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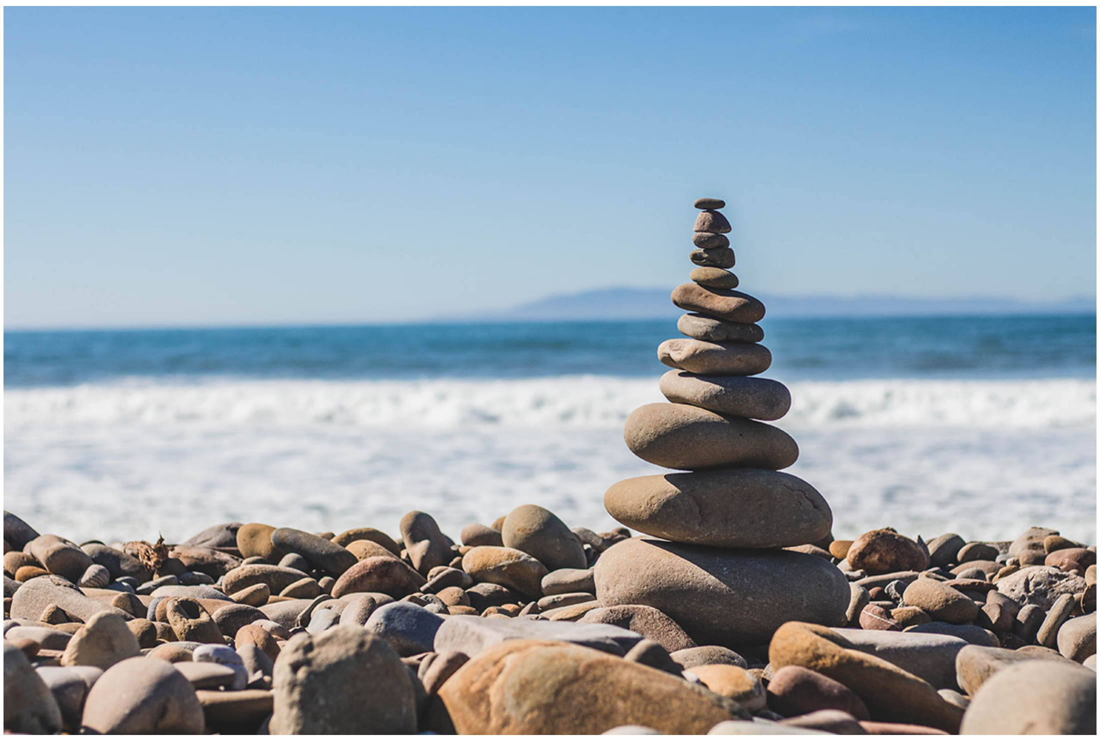
STRATEGY

Managing the Barriers to Startup Scalability

by Helen Yu and J. Mark Munoz



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Inability to scale up is what often prevents firms from reaching full potential.

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All over the world, entrepreneurs are dreaming up the next million- or billion-dollar idea. Unfortunately, Failory research suggests that "about 90% of startups fail with about 22% failing in the very first year."

The path to startup success is largely anchored on the venture's ability to generate revenue quickly. Oftentimes, this means having the largest possible number of customers willing to pay for the product or service.

For many firms, it's their inability to scale up that prevents them from reaching their full potential. Disconnects or barriers to scale in early enterprises inhibit growth and lead to missed profit opportunities. In this article, the authors identify five major business disconnects that block scalability.

DISCONNECT # 1: Product – Market Fit Misalignment

Entrepreneurs need to ask themselves – "*Is your product truly marketable?*" Founders are constantly creating, sourcing, exploring, dreaming, and pitching. But an amazing technological product that does not address a market need is not going to attract buyers. When there is an alignment between market need and customer solutions, then there's product-market fit. Product-market fit evolves depending on the growth stage, buyer journey attributes, product characteristics, channel capacity, deal structure, verticals, ecosystem, partner dynamic, geography, and pricing strategy.

