Don Schiavone On
The Three Keys and One Metric You Must Optimize to Massively Scale Your Business

Steve Sanduski: You are listening to the podcast of CEO Coaching International. I'm your host Steve Sandusky. Today we're going to talk about why companies fail to scale. Our guest today is Don Schiavone. Don is the newest coach and partner at CEO Coaching International. He brings over 25 years of deep expertise to the company. Prior to joining CEO Coaching, Don led the rapid growth of Grasshopper, The Entrepreneur's Phone System, and helped the company beat quarterly business goals for over 21 consecutive. Ultimately he was involved and helped lead the successful sale of company to Citrix for over $170 million. Recently Don was awarded the 2016 best new mentor at Tech Stars Boston. Don, it's great to have you here on the podcast.

Don Schiavone: Thanks Steve, I really appreciate.

Steve Sanduski: It's great to have you at CEO Coaching. A great addition to the coaching team here. Today we want to talk about why companies fails to scale. Why don't you just set the stage for us here and tell us why you see that and what you're thoughts are on why companies fail to scale.

Don Schiavone: Absolutely Steve. I think it comes down to three key areas. The first is people. Having the right people for the right time in their organization, and the right phase of growth that they find themselves. Companies go through various stages, from startup to market penetration and growth. That eventually tags it. At each stage you need different skillsets on the team, different types of people to lead those processes. Identifying where the critical resources, what gaps do you have and how can you get the right people to bring that scale is the first hurdle that I see companies having difficulty with.

They want to feel like they're loyal to their team members that got them where they are. They think that challenging the same team to do the same things will generate different results. Often it generates the same results, which might be okay. If you're looking to change the trajectory of your growth and get rapid

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growth, you're going to have to do things differently. I've found that starts with people.

Steve Sanduski: Let me take the other side of the coin here. That is that some folks would argue that part of your role as a company is to help train people, to help develop people, to help them grow in their career overtime. Are you suggesting that ... How do you draw that line between we want to hire people, we want to keep them here for a long time, but we've got to help develop them to enhance their skillset so they continue to be value of the company. Where do you draw that line?

Don Schiavone: That's a great question. It depends on the level and organization. We work with small to mid-size companies. There's a not a large hierarchical ladder. The days of climbing the corporate ladder really are gone. Our entrepreneurial companies are small, nimble, and have a lot of people wearing multiple hats. The challenge with scale is understanding where multiple hats don't work anymore and we need specialization.

Sure, you can look to bringing someone in the organization into a new role. I'm not suggesting you necessarily have to find people outside of the organization. It's just realizing that the people that you have doing the things their doing today might not be doing the right things for tomorrow, or even thinking about the right things. Sometimes that needs an injection of new thinking. Maybe some social marketing skills are needed and the team doesn't have that, and there's no one to train them up. You might need to look for a new marketing leadership role to bring in some of those techniques.

On the flipside it might just be an evolution of your technology platform. You can train people, but you need to give them that role and responsibility to be able to grow and free up time to think about things a little differently than the way they are doing it today.

Steve Sanduski: In terms of the type of people that you're looking for here, what are your thoughts in terms of trying to have a team of people that have complementary personalities, complementary skillsets. I know here are CEO Coaching we use the DISC system frequently as we're assessing and evaluation potential new hires. If you would, talk a little bit about the type of people that you want to fill, let's say, your executive ranks with. In terms of you don't want a bunch of everyone's a high D and we're just going to be butting heads with each other. What would you say is what we should be looking out for as we're trying to staff up the organization?

Don Schiavone: That's a good point. You want people absolutely with complementary skills. You need people that are optimistic, and visionary, and looking forward. At the same time you need people who can be heads down day-to-day making those incremental improvements in the here and how. Like you had mentioned with personality profiling, the DISC profile or any others. You need that complementary skills. I think I'd sum it all up in diversity. You need a diverse group of points of view, and ideas, and skills.

Over time you can see organizations where that same team has been working together and some of that diversity of thought stagnates because they've been working so long together. They kind of start developing a little bit of group think. Mixing it up a little bit. Whether that's grabbing someone from the ranks and bringing them up, bringing in some new blood, or finding the right people for the time of that companies faced with and the challenges it's faced with can help bring some new thinking to that team. It really depends on the organization, the length, the maturity. Absolutely summarize that in terms of diversity.

