

# Three Things Small Businesses Should Do To Get Unstuck And Scale

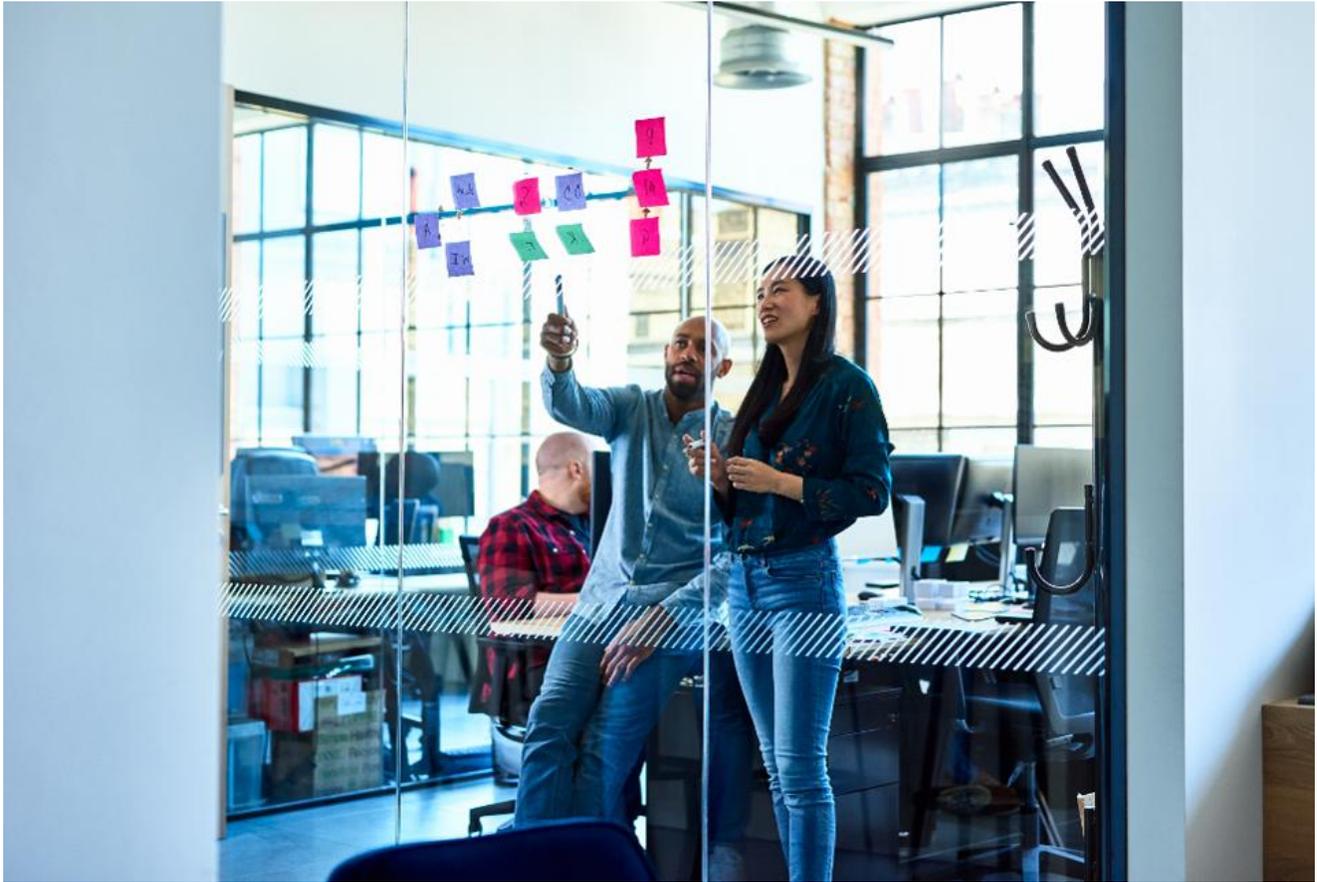
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To take their companies to the next level, most small business leaders think they need more money, or a stream of innovations, or even a high growth spurt. But a new report challenges conventional wisdom on what small businesses (\$2-10 million in revenue) should do to get unstuck and scale.

The new report from research and consulting firm [TrueSpace](#) and [Gallup](#) says growth-minded small businesses should narrow their prospects, create predictability in their performance, and seek greater consistency in their offerings. Based on an in-depth investigation of nearly 2,500 business owners, the report, [The Five Conditions Assessment](#), identifies the operating conditions that foster sustainable growth among post-startup companies. The findings are remarkably consistent across business types, industries, and CEO demographics.



A new report from Gallup and TrueSpace identifies the somewhat surprising operating conditions that..

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## A Point of View

The researchers uncovered the importance of having a distinct point of view (POV) – that is, a specific expertise, narrow focus, or clear definition of how the company approaches the market.

