"Sher writes passionately . . . a quiet but hard-hitting game plan." —*Publishers Weekly*

MIGHTY MIDSIZED COMPANIES

HOW LEADERS OVERCOME 7 SILENT GROWTH KILLERS

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To the leaders of midsized businesses everywhere,
who despite all the challenges, get up every day
and strive to build mighty midsized companies.

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INTRODUCTION

Midsized firms are the foundation of the American economy. There are almost two hundred thousand companies today with revenues between $10 million and $1 billion—midsized, as defined by Ohio State University's Fisher College of Business—and they account for about a third of U.S. GDP and a third of all U.S. jobs.[1]

This book is for the leaders of these companies, businesses that don't get nearly the attention accorded their smaller and larger brethren even though they share equally severe headaches. Like all businesses, midsized companies struggle to innovate. They suffer defects in quality that turn off customers and lead to expensive recalls. They fumble when it comes to entering new markets. They make dangerous and profound strategic and operational mistakes.

But midsized companies are different in important ways. They face unique challenges that smaller (less than $10 million in revenue) and bigger firms (more than $1 billion) do not experience. And the difficulties that uniquely confront midsized companies are often subtle . . . at least in the beginning.

Unlike dry spells in innovation, quality defects, and mistakes made in entering new markets, many of the problems that midsized companies must deal with (and the ones that I will explore in this book) are not obvious. They are not studied in business schools. They are not written about in the pages of the *Wall Street Journal*, the *Financial Times*, the business pages of your local paper, or in the trade press. Consultants don't specialize in them, and they don't write white papers about them.

These problems grow out of sight (and frequently out of mind) in the dark recesses of the midsized organization, unrecognized by management in their daily routines until they emerge as full-blown crises that can threaten the present and future of the businesses. As a result, I refer to these special afflictions of midsized companies—seven in all—as silent growth killers.

I believe silent growth killers is an appropriate name for them because they sneak up on leaders at midsized companies just as high blood pressure and high cholesterol can creep up on us, often unnoticed, and later cause multiple and massive complications. Just as those medical conditions, untreated, can lead to an early demise, these silent growth killers, if not addressed, may cause a businesses to collapse in a dysfunctional heap. But as I'll point out in subsequent chapters, many midsized companies have dealt with them well, and by doing so have grown nicely, profitably, and sometimes spectacularly. They have achieved mighty midsized company status.

Why This Book Is for You

The midsized firms that you will read about in this book are sandwiched between two ends of the revenue spectrum. On one end, we find millions of small companies, a highly heterogeneous group ranging from the Main Street bakery to the Silicon Valley start-up. On the other end are the big companies, the billion-dollar corporations featured on the covers of *Fortune, Forbes,* and *Bloomberg Businessweek,* and often on the listings of the public stock exchanges.

This book is not for the men and women running the Main Street businesses with one or two employees, bringing home their profits to put food on their tables, nor for the highly compensated ivory tower executives captaining giant conglomerates. It is for executives and managers leading midsized firms, most privately held (often by families), and some externally

funded (often by private equity firms, venture capital, or smaller publicly held firms). And some are professional services firms—law, accounting, consulting, IT services, training, and other firms—owned by the partners of those businesses.

You see, it is much more rewarding and comfortable to lead a mighty midsized company where there is less vulnerability to a host of problems that slow growth and destroy profit. So let's make your firm mighty.

It is also for those leaders whose companies are knocking on the midsized door with between $5 million and $10 million in revenue. There are 370,000 businesses of that size in the United States today. My advice applies to their managers as well because as they grow to middlehood they are sure to encounter the issues I will describe.

This book is also relevant to executives in midsized divisions of larger firms. While these managers can (in theory) draw upon the resources of their parent companies, in practice they often cannot. They're held to demanding financial targets with little assistance from corporate. In other words, they're really midsized companies—not Fortune 500 behemoths—with their top leaders reporting to other leaders higher up the corporate food chain.