Steve Sanduski: Related to idea of diversity and the people here. Of course we really can't talk about all that without talking about the culture of the organization as well. In the businesses that you've worked in in the past, and the folks that you're consulting with and coaching with today, what do you find is the type of culture that these organizations have developed that have really fostered this ability to scale the company?

Don Schiavone: That's a great question. I think in my look-back in the companies that I'm most successful, you find that they take a proactive view to building culture. Culture just doesn't happen in those companies. They actively manage culture by defining first their core values. What is the how of how we achieve a goal? We may want to increase sales by 10%, but what are the core values of how we'll go about doing that and the behaviors that we want our people to inspire? That comes down to also then, what is our brand promise?

How do those core values turn into promises that we are either explicitly, or implicitly, making to our customers? By looking at, and intentionally managing those core values, that culture, and then making it live in the organization. You lead by example. Every member of the executive team talks about it. You can never not talk enough about your core values. You use it in performance reviews. You use it as screening questions for when you hire, for when you promote, for when you give out assignments and how you compensate. All of that has to be part of the entire process of nurturing A players. Creating a great culture starts with getting great people that fit the how of how you want to run your business, not just the what.

Steve Sanduski: As we've got the people, we've got the culture. Now we also have to be thinking about the strategy here. Is it your belief that regardless of what business you're in, you have the ability to rapidly scale the business? Do you think there's certain types of companies out there that through the use of technology and not necessarily having a bunch of people to run the business, are there some businesses out there that really have the ability to scale? Do you think there are ways to scale pretty much any business?

Don Schiavone: That's an interesting question. I think most businesses, because of the types of technology that exist today, can scale in ways that they reduce their cost of goods sold, they become more efficient, and they get some margin growth through

technology. Not every business is in a market that can truly do order of magnitude scale on the revenue side, if the market isn't right there. You look at virtual phone systems at Grasshopper. We saw the writing on the wall and looked to exit. There are natural evolutions of markets. Some are in startup phase. Some are in growth areas. Some of our clients need to look at an exit strategy to maximize their value.

The time to scale isn't when you're on the way down. It's when you're right about to peak in that market growth curve. I do believe that most companies can benefit from scaling techniques. Some will benefit more on the margin and cost reduction. If you're in the right market and at the right time capitalizing on that market and ability to grow revenue by orders of magnitude takes the right people. Then the next step is the right process. Those people will bring in new ideas, ways to disrupt that market, take advantage of that timing. It will bring along new processes that you don't have today.

Steve Sanduski: What about the mindset of these people? You see companies that have grown to billion, or multi-billion dollars in revenue. Are the people that are leading those organizations, do they just have this make big happen mindset to take the phrase from Mark Moses' recent best-selling book. What do you see for leaders of these organizations that are very effective at scaling the company? Is it just they have the growth mindset? What's the thinking of these folks that enable them to have a massive scale in the business?

Don Schiavone: You can pinpoint at least one leader. It's typically the entrepreneur, the founder, the owner that have a vision of what the business can become. It isn't bound by anything that limits growth. It's pretty much a boundless vision. Then being that cheerleader to create the excitement on the management team to enact that vision. As we talked about originally, that diversity, you're going to need some people who will be able to look at the risks and measure the risks. You're going to need some people that can operate and execute. If you have that leader that shows what's possible, then you're never getting to the point where you're saying we can't do it. You're saying how do we do it most efficiently and best for our customers and the business. It's about not approaching things as it can't be done, but how best to do it. You always need that one person with the vision to say, where could we possibly take this? How could we blow this out of the water?

Steve Sanduski: That one person will help spread the message out there until it becomes infectious and gets the rest of the organization behind the vision as well. We've talked about people. You mentioned the second one here is process. What do you mean by that?

Don Schiavone: As you look to scale an organization you're creating more operational things that need to get done, more customers driving more revenue, and you bring on people with new ideas of how to either generate that revenue, service those new customers, and provide that product or service more economically at a lower cost. Those need new processes that you don't have in your business today. Some people feel like let's jump right to the tool and we'll create a tool for the end

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process.

