

Essay 2 – On the stages of business growth - Paulo Fuchs

In the case of the educational business, we have a new college that is starting its operations through the implementation of an international MBA program.

I will call this company "HGC".

Started by an entrepreneur, he is currently the manager (CEO) of a team of 5 people. The team consists of the CEO, a consultant, a manager, a designer, and a sales representative.

The company is currently in the first of 5 stages of growth. These are:

1. Existence
2. Survival
3. Success - Disengagement
4. Success - Growth
5. Take-off
6. Resource Maturity

The main challenge of the company currently is to survive. To do this, the company has to attract customers, as currently it has hardly any.

As HGC tries out different strategies to discover where to reach clients, with significant financial constraints, we see exactly the "knowledge problem", as described by Friedrich Hayek.

There are several different possibilities for the company to find the customers it needs, but what strategy to pursue in detriment of what others, that remains to be tried out, and tested at the market. There is no one person that individually knows all the answers to all the difficulties of the company. Thus, there is need for more people trying to solve the problem, with different outlooks.

Smartly, HGC has a successful ambassador's program that permits access to much more knowledge about how to solve the company's problem, as each one of the 8 ambassadors has an incentive to help the company thrive, for them to receive their scholarship.

Although the CEO has wisely been using a benchmarking strategy, it has been only by studying the market and not by being in direct contact with other companies which provide a similar type of service.

Another concern that the CEO must face is the cash influx, since he is operating at a loss, he must program how many months of cash reserves he is able to endure. That is why, the best scenario would be to have a partner to invest in the company, in exchange for future profits. A niche company in Brazil, as HGC is, must have a good base of brand awareness, demonstrated experience before clients search organically for it. Therefore, it would be best if the company had cash flows assured for at least a couple of years.

After the company strives to the second growth stage "Survival", it will find the need to start to break even and generate a cash flow that enables the company to the next stage, "Success". The success of its growth stage will be dependent on the owners ability to hire the correct type of employee. As a college, it is important that the company has a low ratio of administrative staff, as it is sunk cost, while professors are the cost associated directly with the service offered by the company.

From this stage onwards, HGC should become a company that is not so much dependent on the accuracy of the decisions of the owner. It should already be specialized enough as to permit the company to start searching for resources for accelerated growth.

If the company succeeds in this transition, it should grow into a size that permits it to generate large cash flows, eventually reaching the final stage, "resource maturity".

In this stage, there will be finally a return on investment for the owner, now much less dependent on him, and more connected to the company's staff.

There are many decisions that will be necessary for the owner to make along these stages. The most important ones are:

- Decide the objectives of the company (why) and the values it defends (what)
- Set goals to reach these objectives (how), with time estimates (when)
- Assess what are his strengths and his weaknesses as a leader
 - This will help him guide his hiring necessities, as he needs complementary skills to his
- Secure funding for his discovery of the market trial (according to the “when”)
 - This is when he will do a series of Minimum Viable Product (MVP), where different tests will be made until he reaches his objectives

All these choices promote different costs and long run consequences. As an example, administrative structures created at different levels of the stages of growth can self-justify itself just by history, and if the owner is not controlling the administrative/ professors’ ratio, it can become a growing cost. As a trio of famous Brazilian entrepreneurs repeatedly said: “cost is like nails, it must be cut regularly”. This happens as a result of a growing need of planning for further growth. And as the company gets bigger, the more it needs more people to coordinate the different sectors.

As per the nature of the firm, as described by Ronald Coase, the firm is a contractual mean of reducing transactions costs, which are costs for functions that do not directly promote the purpose of the firm. It is the CEO's job to find the exact balance of staff to reach its goal. Therefore, it is a plan that is executed internally, motivated not by the price of the tuition (regulated by the market), but by the possible profitability of the different strategies that should be applied.

In conclusion, I believe that the nature of the firm is of a "command and control", motivated by the profit incentive that drives the decisions of the manager. But the nature of the market is different, being the result of the interaction of each firm and worker, be it through competition or through cooperation, thus determining the prices offered to consumers.

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