to be a one-shot company. In addition to bringing more new and innovative products to market, you also should be creating genuine opportunities to sell more to the people who have already purchased from you.

As counterintuitive as it may sound, the best time to sell an add-on product to an existing customer is when they have just made their first purchase. You have to create a "buying frenzy" which builds on their feelings about completing their first transaction. Remember, 20 percent of your customers will generate 80 percent of your profits so it's absolutely vital to watch that 20 percent closely for hints and clues on how to sell more to them.

To sell more to your customers on a regular basis:

1. Go through and identify who are the big spenders with discretionary money at their disposal.
2. As soon as these people have made their first purchase, immediately give them an attractive offer for add-on products. Hit them while they're hot.
3. For this type of marketing, you appeal to the buyers' psychological desires rather than their physical needs. Appeal to their preferences rather than appealing to their need to achieve something.
4. Keep selling to them until they have spent themselves out of their buying frenzy and feel good about what they've purchased.

"Ready, Fire, Aim means disregarding most of the obstacles and detours that waylay others. It means finding and following the fastest path to any objective you set for yourself so that time and all the problems time brings with it won't defeat you. Ready, Fire, Aim achieves more in less time because it puts the correct value on action. It is also a realistic approach, because it acknowledges human imperfection and failure in an intelligent way. In effect, Ready, Fire, Aim is a way of increasing the success you have in just about anything. Make a plan, today, to begin doing what you need to do as soon as possible. In most cases, you will be able to begin today."

– Michael Masterson

Four Stages of Business Dev.

3

Adolescence

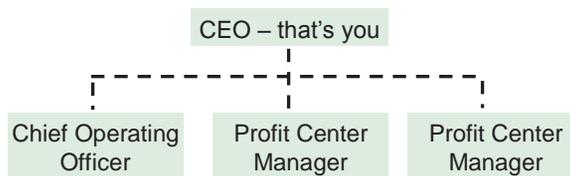
| | |
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| | 51 - 350 employees (Second-tier people hire third-tier employees to work for them) |
| Problem | Your systems are strained and customers are starting to notice |
| Challenge | To turn the chaos of your business into order |
| Opportunity | Learn how to establish protocols, systems and procedures which work |
| Skills | <ol style="list-style-type: none"> 1. Get going 2. Selling 3. New products 4. Managing well |

Stage 3

Challenge

By the time your annual sales revenue exceed the \$10 million mark, it will start to feel like the business has somehow got past your abilities to manage it. Everyone will be so busy addressing problems that it seems like nobody is focusing on taking the business higher. Temporary patches won't help, so it's going to be time to get more professionals involved in running your business.

In fact, instead of having all the key people report to you, it will be time to revamp your management structure. Your first inclination will be to put in place a traditional hierarchy with you as CEO, a senior management tier and vice presidents of different functions on the next level down and so forth. That's fine, but a better way to organize for growth is more like this:



- Group all your operational functions and their respective managers together under the COO.
- Set up each of your product lines as a separate profit center, with each being managed by a Manager who then appoints his or her own Marketing Manager, Sales Manager and Product Development Manager.

This allows you to devote the bulk of your time to assisting with marketing and product development which is more than likely where you add the most value. You can leave the operational part of your business to the professionals. It also means you have six or less people reporting directly to you which is preferable.

Stage 3

Problem

To morph from being an entrepreneurial company into a professional corporation, two major changes are required:

1. *You have to make changes yourself* – meaning you have to become an effective corporate leader. In practice, you have to get good at:
 - Working through other people.
 - Communicating your vision for the enterprise.
 - Networking to generate joint venture opportunities.
 - Negotiating deals that work.
2. *You have to learn how to hire and keep great people* – because it's vital that you fill your Stage Three business with stars and superstars. Stars are the hard workers who show up every day and do exactly what you ask of them. Superstars do that as well but they also have the rare ability to create growth. It's unusual for these people to be out of work so more than likely you're going to have to hire very good people and teach them how to be stars and a few great people that you can mentor personally to become superstars. Recruiting the right people and training them will take the bulk of your time and energy in a Stage Three enterprise.

Stage 3

Opportunity

By the time your revenues are breaking through the \$10 million barrier, you'll no doubt find all sorts of bottlenecks and collisions are occurring. Bureaucracy is starting to make itself felt and there will even be some internal politics coming into the mix which is unhelpful to say the least. These are the natural and inevitable consequences of growth.