It starts with the people who have the ideas of what that process could be to deal with that scale. Then the process around the people and the way your business is unique. The days of ERP systems where you just buy off the shelf a giant software package that will supposedly solve all of your problems and implement the best processes is a fallacy. That just doesn't exist. There are so many plug-and-play tools out there. People start with tools and don't realize that they don't get the value of the tools unless they have the people in place.

Then they try various processes that they can optimize. If you give way to the tools too early you lock in poor processes that are inefficient and harder to change. If you start very entrepreneurial, fail fast, trying things, and incrementally improving your process with the right people that have the right culture and are excited about the challenge ahead, then you implement tools that support the proven time-tested process that you've been able to iterate towards the best possible process for your particular situation.

Steve Sanduski: Don can you give me specific, or multiple specific, examples here when you're talking about a process. I think we all may have an idea of what we think you mean by process, but can you give a specific example of a process? Then that will be differentiated from the tool that you use to follow through on that process.

Don Schiavone: Sure. Companies have ways that they may go after revenue. For a grasshopper we went 100% online through digital marketing. We went through first finding the right people to help us craft the message, design the message, and then code the message into digital technologies that people could then self-serve. We knew we had to do this at a very low cost. We couldn't introduce a human sales force. We iterated through human coding of webpages, designing, doing things that were pretty manually intensive but we could change very quickly. Until we saw higher conversion rates. We measured and instrumented everything. We had spreadsheets going with information from Google Analytics and different types of things from our database. Called all of this stuff manually so that we could quickly iterate our marketing copy, the steps of the sales funnel and optimize it.

Once we optimized it, we then went and looked at, what tools can we wire in into our database? We went with a data warehousing solution that automatically collected the information. Created the reports based on knowing what reports and what data we needed because we did all of these steps with the experts, with the people developing the right process. Then we automated those processes with things that could ensure that we continued to track our performance. When we spended marketing budget we knew exactly what channel it came from. Was it effective? Was it a good use of our funds? All these processes that determined the success of a marketing spend, or the failure, were based on months and years of trying different things through manual processes and then automating pieces of it and finally coming up with an end to end process.

Now you're starting to see some software solutions. You look at HubSpot and other types of software that take certain parts of the value chain that are trying to come out and say, here we'll automate that for you right out of the box. You still need people who know how to use that, how to interpret the information, how to customize it, and implement it for your particular process and for you particular market.

Steve Sanduski: This is going to be a basic question. You just gave a good concrete example, thank you for that. Now, will you go so far as to actually writing out on a piece of paper what that process is? The step by step that you ultimately iterated to, that you discovered it really successful so that if someone on the team leaves that you've got some written documentation somewhere that really describes what the step by step process is? Does it not work that way for you?

Don Schiavone: There are definitely schools of thought there. Back in the day, as an engineer, we would create reams of paper of giant detailed step by step process documents, standard operating procedures SOP's. That is doable when you've come to a place where you know the right answer, you're not iterating on a process. Especially if people's lives depend on it in the medical field, in the military, things of that nature where you need that precision. In most entrepreneurial endeavors the process is never done. You need a more lightweight approach so that you can continually update the process, add to it, refine it, and iterate it. Also, to your point, keeping new members of the team understanding what that process is.

I'm a fan of things like the Wiki, or you look at Slack, or other types of communication channels where can do high level block diagrams, outlines of the process steps that you then click down deeper and you get a little more specific. Not too specific that it boxes someone in so they feel like they're assembly line worker. We still have knowledge workers. If you look at motivation theory by Dan Pink, one of the fundamental motivations for a person is autonomy. The ability to feel like they can actually develop solutions on their own, within the guardrails of a process that says here's how far you can go with your autonomy. I think visual block diagramming, getting the basics of that process that playbook down in something like Wiki's communication systems and tools to help codify it so you're not continually reinventing the wheel. The days of 200 page standard operating procedures, no one reads them. No one can keep them up to date. I think that's a waste of time.

Steve Sanduski: Right. I like where you said there that the process is never done. Companies have to keep iterating. They have to be agile. Things change so quickly that what may have worked last month or six months ago, something has happened in the marketplace that that's just not giving the same conversion that it had before.