Instead of trying to gain widespread popularity, small businesses should be more concerned with eliminating stakeholders — customers, investors, and employees — who aren't aligned with their POV and mitigating risks for those who are. According to Charles Fred, chairman and chief executive of TrueSpace, a unique belief system helps a company identify its target customer and eliminate unqualified and unprofitable customers, "The most valuable thing is to eliminate non-target customers," he said in an interview, because doing so enables small businesses to focus their resources. "Small businesses need to understand they have finite resources: time, capital, talent," he explained. "And if you dilute your resources by doing a bunch of different things, you can't excel."

Fred described how a property management company developed and leveraged a unique POV to attract high value customers. It found that moving from promoting *what* it does – manage homeowners' associations — to *why* it exists — to inspire homeowners to increase

their consciousness of financial and environmental sustainability – differentiated the company meaningfully, attracted customers who fit well with their capabilities, and positioned the business as a thought leader in the industry. Like other scale-ups, the company clearly defined, communicated, and operationalized its distinctive perspective and approach, attracting and repelling people like a magnet.

Fred also explained that customers who buy from small companies can, by definition, be classified as high-risk, so entrepreneurs should use a narrow focus to reduce the risks for these buyers. By qualifying as “the best” in a particular product or service or the “most validated” or “most proven” in a focused segment or category, a company establishes its expertise and gives customers confidence that they have made a smart, defensible purchase decision. Doing so also defines the company’s value well enough to justify its price so that it can win a higher percentage of the proposals it submits.

“If you can’t align in a market where you can win, you also can’t sell to someone who cares,” Fred said. “Generalists are the ones that can’t grow.”

### **Endurance for the Journey**

The report also explained how scaling requires building endurance with employees and investors.

Small businesses need to develop resilience among their employees and cultivate an emotional commitment from them to stick through the challenges that inevitably arise. Employees who are lured to a startup by stock options and the potential for a big payout inevitably burn out.

Companies must convert them into employees who have a longer term perspective of the benefits they receive. Leaders must go beyond what Fred called “episodic engagement” and ensure employees are more connected to the purpose of the company, are more motivated by the meaning of their work, and have confidence in the leaders of the organization and their ability to replicate early results.

Endurance must also be established with investors. Fred reports that the *predictability* of growth, not its high rate, matters most. Analyzing 14 companies that grew past \$10 million in 4 years compared to 133 firms that barely grew in the same time period, TrueSpace found that the former cohort had the forecasting accuracy of +/- 5%, thus establishing the entrepreneurs’ credibility.

Predictability in performance and forecasting accuracy generates what Gallup refers as “high trust environments.” Gallup senior editor and research analyst [Steve Crabtree](#) noted that the perception of trust within an organization correlates closely with growth. As such, “predictability is the driver of value,” Fred concluded.

## **A Different Kind of Innovation**

Fred observed that innovation has been driven into conversation of entrepreneurship by academics and venture capitalists (VCs), but the research found that the push for constant creativity actually “crushes” companies in the startup stage. Trying to develop more features, additional functions, new products, adjacent markets, etc. is “the absolute worse thing you can do to grow,” he said.

Instead, he has found, growth requires a product or service that a company can replicate. So entrepreneurs need to “re-define innovation.” They should pursue *value innovation* – that is, close the gap between what the company thinks its products or services are worth and what customers think. They should also seek *consistency innovation* – produce products and services in the same way at the same or better cost every day, week, month, etc. “The only way to get to the middle market and grow is to have something people can sell and price consistently,” Fred explained. He added that this kind of innovation is more straightforward and generally requires less time because it’s based direct and immediate feedback from customers.

Fred relayed the story of a company that started with great success by tracking hospital employee compliance in flu shots and other programs for hospitals like the Cleveland Clinic. As the company grew, its leaders tried to expand their offering into wellness-related tracking for corporate clients such as Disney and Delta Airlines. But the small company with limited capital and specialized expertise in the healthcare market struggled to develop new products that consistently delivered on the expectations of these new, larger, different customers. Eventually the leaders retreated from new product innovation and refocused on producing reliable, consistent service for hospital clients, enabling steady revenue growth. The company was subsequently acquired by a large healthcare provider for \$50 million. “Focus for a company of that size,” Fred concluded, “is how you grow.” More doesn’t mean more, he said. “More means dilution.”

## **Getting Unstuck**

TrueSpace and Gallup embarked on this research because they see 2.1 million businesses between \$2 and \$10 million in revenue in the U.S. providing 23% of the jobs in the country but only driving 6% of the total revenue. Many of these companies are stuck — and the combined mission of TrueSpace and Gallup is to help them get unstuck and create more jobs and value for the U.S.