

# Getting Beyond the Development Stage

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Abstract: Now that you've validated your product or service concept, how do you avoid hemorrhaging money during expansion?

## Business issue

New start ups and new ventures in mature companies face significant business and technology challenges as they emerge from proving their concept to proving their ability to deliver. Foremost on many new entrepreneurs and venture capitalists minds are:

- Getting beyond the “development phase” mentality
- Developing the set of **Business Capability Requirements** for the production expansion phase
- Translating requirements into necessary business processes, information technologies, and organizational systems for the next eight quarters
- Deploying a process for the rapid, ongoing realignment of key process, technology and organizational elements

	Product Maturity	Organization Maturity
<b>Phases</b> 	<ul style="list-style-type: none"> <li>• Stable production</li> <li>• Predictable costs</li> <li>• Highly focused CVP</li> </ul>	<ul style="list-style-type: none"> <li>• Identify markets</li> <li>• Set pricing</li> <li>• Regulatory compliance</li> <li>• Operations strategy</li> </ul>
<b>Growth/Expansion</b>	<ul style="list-style-type: none"> <li>• Shift to strategic focus</li> <li>• Acquire customers</li> <li>• Convert</li> <li>• Fulfill</li> </ul>	<ul style="list-style-type: none"> <li>• Clear about business capabilities</li> <li>• Convince VCs to invest</li> <li>• Demonstrate management and operations credibility</li> <li>• Develop high value affiliations</li> </ul>
<b>Maturity</b>	<ul style="list-style-type: none"> <li>• Improve quality</li> <li>• Drive costs out</li> <li>• Fulfill</li> <li>• Leverage customers</li> </ul>	<ul style="list-style-type: none"> <li>• Product expansion</li> <li>• Continue to develop and grow</li> </ul>
<b>Decline</b>	<ul style="list-style-type: none"> <li>• Leverage customers</li> <li>• Shred capabilities/customers</li> <li>• Transition capabilities/products</li> <li>• Sourcing decisions</li> </ul>	

While many startups seem to be moving at internet speed, they are also prone to internet speed related mistakes. Small mistakes can add up and cause the company to lose its momentum. How can startups handle expansion and stay focused?

Interviews with over 100 executives in Information Technology and Operations areas reveal several common root causes that lead to damaging missteps:

1. Rapid changes in technology and business process requires a consistent disciplined approach, yet most new ventures do not have skilled positions in place to execute
2. Incorrect decisions are made because current reality failed to take into account predictable future events
3. Companies are constrained in the execution of their business plan by past business technology choices
4. Even in new ventures, initiatives are often launched from silos, lacking alignment and fit with respect to process, technology and/or organization
5. Financial planning and budgeting fail to take into account the timing and interaction between projects

### **Business response**

To avoid missteps, business and information technology management must design a coordinated response based on attaining both short and long-term business goals. Business management must make objectives clear, and information technology management must map technology capabilities to those business objectives.

Consider the case of a project team responsible for converting a start-up investment in 4 retail stores from a 10% per quarter investment rate to 20% per quarter profit through self-financed expansion, in eight quarters. Throughout the program, it would be critical that the team assessed the appropriateness and fit of a solution to its target problem in the context of the complete set of essential business capabilities. Key business capabilities that needed to be enabled included:

- Process, organization, and technology infrastructure to support development and operation of a chain of 25 stores within two years and more than 50 within three years.
- Management structure to support a distributed workforce and relatively high employee turnover.
- Rapid and effective means of training store personnel in product capabilities, differentiation and demonstration.

The next challenge was to extract business and IT requirements from the capabilities. For example, IT requirements included:

- Leverage existing systems to expedite startup, minimize investment and delay commitment to infrastructure until business processes are stable.
- Design and deploy in-store and home-office systems that minimize cash flow in the early stages when investment capital is scarce and risk is high.
- Scalable systems to support a growth plan.

There is a tendency, sometimes at the insistence of investors, to change the management team. Worse, there is often a desire to insert a layer of management to propel the company forward after an Initial Product Offering. This new venture did have to lay in a few additional positions and there were a few 'adventurers' who moved on to new start-up initiatives. However, the zeal and knowledge of the core management team was carried through start-up and expansion and on into productive operation of the unit. By leveraging accumulated knowledge and continually reviewing the business architecture, the team was able to refocus from 'make it work,' to 'make it grow,' to "make it more profitable".

There is also the presumption that senior information technology management is necessary for this scale of business development. The retail new venture was launched and sustained without the services of a Chief Information Officer or anyone with similar technology management skills on staff. The business management team borrowed a CIO from another business to guide the process and coach the local technologists. The team learned quickly that three practices empowered business managers to understand and direct technical staff efficiently and effectively:

- Focus on process capabilities instead of technologies
- CIO coaching on business management and technology alignment
- Challenging how every operational capability could and would be delivered.

### **Architecture impacts**

The overarching guideline was to accept the “just enough principle – just in time.” For example, the team was able to use a cash register from Staples for the first three stores rather than get bogged down with a choice between NCR and IBM. Employing an architectural design, the teams quickly identified essential components, created them and qualified them. Knowing what subsequent iterations would look like allowed simultaneous deployment and validation of the first iteration while designing and qualifying components for the second iteration. Key architectural guidelines that prevented hemorrhaging included:

- Support for multiple short-cycle iterations of business process design and change at the head office and in stores.
- Identifying when scalable head office systems had to be deployed to support explosive growth and selecting them in advance.
- Support for a planning and replenishment cycle time of 1/2 week to minimize committed inventory and maximize flexibility.

### **Business management response**

Capital availability drove speed and thrift to allow early store profits to fund later store openings. Realizing this early in the game forced the start up team to focus on essential processes and capabilities. While testing the business model, special attention was paid to the tradeoff between fixed costs (capital investments) and variable costs (leases and contract labor). Many operations that could have been automated were performed by temporary labor to avoid distracting the technical team and making capital investments. Knowing that the initial support systems could not be scaled, forced an iterative approach to design, deployment and improvement. Furthermore, a shared understanding of system weaknesses encouraged tolerance and cross-functional support. Key success factors in this new venture were:

- Knowing ‘everything’ about your operational model
- Knowing ‘enough’ about enabling technology
- Applying architectural and engineering planning for all physical and business systems up front and at check points along the way
- Thinking capabilities first – not systems
- Thinking systems second – not products
- Continually asking how to best use all available resources
- When a constraint is built into a system, know how long it can be lived with; what will be done to eliminate it; and what will trigger the planned response
- Employ talented and committed deployment teams who understand the context and the goals.

## About the authors

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