Don Schiavone: Right, then there are new tools. There are new techniques. I think you have to set your company and your processes up, especially to take advantage of scale, to have some level of experimentation. It's a balancing act. You want to experiment with new tools, new processes but at the same time you can't put your teams through a

constant state of change. You can't make it a moving target that every other day or every other week there's a new process, or a new step, or a new something. Then you can't optimize. There's nothing ever to optimize. You're constantly creating switching costs for your entire team to communicate the new processes and to learn them. You need a fraction of the team that's, at the right time, looking at experiments.

Once you do a pilot with that experiment and prove the efficacy of that new process and those tools, then you roll it out to the rest of the team. You should always be looking throughout the entire organization: marketing, software development, HR. Everywhere should be experimenting at some level. It's the job of the executive team to make sure that you're not forcing too much change at once through the entire organization. That there's that healthy balance of innovation/iteration but also executing day to day on your secret sauce that's been making you successful.

Steve Sanduski: I think that's such a key point there. If the business is in a constant state of flux, and everything's changing all the time, people have a hard time dealing with that. That is a key skillset of the leadership team is being able to know how much they can push the change there, because it's optimizing the business versus knowing if we go too far in one direction we may have a mutiny on our hands.

Don Schiavone: Right.

Steve Sanduski: One of the things you mentioned here just a minute ago I want to touch on. You talked about the communication. You mentioned software like Slack. Tell me a little bit about that. How do you coach companies on the intra-company communication so that ... We do have some wonderful new tools like Slack and other internal messaging type software that really helps firms communicate. Tell us a little bit about that. I think that's important as far as this whole ability to scale and to move quickly, is teams got to be able to communicate effectively with each other.

Don Schiavone: Absolutely. That's a great question. The way we like to do it is model our behavior, lead by example. With my clients I use Slack. I set up a separate Slack for each client. We'll post KPIs. We'll have our coaching notes holding the team accountable and be able to communicate. That gives that client a sense of some technology that's out there. Some ways to communicate that isn't email. That's real time with mobile apps, with video, with audio and other tools and techniques to give a little taste of what's possible in this one on one session and how that can be used to expand communications more effectively throughout the company. Like I mentioned to you about what companies should be doing CEO Coaching International we like to look at new technologies, new techniques to communicate to lead. We experiment with those tools as well. We prove them effective. We then introduce them to our clients.

Steve Sanduski: Great. We've talked about people. We've talked about process. You mentioned the third component here is the tools. Tell me about that.

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Don Schiavone: At the end of the day you're looking to be able to scale your business without having to increase the cost of delivering that service at an equal rate. If we can grow revenue much faster than the cost of growing we're really going to add fuel to that business by increasing our profits. The key to that is your revenue per employee. That's a great metric to look at how efficient you are and what kind of revenue you can generate per employee. If you take a look at that metric and you can grow that, the way you're going to do that is by generating higher revenue, generating more customer service with less people.

The solution there is the right tools that make each person more effective and more efficient. Some of it's self-service and the customer service side of it. Other might be online sign-ups and SaaS models and other ways of generating revenue, and marketing. You look at video conferencing and ways to cut down costs. There's all kinds of tools out there. The problem is, for every day there's a new tool popping up for some micro-slice of a business process. The trick is to experiment with some of them that can make the most impact and adopt them throughout your company. Making sure that you're really getting that return to enable you to scale that business without having to add people at the same rate you add customers.

Steve Sanduski: I know we had an earlier podcast with Josh McCarter. He talked about how he could spend his whole day just reviewing new software and new tools that are coming out. He touched on that as well. That definitely could be a common problem that people have to watch out for. You mentioned some of the metrics here. You mentioned the revenue per employee. I would imagine that that metric is going to change depending on the kind of industry that you're in. Could you give us some examples of companies that you've worked with? Just to give a sense for are we looking at $300,000 in annual revenue per employee? What are some of the ranges here that you've come across.

Don Schiavone: Sure. If you're a professional services company where you're revenue depends on billing human bodies, that's going to be at the lower end. Each person's signing up for that revenue and delivering it. There's only so many hours of the day. To get more revenue you need more people. That will be on your lower end. Hundreds of thousands of dollars, $150,000 depending on the markup you can get on your person. Whereas, if you look at something that's higher leveragable on the other end of the spectrum like a SaaS-based business. Where you invest in some technology, some platforms. Then the marginal cost of the incremental customer is next to nothing and you can market efficiently and get at the those customers.

