



The 5 Stages of a Business

A Graduating Scale.

Stage 1

- Start-up stage or one-person show.
- Name of the game is to define and prove your business offering.
- Profit is minimal if any at all.

Stage 2

- Owner has turned over some of his functions to hired personnel.
- Owner still carries the majority of the workload.
- Owner has limited time to focus on increasing business.
- Profit is minimal and spotty.

Stage 3

- All major positions have been filled by hired personnel.
- Owner still has to actively manage the day-to-day, but mostly focuses on volume of business and growth.
- Profit is good and consistent.

Stage 4

- Owner puts a management team in place, no longer has to be part of the day-to-day.
- Owner focuses on improvements through further policy development, PR, branding, and community outreach.
- Profit is usually abundant at this stage.

Stage 5

- The owner has decided to duplicate the success of the original business and become a multiple-location operation, or...
- The owner sells the business, or...
- The owner enters into other business ventures.
- Profit is the highest at this stage if managed properly.

Descriptions

- Stage 1** The owner is doing it all, even though there might be a partner or some assistants. You will find this circumstance in startups and in businesses that either failed to grow or have collapsed. It may seem very slow-going. That's because the load is all on one, or very few people. The entrepreneur's time will be spent focusing on the core, fundamental activities of finance, product development/delivery, and building a customer base.
- Stage 2** Revenue has started to come in. The owner has hired personnel to take over some of the key functions (e.g., production, sales, etc.), but still retains many hats. Having to manage and do the work is usually overwhelming to an owner at this stage. Confusion will tend to be generated with new hires, no real standardized training will exist to speak of, and there will be very little time to develop any. This is a very intense business stage and not a good one to linger in.
- Stage 3** Revenue has increased and the owner has filled most positions with hired personnel, and managed to train them fairly well. He still needs to actively manage the day-to-day so as to conduct quality control, handle process failures, or customer upsets. However, he is not doing the work himself. There is usually no definitive management team or structure in place at this point. besides the owner.
- Stage 4** There is usually plenty of revenue and profit, competent personnel fill all the necessary roles, and a management team runs the operation. There may be glitches in terms of how the owner interfaces with the management team, but he does not have to be there for things to run well. After having given up the management duties, the owner may struggle to define his own new role at this stage.
- Stage 5** The business is so dialed in and profitable that it's a good point to duplicate its success by establishing multiple locations. Some will also decide to sell at this stage. Others may decide to keep the original operation as is and start other ventures. This is the point where the ultimate freedom and rewards of being a business owner can be fully realized.

Solutions

- Stage 1** The solutions at this level are all about establishing the product or service and testing or creating the market demand. Stage 1 is your proving ground. You need to plan out and establish the vital foundation that your business success will depend upon, including product/service design, costing, pricing, gross profit margins, market research, etc. This is the assembly of your "profit engine" that will later become your "profit machine." Completing this stage thoroughly will help power your ascent through the rest of the levels. Once the product or service is proven, the solution is to market and increase volume. Then you will enter Stage 2 and will need to hire.
- Stage 2** At this stage the owner must begin to hire and train for key positions. He will give up at least one of his major hats (e.g., sales, design, production, etc.) so as to free up time to grow the business. This is where the owner starts to duplicate himself and will continue to do so as he moves up the levels. The solutions are to train the new hires well, making sure to assign them tasks that will help directly increase profits. If done right, the business will be set up nicely for Stage 3.
- Stage 3** In Stage 3 there is usually enough revenue and profit to do additional hiring so the owner can shed the rest of his work duties (not management duties) onto others. He will focus on managing the team at this level, not doing the work himself. The solutions at this stage of operation are to thoroughly document and standardize positions, workflow and processes. The direction is to set things up in order to hand the business over to a management team.
- Stage 4** Stage 4 is all about getting the operation into the hands of a competent management team. The focus will be on the establishment of an interface that will allow the owner to oversee management and the continued expansion of the business. He will continue his policy development in coordination with management, but the main solution at this stage is to put most of his attention on being out in front of the business. He does this by engaging in branding, PR, community outreach, and devising additional expansion plans or territories to conquer. This is a fun, creative stage.

Solutions Continued

Stage 5

The solution to Stage 5 is to not mess it up! In other words, move forward, not backward. Let the management team do their job. Don't walk back into the business, completely bypass the team you left in charge and stir things up. Respect their knowledge and expertise. Consult with them or through them, but not around them. If you've sold off the business at this stage of the game, then it's time to create a new game. Don't languish or twiddle your thumbs. The old saying about idle hands is true. Plus, if you're in the second half of your career when you sell and get out (65 years old and up), then it's super important to remain engaged and creating the future. If you don't continually and actively create your future, you won't have one!

Summary

These stages of business flow one to the next. But, an owner navigating through each of these levels can, at certain points, find that the business gets stuck. Likewise, after having successfully gone up through each level, one can also fall back down, crashing through each level in turn, down to the bottom.

Sometimes a business owner navigates a particular level well, but leaves things undone such as not training his staff well, or not pricing for a profit, etc. These incomplete or undone aspects of any particular stage will undermine the stability of the business and pull the owner back down into it.

Conversely, a business can rocket up to Stage 5 seemingly overnight when they are navigated thoughtfully and thoroughly.

Summary Continued

(Note: This last statement is not referring to venture capital-backed businesses, though there is nothing wrong, whatsoever with being backed by investors. However, this article is primarily written with main street businesses in mind which don't normally have a lot of capital behind them when starting out. These businesses, through much hard work and intelligent assessments of the market, hit the nail on the head with their offerings, they price for a profit (also known as assemble a great profit engine), then race up through the stages fueled by customer-generated demand and revenue. With that being said, the 5 stages of a business apply to VC-backed startups too, because they also cannot ignore the natural laws that govern the expansion or contraction of an organization. However, investor-backed companies have their own set of problems such as financial flooding, unsubstantiated hyper-growth, loss of traction, loss of entrepreneurial vision, etc.—all things that are not covered necessarily in this article.)

The importance of knowing about the stages of growth is so an owner can see where he is, and understand what needs to be done to take things to the next level. If someone was lost in a dark cave and couldn't see where they were or what surrounded them, there is no way they would be able to devise a pathway out. The same goes for business owners when it comes to their circumstances. Once aware of the stages, a business owner can come up with a plan to complete each step very thoroughly, and have a stable, solid climb up to success.

If you need some clarity on what stage your business is in so you can make more progress this year, Mainstreet Mastery is here to help you. Just give us a call at (323) 238-2436, or submit the [Free Business Assessment](#) form on our website. We'll go over these stages in detail with you so you have a firm grasp of things and can rocket upwards from there.

We look forward to any opportunity to assist you in your journey forward!