DISCONNECT #2: Product Repeatability Questionable

New ventures typically strive for a Minimum Viable Product (MVP) – with basic features and solutions that are enough to capture the attention of early adopters. MVP's need to have a broad space to change course and to evolve. In addition, the product needs to be continually aligned with the company's brand, target market, and enterprise competencies. Founders can plot out multiple scenarios and developmental trajectories for the product.

DISCONNECT #3: Voice of the Customer is Muffled

Many young firms dismiss the voice of the customer. If done right, listening to customers can be a point of differentiation. A startup can benefit by making it a habit to look through the lens of the customer and analyze their motivations. Understanding the customer mindset paves the way for product and concept validation and the formulation of effective strategies. Furthermore, it is a way to truly set the enterprise apart from competitors.

DISCONNECT #4: Process is Unreliable

As a startup, the company has found one way to get their initial goals accomplished. The question is – *"Is this process really the best way of doing things?"* As business grows, some founders make decisions based on subjectivity and not hard facts. With this model, results may not be consistent over time. Data-driven decision-making methodologies provide specific evidence from which a decision is carried out. Mapping out the process helps in the future analysis of where things went wrong and how things can be improved. Furthermore, accountability can be better assessed.

DISCONNECT #5: Failure to Measure

Large corporations tend to put in significant time, effort and resources to measure performance. Large firms want to clearly understand how they performed, what worked and what did not, how they performed compared to industry standards, and how they compare against competitors. Startups tend to place measurement low in their priority since other initiatives such as sales generation tend to be paramount. As a result, failure to pursue some form of measurement, benchmarking or analysis leads to missed opportunities to understand the customer, product, organization, competition, and market better. When the time comes to scale up, the firm ends up doing guess work as a basis for important strategic decisions.

Startup Disconnects Illustrated

One of the authors of this article was a Marketo alumni who witnessed what transpires when disconnects occur as well as what happens when these disconnects are corrected.

During its early stages, the Marketo service team did not get involved until transactions closed. Sales people were over-promising and service was under-delivered as a result of an unsynchronized process flow. When asked, *"Why do it this way?"* the management team responded that they did not have the adequate resources to support the sales personnel. This was Disconnect #4: the process was unreliable.

To remove the barrier, the company looked into Disconnect #3 and tried to better understand the voice of the customer. After meeting with ten customers, a question was asked: *"What does success look like to you?"* The CMOs responded that they struggled with marketing automation. They wanted to better understand how they were doing compared to industry competitors and where to start. Marketo executives had no idea that customers felt that way.

The management team then built a marketing automation adoption roadmap, solving problems at each stage. The company steered their "struggles" away – from assessment to end goal. Overcoming Disconnect# 1 is about understanding the problem that the audience is struggling with and aligning it with your product offering.

From customer conversations, the management team realized they needed new team members with specialized technical expertise in Salesforce, Adobe and Microsoft Dynamic. The team launched a Digital Marketing and Technical Service Practice department and secured a million dollar contract with a Fortune 100 company. Additional customers followed. The team repeated the new model, and promptly overcame Disconnect #2: product repeatability questionable.

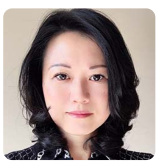
The new department was created to increase customer interaction and understand the needs of the CMO/CIO/CTOs. This effort led to expanded license deals and larger transaction sizes. The pace of growth would have been slower if they fell into Disconnect

#5 or failure to measure. In this case, the team made it a habit to measure project success as well as the overall success the customers achieved.

With this case as an example, it is easy to envision the diverse ways where startups and early stage firms can face these types of disconnects.

Overcoming Barriers and Finding Scalability

To scale up, startups need to embrace change and make it a part of their journey. Prioritizing and adjusting their goals while managing the five disconnects improves the chances for success and helps to answer the all-important question every startup faces: *"How do I take this to the next level?"*



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Helen Yu is a WSJ Best Selling author and a keynote speaker. As a founder & CEO at Tigon Advisory, her work has enabled multibillion-dollar revenue growth and record profitability at companies spanning early-stage start-up to Oracle and Adobe. She was named a Top 10 Global Influencer in Digital Transformation by IBM, Top 50 Women in Tech by Awards Magazine.

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