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MANAGING SMART GROWTH:

KEEP STRATEGIC BUSINESS FUNCTIONS IN-HOUSE, OUTSOURCE THE REST.

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Organizational growth is foremost on every CEO's mind. Companies seeking to get maximum benefit from investment capital should first evaluate how leveraging business services can provide new options for structuring their management team. Farming out activities that aren't mission-critical allows organizations to shift management resources to focus on key success factors such as product development, revenue growth and customer satisfaction.

Even the most innovative of managers can be predisposed to "build" versus "buy" when it comes to non-strategic aspects of their business. CEOs of early stage companies are naturally drawn to invest in an organization's infrastructure in anticipation of their projected growth, particularly after a round of financing has been completed.

As high-growth companies discover, the product development process is fraught with delay, and even when it goes smoothly, sales may not ramp up according to plan. Since building an administrative structure is far more predictable, these companies may reach their full overhead burden well in advance of demand for their product. With the bulk of their capital expended, CEOs may be forced to reduce staff and scale back operations, often dismantling much of what they've built, as they position themselves to raise additional capital.

Entrepreneurs can improve their return on investment and reduce risks by externalizing various functions of their organization. As a rule, product development must be done in-house since it is the most strategic aspect of a high-growth company. Experienced CEOs recognize the important distinction between using contractors to implement a component of their design versus "offshoring" the development of their product. The latter can result in loss of control over intellectual property, which is ultimately a most critical success factor.

AN OUTSOURCING STRATEGY CAN ENABLE BUSINESSES TO UTILIZE AN INNOVATIVE MANAGEMENT STRUCTURE, WHICH WILL HELP THEM CONSERVE CAPITAL, REDUCE RISKS AND BEST POSITION THEM FOR LONG-TERM SUCCESS.


PHOTO BY TONY ESPOSITO

So what about outsourcing strategic functions such as sales and marketing? Although it usually can't be completely performed by external resources, it may be wise to consider using a marketing firm to serve as the de-facto staff for a business development vice president. This gives companies the flexibility to spend on an as-needed basis, rather than make additional full-time commitments that prematurely increase their burn rate. When the product is ready, responsibilities can be shifted to internal staff.

This leads to consideration of non-strategic activities such as accounting, human resources and general administration. These overhead functions should be the last to be vertically integrated, and if vended successfully, some activities may never need to be brought in-house. When these chores are delegated to a chief financial officer or controller, good communication is required to ensure that migration of these services to in-house staff is in sync with business growth. With improvements in enterprise management technology, much of it now available over the Web, companies should take advantage of the shorter lead times now required to implement business systems.

The advent of niche-oriented business services creates alternatives that may greatly reduce the time traditionally required by CFOs to build and direct overhead functions. Emerging companies may take several years until they reach the point where a CFO's skills are needed on a full-time basis. Therefore, a company may be best served by finding a consultant to act as a part-time CFO. Often these financial consultants have previous experience guiding growth companies through critical stages and now want to share their skills with a multitude of clients. Since the need for this expertise is sporadic during early stages, using a consultant may be a relatively inexpensive alternative when compared to the compensation package an experienced, full-time CFO will command. If all goes well, this arrangement may turn into an excellent way to recruit a highly qualified executive once business growth accelerates.

BUSINESS SERVICES CAN RAPIDLY IMPLEMENT THEIR SOLUTIONS AND SCALE THEIR OFFERINGS TO MEET GROWING OR SHRINKING REQUIREMENTS.

A proven tactic being used by many CEOs is to hire a financially astute director of operations instead of a CFO or controller. Through outsourcing, CEOs have the option of hiring a "right-hand manager" who will spend some of their time coordinating vendor relationships, rather than hiring a manager dedicated to full-time oversight of in-house accounting and support staff. The primary benefit is the addition of a managerial resource capable of contributing to the team in ways that go beyond financial and administrative duties. Often these managers are versatile professionals, with project management and customer service skills, who may bring their abilities to bear on a variety of assignments.

Use of outside services for support functions provides a multitude of advantages over internal staff. Business services can rapidly implement their solutions and scale their offerings to meet growing or shrinking requirements. They provide better value by bringing a breadth of experience and depth of resources in their field of expertise, often at a lower cost. Additionally, they can improve management focus by insulating them from staffing related issues in areas that don't advance their mission.

The Pittsburgh region is populated with a wealth of business services and consultants who can help mitigate the risks associated with companies experiencing rapid growth. CEOs need to consider the benefits associated with using outside services in lieu of building staff in non-strategic areas. An outsourcing strategy can enable businesses to utilize an innovative management structure, which will help them conserve capital, reduce risks and best position them for long-term success.

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