The Invisible Middle

Despite how vital midsized companies are to our country's economic welfare, and despite how many of them there are, relatively little has been published over the years about what makes them tick. Even if you're a voracious reader of business books and publications, you probably haven't read much about the midsized business. That's not because thoughtful experts haven't weighed in from time to time; they have. But there are so very few of them. They're like sportswriters who cover pro bowling or lacrosse. Compared to the number of

pro baseball, basketball, and football writers, they're a vanishingly small cohort. There might be enough of them to organize a good book club.

Consequently, the midsized company has been grossly underexamined. The light of the business experts, consultants, and professors has shined almost exclusively on the sexy start-ups (especially those funded by venture capitalists and located in that disruptive digital incubator, Silicon Valley) and the equally compelling Fortune 500 goliaths.

"Despite its significance to the economy, the middle market is an area about which we know much less than we know about small firms and large firms," Anil Makhija, senior associate dean at the Fisher College of Business, and academic director of Ohio State University's National Center for the Middle Market, told attendees at the research group's 2013 annual conference. "Middle-market firms have been largely invisible."[2]

This blindness even affected the most recent presidential campaign. In the 2012 campaign, both President Barack Obama and Republican nominee Mitt Romney focused on *small* business. "Small businesses have always formed the backbone of the American economy," the president said.[3]

Comparing the Middle Market to Small and Big Business

	Annual Revenue	Businesses	Employment
Small Business	<$10m	~6m	35%
Middle Market	$10m - <$1B	195,000	34%
Big Business	>$1B	~2,000	31%

FIGURE I-1:

Source: The Market That Moves America, *National Center for the Middle Market, The Ohio State University, and GE Capital Corporation, October 2011.*

Well, in terms of sheer numbers, the president and ex-governor Romney were dead on. Almost six million small firms dot the U.S. landscape (companies with annual revenue of less than $10 million). That means small firms outnumber the 197,000 midsized firms by a factor of thirty.[4] But in terms of the mid-market's economic impact, both candidates were dead wrong. Not only do midsized businesses generate more revenue than small business, according to U.S. government data they account for nearly as many jobs (34 percent of the labor market versus 35 percent for small companies). And between 2007 and 2010, the middle market created 2.2 million jobs even as companies with revenue in excess of $1 billion cut their workforce.[6] Midsized firms have longevity that is nearly as good as big business, with 70 percent having survived twenty years or more, compared to only 16 percent for small business. Midsized companies are stable organizations that provide long-lasting jobs.

Company Longevity
Middle Market versus Small and Large

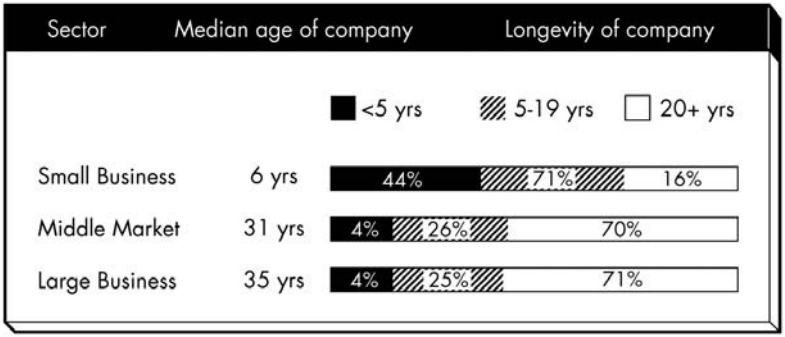

FIGURE I-2:

Source: The Market that Moves America, *National Center for the Middle Market, The Ohio State University and GE Capital Corporation, October 2011.*

I'd argue that the real backbone of the American economy is the midsized business.