So what should you do to keep moving towards that \$50 million in sales mark? Some possibilities:

- Start by making sure you're not the bottleneck everyone else can see. Don't be so involved in day-to-day aspects of your business that people are constrained by your availability. Hire great people and then get out of their way and let them perform. Don't insist on signing off personally on anything.
- Set up a legal department who handle all compliance issues which might come up. Empower them to work with Profit Center Managers to ensure your company doesn't fall foul of any regulations or so forth.
- Ask all your managers to work towards a culture of efficiency. Be on the alert for anyone who is trying to set up systems or procedures which slow things down rather than speed up and improve things. Encourage everyone to focus on what can be done to serve customers better.
- Eradicate anyone who is trying to establish an internal fiefdom. Create a meritocracy where people can compete openly with each other internally and the best ideas win. Encourage everyone to share and have almost no restrictions whatsoever on product developing or marketing. That's the kind of environment where politics cannot survive.

“Getting a business to Stage Three, in which revenue goes beyond \$10 million and approaches \$50 million, is a great accomplishment. Most entrepreneurs never even get close to this level. But it's not a time to rest on your laurels. The secret to growing your business to \$100 million and beyond is to make joint-venture deals with entrepreneurs, and to develop superstar employees into intrapreneurs and then let them run your business.”

– Michael Masterson

Four Stages of Business Dev.

4

Maturity

| | |
|-------------|---|
| Description | Generating steady sales growth to move from the \$50 million mark to the \$100 to \$300 million range |
| | \$50 million + in revenue |
| | 350+ employees (Functional employees now organized into business units) |
| Problem | Sales slow down and may plateau |
| Challenge | To become entrepreneurial again |
| Opportunity | Get the business to run itself |
| Skills | <ol style="list-style-type: none"> 1. Get going 2. Selling 3. New products 4. Managing well 5. Hire superstars |

Stage 4

Challenge

As much as it may sound like this is a problem you'd love to have, by the time your business has revenues of more than \$50 million, the natural forces of the universe will combine to flatten out your growth. To offset this, you've really got to decide what kind of role you now want to play. There are basically four options:

1. *You can continue as an employee* – but this will probably create bottlenecks and your time is probably of more value elsewhere.
2. *You can stay on as a manager* – but by this stage your Profit Center Managers will already be doing well and having you hanging around will be a distraction rather than a help.

3. *You can keep being a business builder* – but your company is now so big and sophisticated it gets harder to make your ideas applicable and understood.
4. *You can act as a wealth builder* – treating your company like a valuable asset and figuring out what you need to do to be enhancing its value.

By the time you get to Stage Four, the majority of your time will be spent as a wealth builder. You'll have to reassess the role you want to play quite deliberately but you'll have good options available. The key is to find work that interests you and something that you care about.

Stage 4

Problem

Since you'll probably be your company's main investor in Stage Four, you'll probably want to stay actively involved in continuing to grow revenues. You can now achieve this several different ways:

- Seek out new joint ventures.
- Make strategic acquisitions.
- Plan ahead for selling your business or going public.

Probably the best change you can make at this stage is to step back from acting as CEO and instead become an adviser to your company. That will free you up to think clearly in the wealth building mindset rather than getting caught up in the day-to-day dramas which will be occurring all the time. Just keep in mind as an adviser, your Profit Center Managers and the new CEO are not obligated to do what you say. They can listen to your advice but then make their own decisions. Unless you give your senior management team this kind of autonomy, you'll feel personally responsible for every decision that needs to get made and the stress will wear you down.

By stepping aside and letting your business run itself, you can act as an investment manager. You can reinvest profits in building your business rather than pulling out the majority of the income generated each year. You can figure out where to go from here. Counterintuitively, you add value to your business in Stage Four by doing less, not more.

Stage 4

Opportunity

Your three obvious Stage Four options will be:

1. Sell your business privately.
2. Take your company public.
3. Make acquisitions to keep growing your business.

As you navigate through these options, keep a few guidelines in mind:

- Good businesses actually worth buying are very rare. Buy only what you know and always have a Plan B in mind if the acquisition ends up taking a different path to what you expected.
- Going public is glamorous, but the reporting requirements are quite horrendous. Only consider going public if there is no other feasible way for you to fund more growth.
- Selling your business outright may sound appealing, but why do that if you can stay involved as an adviser to the company? By this stage you won't really need the money and six months after you've sold, you'll probably be bored with playing golf. You'll look around for something interesting to do. Why not retain ownership of the business you've already built and stay involved playing whatever role takes your fancy. This really is much more fun and engaging than sitting on the beach.

“Warren Buffett doesn't play the CEO role. He has made his billions by making wise investment decisions about how his company, Berkshire Hathaway, invests its assets. That's a very valuable role you can play for your Stage Four business – helping to increase its future value by guiding its most important investment decisions. As an adviser, you (and your partner, if you are lucky enough to have one) will be able to provide enormous value to your Stage Four business while working only a few hours a week.”

– Michael Masterson

“Starting and owning your own business is – and always will be – the best job in the world. Don't settle for any other.”

– Michael Masterson