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How Companies Must Tackle the 4 M's to Grow Through 'No-Man's Land'

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Businesses trying to grow through the stage where they're too big to be small businesses, but not large enough to be big businesses, must focus on four key factors to be successful.

That's what Doug Tatum, chairman of Newport LLC, a strategic advisory group, told attendees at Ward and Smith's 2019 Closely Held Business Summit.

Businesses in this stage typically range from around 20 employees and $5 million in revenues on the low end and 100 employees and $30-40 million in revenue on the upper end.

"When you start transitioning above 100 employees, you've gone through a significant gauntlet," Tatum said. "It's a very, very difficult transition."

Tatum, who wrote a book about the phenomena, *No Man's Land: Where Growing Companies Fail* calls this stage of business growth "no man's land."

These companies comprise only about 3 percent of all U.S. companies, but they're economic jet engines, adding eight times as many jobs, growing four times faster and expanding three times more often than other firms.

"Your success is very, very important," Tatum said.

Before running Newport, Tatum himself grew a business — Tatum LLC. It had about 1,400 employees when he sold it in 2010.

To grow through no man's land, Tatum says businesses must focus on four M's:

- Market
- Management
- Model
- Money

He explained the 4 M's to the leaders of the small and mid-sized businesses gathered at the Summit.

Market

When companies are small, Tatum said, entrepreneurs are successful by making promises to customers and then delivering on those promises. "That's innovation," he said.

But for growing companies, "there's a limit to how far you can make those promises and also manage operations simultaneously," Tatum said.

"What keeps your business growing up until you get into no man's land is you're simple to do business with," he said. "The reason you're simple to do business with is it all goes through you, and you control everything, and that's really good for your customers."

Growing businesses must transition so the founder or owner doesn't have to be in control of everything.

"The business as a whole must become good at doing what the entrepreneur did well with customers in order to re-create that alignment that allows you to grow," Tatum said. Not all businesses can make the transition, he noted, and some may be more successful as smaller businesses.

For those that do want to grow, scaling the value proposition is key.

"The most difficult thing in no man's land is determining whether you have a value proposition that you can transfer to the company, outside of your own personal efforts, that can deliver that value at scale," he said.

Management

One of the most challenging aspects of navigating no man's land is changing leadership and company culture.

Company culture is defined by who makes the decisions, Tatum said. The leaders in the company's inner circle have that power, and the "ticket" into that inner circle in small companies is loyalty. But to emerge from no man's land that has to change.

"This is the most emotionally difficult issue in no man's land that you're going to face," Tatum said.

"I believe entrepreneurs can run huge businesses, but they're not going to run them with the same people they started with," he said. Frequently, people are given titles they're not really qualified to hold. An accountant, for example, is named chief financial officer, despite not really having the experience or skills of a true CFO.

To emerge from no man's land, these companies must shift, so members of the leadership team are qualified to be there and are held accountable for their performance — not because of loyalty or a snazzy title they were given early in the company's life.

"Dealing with it is brutal," Tatum said, noting that often legal counsel is helpful to founders as they navigate these difficult, sensitive changes.

Model

As companies grow and move through no man's land, they must understand their financial model.

"You need to understand your economic model in an emerging growth company," Tatum said. "Early, early on, you can show a financial profit, but it's really high performance, cheap labor — primarily your cheap labor and some of the people around you."

"The fact that you're making a profit means you're just not paying yourself enough," he said.

As companies grow, their fixed costs grow, too, and eventually, those fixed costs may exceed the revenues the company can bring in. In other words, the firm can't get to the next level without spending more than its making.

"Your value proposition must be scalable," he said. "You've got to make sure that just growing for growth's sake is not your objective. It's how much more money can you make."

That is critical to attracting the capital needed to grow profitably to high revenue levels, which brought Tatum to the final M: money.

Money

Businesses that want to grow through no man's land will often find themselves trying to access capital.

Small business owners frequently borrow from banks through their personal credit and personal assets. But as their businesses grow, they can no longer qualify for the larger loans their companies need.

Firms in no man's land face challenges tapping the capital markets and attracting private equity.

"The key is risk reduction," Tatum said. "It's really the risk in it that defines how you access the capital markets."

Companies must prepare for due diligence to ensure they're ready for investors.

"You make sure that your IP is buttoned up," he said. "You make sure your value proposition is articulated and resides in the company because they don't want you [the owner] if they buy you."

Those and other preparations require strategic thinking.

"The No. 1 competitor you have is the tyranny of the urgent," Tatum said. "You start thinking strategically about your business, that's where you're going to solve your problems."

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