Why Midsized Firms Are Different

So midsized companies are more important to the economy than most people realize. But, apart from the somewhat arbitrary revenue differentiator, what makes them special? What makes their problems—and the solutions to those problems—unique? In my work as a consultant to midsized businesses, and as a former CEO of a midsized business, I've found six factors in the DNA of midsized companies that set them apart from both larger and smaller companies and give rise to the distinctive challenges they face:

- **A low tolerance for risk.** Midsized firms have much more to lose than start-ups. They have many more employees that depend upon them, and their owners have a larger portion of their personal wealth at stake. Adding to their aversion to risk, midsized companies just aren't big enough to survive too many missteps. Their investors keep a vigil on profits and growth to fuel investment value, and typically pay no dividends. Start-ups, by contrast, are all about risk. If they fail, everybody goes out and gets a new job. Their investors know the risks and, in the case of venture capital and private equity, have diversified portfolios to manage them. Deep-pocketed Fortune 500 companies, of course, have the resources to experiment with new products and even new business models. They can assume great risks because they can write off multi-million-dollar failures. But in bootstrapping their small firms into midsized companies, many executives have survived hard times by being frugal. Such frugality makes them risk averse and often holds them back from getting to the next level. That

would mean making risky investments in talent, infrastructure, research and development, and brand building.

• **High barriers to internal collaboration**. Midsized companies typically have more than a single office (or even more than a handful of offices), and their dispersed teams must communicate in order to conduct business. Yet they aren't so large as to be able to afford taking their managers away from their daily tasks to attend the off-sites or all-hands meetings that larger companies use to get everyone pumped up and aligned. Nor are they rich enough to pay for in-house organizational development teams or the other tools that big businesses use to keep top management in sync. Start-ups, on the other hand, typically have all their people in one place, focused on the same or closely related tasks at the same time, brewing their coffee in the same kitchen. Collaboration is easy when you're rinsing out your mugs in the same sink. Midsized firms are caught between critical mass and unencumbered nimbleness.

• **Few ways to develop talent.** Midsized firms (especially those growing quickly) typically don't have large HR functions to develop leaders, or the cash to invest in successor positions or training the way large corporations do. In slower-growing midsized firms, top managers can't (or won't) create adequate opportunities for advancement for younger talent, their future leaders. Midsized companies without multiple business units can't give aspiring leaders P&L responsibilities. In just about all midsized companies, it is rare to find executives who can spend time mentoring. Everyone is too busy doing his own job, making the business run.

• **Less investor patience for leaders learning on the job.** When a business is backed by venture capital or a private equity firm, there's a hard horizon for an expected return. Investors typically believe that the leaders of the businesses they put their money behind should have the skills they need to

succeed. They're not interested in waiting for them to develop. If the leaders don't produce within the investors' timeline, they will be replaced. This can lead to a turnover rate at the top levels not experienced by smaller businesses (often run by their owners) or larger companies (in which leadership training is a core activity).

- **Less strategic thinking.** Big firms have chief strategy officers and teams dedicated to strategy, M&A, and corporate development. Start-ups have a central belief in one opportunity they race to embrace. Midsized firms, however, busy working to make the business they already have run profitably, often have to do their strategic thinking on the fly, with the part-time efforts of the CEO. Maybe, once or twice a year, they'll have an off-site at some nearby hotel equipped with a conference room. Bigger midsized firms ($300 million to $1 billion in revenue) might be able to afford a few senior executives in corporate development. In general, midsized firms don't have the time, inclination, or skills to consistently think strategically.
- **Less seasoned talent.** In midsized companies, a high percentage of owners, CEOs, and other leaders began at the bottom. They rose with the business, which means they may never have acquired or gotten the chance to polish the executive skills you see in Fortune 500 companies (and don't often need in smaller businesses and start-ups): disciplined planning, financial acumen, relationship building both inside and outside the business, talent development, mentoring, and leadership. Take any one of my law firm clients: great lawyers but no business training or experience. Another retail client started the business in college and grew it to over $300 million in revenues in twelve years, without ever holding more than a summer job as a teen.

