

## Increasing the Chances of a Successful Startup: Lessons from High-Growth Firms

Anyone who has a dream of owning and operating a small business should do everything possible to enhance the chances of success. Observing successful role models is one way to increase the likelihood of realizing the dream.

A key determinant of success is a firm's growth in sales, provided, of course, that the profits and cash flows generated from the sales are adequate. Higher sales enable a firm to cover fixed costs by achieving economies of scale. Although a significant increase in sales can cause financial problems, sales growth is necessary to get beyond mere survival. Growing firms can fail, but the chance for creating economic value—a key barometer of success—and for creating jobs within a community where the business located is greatly enhanced through growth.

The right beginning is important to a new company's eventual success. Leslie Brokaw has identified several characteristics that are common to high-growth firms. His views are based on a study of *Inc. 500* companies, firms identified by *Inc.* magazine as the fastest-growing businesses in the United States during the prior five years. Brokaw says:

*Companies that grow begin differently from the ones that don't in a handful of starkly identifiable ways. The distinguishing traits of a successful startup have to do with the kind of experience and knowledge its founders possess. They have to do with a startup's ability to seek and nurture alliances, whether for financing or product development. And they have to do with the market ambitions a company adopts right at the outset.*

Brokaw continues by describing the observable features of these high-growth firms, which include the following:

1. The venture is most often a team effort. The vast majority of high-growth firms are started by a group that brings diversity and balance to the business.
2. The founders bring meaningful experience to the business. They are not learning the business as they begin the operations.
3. The founders of high-growth firms often have started other businesses in the past. In 50 percent of 1992 *Inc. 500* firms, the president had started at least one business before starting the most recent venture. However, many of these early startups resulted in failure—only 27 percent of the earlier companies were still in existence.
4. Most frequently, high-growth companies are in service or manufacturing industries. Almost half of the *Inc. 500* firms are classified as high tech, with 25 percent being manufacturers, compared to 56 percent in services. Only 7 percent are in retailing.
5. High-growth firms are better financed—but not by much. High-growth companies begin with more money, but only slightly more.
6. The founders of high-growth companies share ownership in the business. In high-growth firms, the founders do not keep all the equity; they frequently own less

than half of it. They think it is better to own a part of something large than all of something small.

7. High-growth firms do not limit themselves to local markets. The majority of the *Inc. 500* companies receive more than half of their sales from outside their local region. Over one-third of these businesses have sales from overseas customers.

Brokaw concludes with some predictions about the trends of highly successful startups:

*We'll find that larger percentages of successful startups will have formed alliances with major companies in their early years. More will be exporting ever greater portions of their output to customers overseas. Today's startups, we'll discover, will have continued to modify the ways they're set up, whom they become dependent on, and how far-reaching they try to be, all in response to the increasing globalization—and increasing complexity—of the marketplace.*

The preceding viewpoint presumes that the goal is to grow—and grow fast. As was suggested earlier, however, growth has its good side and its bad side. Many firms have encountered severe, if not fatal, consequences from growing too fast. Jim Hindman, the founder of Jiffy Lube, lost sight of that fact and took the firm during its early years beyond its capacity to finance the growth. The result was chaos and such severe financial distress that Hindman is no longer part of the firm he conceived and built. Also, some entrepreneurs prefer not to grow too large or too quickly. They prefer to remain small or at least to control the level of growth at what for them is a manageable rate when everything is considered, including priorities for their personal lives. Finally, a startup should avoid increasing sales when the profits associated with the sales are not sufficient to provide an attractive return on the capital invested. However, even with the preceding caveats in mind an entrepreneur cannot ignore the importance of achieving an adequate level of sales. In this regard, we emphasize learning from those who do it well—the kinds of firms that have been described by Brokaw.