You can see revenue per employee as high as five, six, $700,000. At Grasshopper, at our peak, we were well over $850, $850,000 in revenue per employee. Which was well higher than most companies out there because we really optimized our cost to goods sold to make sure that we could play in the micro-business market. It's really market dependent on how much flexibility you have, your market gives you, and your cost to goods sold, your markups, and how efficient you can be in the use of

technology. A good SaaS business should be in the several three to $400,000 revenue per employee once they get scaled. You're doing really well if you're doing over $500,000.

Steve Sanduski: What are some other metrics that companies that really want to scale their business should be monitoring that can help them figure out how much they can scale, or how quickly they can scale? Also, we need to factor in the cash flow issue here.

Don Schiavone: Yes, absolutely.

Steve Sanduski: There are some metrics that we can monitor that will help us figure out how fast we can grow given the cash cycle here. What are some of your thoughts on that?

Don Schiavone: Ultimately what's going to limit your growth is cash. Cash is your oxygen to be able to feed growth. Certainly in the SaaS industry you'll hear about the rule of 40. That rule of 40 says take your year over year growth and subtract your net margin. That, for a healthy SaaS company, should equal 40%. Let me give you an example. If I'm growing at 20% year over year then I should be generating about 20% in net margin that equals 20 plus 20 equals 40. That's a healthy business.

A flip side, you'll see a lot of companies that are actually losing money. Maybe they have a negative 10%. They better be growing by 50%. If you're growing at 60%/70% year over year you're losing money. Why? You're spending it in sales and marketing for that enormous growth rate. Which means you need a funding source. If you're not able to cover your costs and have negative margin that cash has to come from somewhere. That's where companies who are really looking to take advantage of a market timing, or something about their market, where they can quickly grow and take advantage of something out there. They're going to need fuel. They're going to need cash. They probably can't fund it through operations because of the need to be in negative margins. That's where our relationships with venture capital, or potential IPO can generate that fuel to continue to grow that business.

Steve Sanduski: Do you find that as companies scale are the most popular tools that they're using for that. Is it just simply software, or are there other physical tangible tools that they use that enable them to scale?

Don Schiavone: Certainly software tools, because of the nature of the SaaS industry out there, it's so easy to find point solutions for any problem you have. Whether it's time tracking, or financial modeling, customer service. That's the majority of things you have out there. There are other tools and techniques that as you grow and are adding more people, things like leadership training, world café is a technique to bring culture and common ideas into play, all kinds of business methodologies. You look at the four disciplines of execution and how do you continue to execute by focusing on wildly important goals. Those are tools that help that we bring to our clients. To help them manage their growth and make sure they're getting the right things done. By building the right culture, having the right leadership team, and

focusing on the right metrics.

Steve Sanduski: Don as you've worked with companies what have you found have been the biggest mistakes that people make as they try and scale the company?

Don Schiavone: I think the number one that I see time and time again, and early on in my career at Grasshopper, we made was making excuses for not upgrading a key person on the team that you knew you could get a better person on there. For whatever reason you're too afraid to make that change. Maybe it's because you're worried about who will do that role because they're so critical to customer, or technology, or to something. Let me tell you, when you rip that band-aid off the whole organization breathes a sigh of relief and you'll be amazed at how much more you can get done. Even when that person's gone before you've backfilled. Don't be afraid to critically examine your team. Make sure you have the best people in the right roles, doing the right things.

Steve Sanduski: It seems like it always comes back to the people, doesn't it?

Don Schiavone: It does. Can't do anything on our own. No matter how simple you think technology is, it takes more than just you to build a big business.

Steve Sanduski: Yeah. It sure does. Don you've been great. You've given us some great information here and some great personal examples that you've experienced in your career. Anything else you want to add today?

Don Schiavone: Yeah, just thank you for the time today Steve. Really excited to be part of the CEO Coaching International team.

Steve Sanduski: You're just a tremendous addition to the team. It's great to have you here. We'll look forward to you really helping a lot of the CEOs out there.

Don Schiavone: Fantastic thanks Steve.

Steve Sanduski: Thank you Don.

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