Of course, the huge size range between $10 million and $1 billion in revenues means there is a great variety in the way

Three Segments in the Middle Market

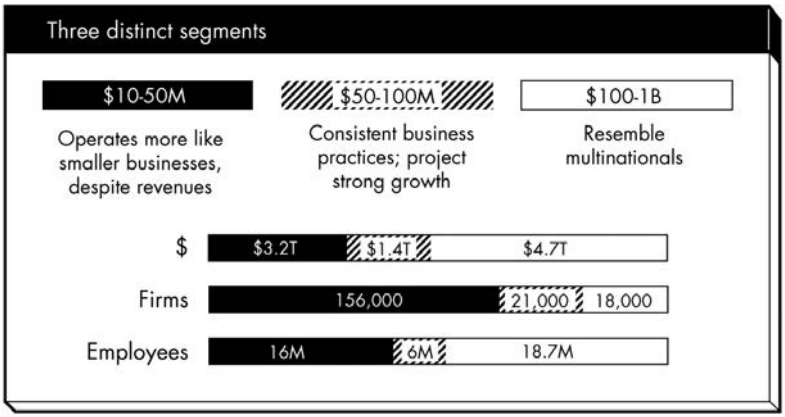

FIGURE I-3:

Source: The Market That Moves America, *National Center for the Middle Market, The Ohio State University, and GE Capital Corporation, October 2011.*

these firms conduct business. The National Center for the Middle Market divides the middle market into three segments. Naturally, those at the smaller end of the range have operations that are more like small businesses and, likewise, those at the top of the range act more like big businesses. In my own experience, most businesses squarely confront middlehood between $20 million and $500 million in revenues, depending on the rate of growth, the presence of external investors, the background of the CEO, and the competitiveness of the industry.

Like the soil and climate that determine the evolution of the flora and fauna in a specific region, these six limitations create the environment that affects the life and growth of the midsized firm. They also provide the ideal conditions for the emergence of the silent growth killers you will read about in this book.

The Seven Silent Growth Killers at a Glance

Not every midsized business wants to grow, but in my experience most need to show some growth to remain healthy, and many aspire to grow to the next level. Only some succeed. The others fall victim to one of the seven silent growth killers. These growth killers can slip in and set up shop in your boardrooms, executive suites, lunchrooms, sales floors, and factories before you even know they're there. Before you can begin to guard against them, you must learn to recognize all seven. They are:

1. *Letting Time Slip-Slide Away*

This growth killer is silent almost by definition because it has to do with that most ephemeral and subjective thing, time. When an organization loses its sense that time is a limited resource, deadlines on critical projects get pushed back with few if any consequences to the individuals and teams responsible. It's very easy to overlook time that slip-slides away, especially if a CEO allows it. Chapter 1 tells the story of how a laissez-faire attitude about time cost a $130 million retailer more than a million dollars as it tried to implement a critical new information system. It will then lay out four key ways that executives can create respect for time and deadlines. To illustrate these approaches, I will show how a new CEO at Goddard Systems Inc., franchisor of The Goddard School®, the fast-growing $530 million franchise system, created a culture—and a process for running productive meetings—that treated time with the type of respect it must receive if a midsized company is to grow.

2. *Strategy Tinkering at the Top*

Start-up companies must always be ready to tinker with their strategy. Because they are trying to tap previously

unrecognized or unmet needs, they must tweak, adjust, and change course whenever they discover that those needs aren't exactly what they thought they were. Big companies simply don't tinker. They study, analyze, plan, and pilot. But for a midsized company, tinkering with the business's core strategy can be deadly. In chapter 2, I'll explain how Cellairis, in 2005 a $50 million–revenue wireless accessories company, took a 33 percent hit to its top line when it tinkered with its strategy, and how it recovered when it stopped. I'll also explain how Rodan + Fields, a $250 million skin-care products company, and the $500 million system-wide restaurant chain Jamba Juice instituted strategic and operational planning processes that avoided tinkering and kept them out of the business ditch.

3. *Reckless Attempts at Growth*

In describing this silent growth killer, I'll examine the problems of midsized firms that bungle their attempts to grow quickly, and I'll lay out three ways to take the "reckless attempt" out of growth. They are: gaining a deep understanding of your market, developing well-founded forecasts, and making evidence-based assessments of your ability to execute. I'll show in chapter 3 how preparing the ground in this manner helped BlueArc, a manufacturer of data storage gear, grow to $86 million in revenue during the Great Recession.

4. *Fumbling Strategic Acquisitions*

Companies often pursue growth by buying it. Sometimes that doesn't work out. When a corporate giant makes a bad acquisition, it usually has plenty of capital to absorb the loss. But when a midsized company makes a poor acquisition—even if the acquired firm is small—it can knock the company off course for years. Chapter 4 examines how poor acquisitions set back the growth of two midsized firms, a $130 million retailer and a $50 million food company. We'll explore

why making a good acquisition is less about the deal and the closing, and more about what happens *afterward*: the integration process and execution of the acquisition plan. That's what largely determines whether an acquisition will make or lose money. I'll lay out four best practices for beating the odds against acquisition success (which are dreadful—two-to-one against, according to studies) through case studies on successful acquisitions at EORM (a $27 million environmental consulting firm), $360 million Pelican Products (a maker of cases for equipment), and United Site Services, a $120 million portable restroom provider (before they exited).

5. *Operational Meltdowns*

Small firms tend to notice problems in production, distribution, marketing, sales, or other critical processes early on. They have to. If they don't head off operational bugaboos, they'll wake up to find themselves out of business pretty quickly. Large companies typically have established written plans and performance metrics and people who are well paid to monitor them and to make sure there are no operational surprises. Midsized companies, however, usually lack both rigorous processes and dedicated operational troubleshooters. They are often surprised and overwhelmed by meltdowns in key processes, especially those that come from the always-difficult process of automating systems. In chapter 5, I'll discuss the four early signs that an operational meltdown is looming. I'll review the case of a company that rapidly grew to $50 million in revenue ahead of scalable infrastructure, leading to a rolling operational meltdown that compromised customer experience, was quite costly, and resulted in the dismissal of its logistics and IT heads. I'll also explore in depth what midsized companies—such as $53 million Dave's Killer Bread—have done to avoid such meltdowns.

6. *Liquidity Crashes*

Running out of money can happen to anyone. A dramatic economic downturn, the loss of a key customer, and other unexpected events can catch even the most experienced CEOs unprepared. In chapter 6, I'll tell the sad tale of a $70 million toy company that was pummeled by a liquidity crash in 2009 after a costly acquisition and a troubled warehouse system implementation led to a cash hemorrhage that ended up with its bank calling in its loans. But I'll also tell the story of a $30 million architecture firm that survived a 2008 crash in its market (retail store design) and lived to fight another day. The keys to emerging from a liquidity crisis, as this chapter explains, include building a strong balance sheet, monitoring cash flow, making smart and timely cost reductions (while avoiding harmful ones), and making sure you have the right investors in the business to begin with. You don't want impatient capital in times that require patience.

7. *Tolerating Dysfunctional Leaders*

When a business grows to midsize, it needs teams to handle projects and manage a larger workforce, and it needs leaders to manage the teams. Big companies can easily survive two or three weak links on a team of several dozen executives. But two or three weak links out of six or seven (the size of many midsized company management teams)? That's a recipe for disaster. Chapter 7 discusses the touchy subject of leaders who are not performing, how to spot them, and what to do about them. And to reduce the chance that you'll hire them in the first place, I'll lay out the ten critical elements of an effective recruiting strategy. I'll also show how companies such as a $30 million food manufacturer, $15 million CruiserCustomizing, and R. Torre & Company (a 125-person syrup manufacturer) took the bold step of removing talented,

often-popular but no-longer-productive members of their top management team as a path to greater growth.

All seven growth killers are linked, and in the conclusion, you'll read a story where one killer brought on another, then another, until all seven had attacked. It's every CEO's nightmare. But because the killers are linked, there are steps all midsized businesses should take to reduce their vulnerability overall. In the conclusion, I lay out the concept of "leadership infrastructure." By this, I mean the sum total of all the management systems, processes, leadership teams, skill sets, and disciplines that enable companies to grow from small operations into midsized or large firms. It's very hard to build because one size doesn't fit all, and neglecting it is an open invitation to the silent growth killers. Yet it is the path to mightiness.

So What Makes Me So Smart?

Actually, I'm no smarter than the average bear, but for the past thirty years (unlike the average bear) I've operated in the executive suites of dozens of midsized companies. From 1984 to 2006, I was a founder and CEO of Bentley Publishing Group, and led the firm through four acquisitions that enabled it to become a leading player in the U.S. decorative art publishing industry. In fact, I published my first book about the lessons I learned on acquisitions (*The Feel of the Deal*)[7] the year after I left Bentley. Five years after I struck out on my own, the firm merged with another in 2011 to form the Bentley Global Arts Group.

After leaving Bentley in 2006, I launched a consulting business, CEO to CEO Inc., to help midsized companies get to the next level and to tackle many of the same issues I discuss in this book. Since 2007, I've worked with more than seventy-five

midsized companies as a consultant to their CEOs and top management teams.

Since 1996, I've also been deeply involved in a community of top-level business leaders devoted to challenging common business wisdom and examining the strategic assumptions of business success. From 1996 to 2006, as CEO of Bentley, I was a member of the Alliance of Chief Executives, meeting monthly with a private group of CEOs. Once I left Bentley, I became a director of the Alliance and have since sat in on hundreds of Alliance CEO private group meetings. I lead an Alliance group of top executives from middle market companies (between $30 million and $800 million in revenues), facilitating deep discussions every month, listening to their challenges, and helping them see multiple perspectives so they can find solutions.

I've been writing about many of the lessons I've learned about the art and science of running midsized companies in two columns, one in *Forbes* magazine and the other on CFO.com. I've been a regular columnist at those publications since 2012. To write *Mighty Midsized Companies: How Leaders Overcome 7 Silent Growth Killers*, I interviewed more than a hundred CEOs at midsized companies, using their experiences and stories both to inform my thinking and to illustrate it.

This book is based on that research.

How to Use This Book

No matter what kind of midsized firm you are in, or hope to grow to become—whether it's a law firm or a dress manufacturer, a retail chain or a software company—this book should be used by your management team along with all the other good books in the marketplace on the strategies and pitfalls that attend growth.

CEOs, I hope, will find this book especially helpful as the

responsibility for dodging or dealing with the silent growth killers generally ends up at their door. But I didn't write this book solely for CEOs. Knowing the growth killers—and knowing what to do when they rear their ugly heads—will also enable heads of finance, sales, marketing, R&D, production, service, and other members of the leadership team to help their companies survive and thrive in these turbulent economic times.

Ultimately it will be the management team, working together and armed with an understanding of the seven silent growth killers, that will determine whether your business will fall victim to any one or all of them. I urge you to make the stories and lessons of this book the subject of management team meetings, especially if you believe one or more of the growth killers are already doing their dirty work in your organization.

If, as a team, you can learn to identify the early symptoms of a growth-killing infection, you'll be in a much better position to protect your company's health and ensure your midsized business's growth. And if you follow the steps I lay out to prevent the growth killers from taking root in the first place, as did many companies in the chapters that follow, your company will be able to stay productive and profitable all the days of its life. It will be mighty.

That's what you want; that's what I want for you.