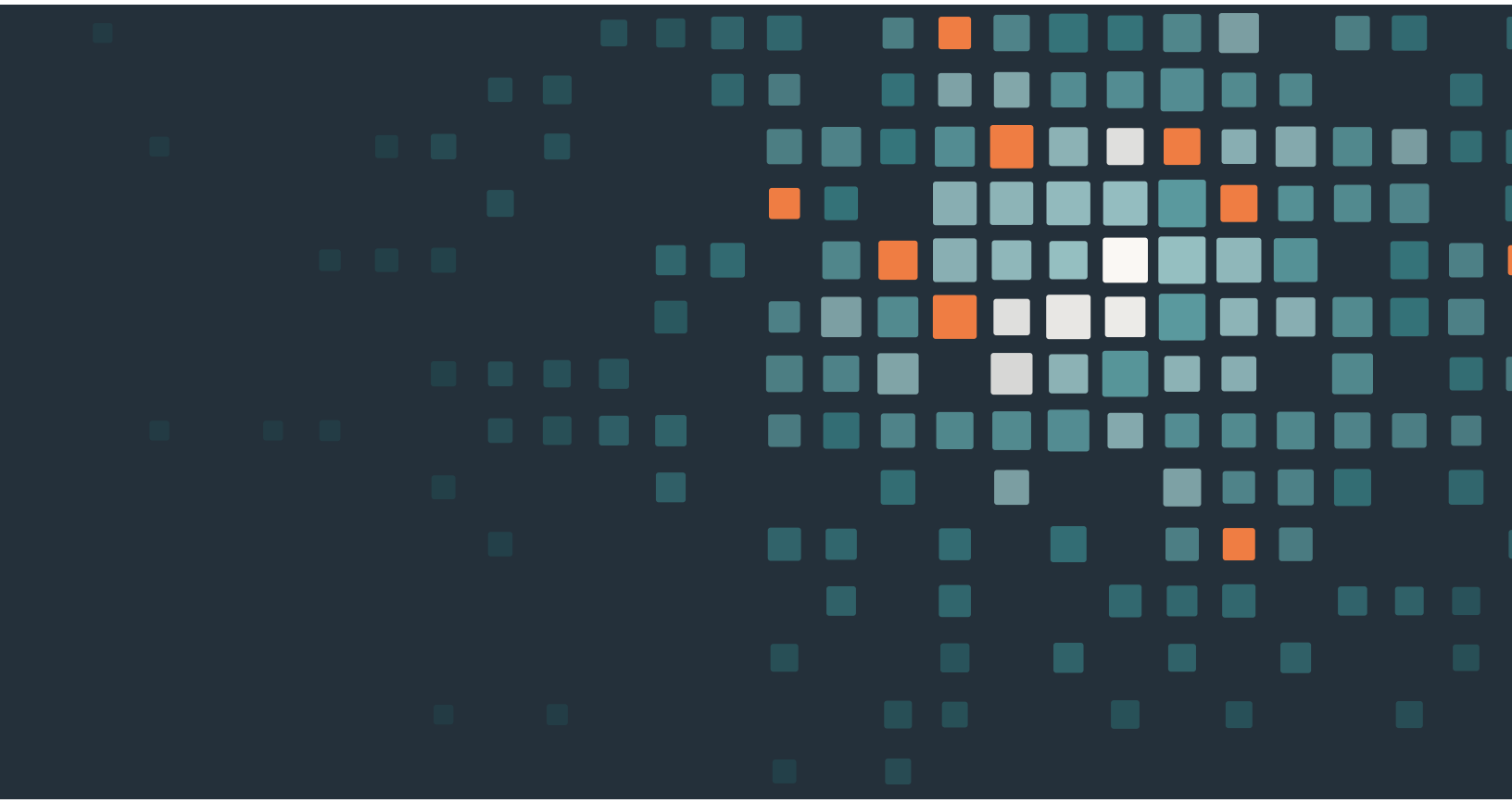
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GROWTH

Are You Building a Bigger Business or a More Valuable One?

A business can become larger while becoming harder to run. A look at the economics, customer position and capacity behind growth, with five questions to ask before the next step.

by Samet Kasik



KEY POINTS

- Revenue can grow while margins weaken, the owner's workload rises and commitments become harder to keep. A business can become larger while becoming harder to run.
- Growth needs an economic reason: identify what makes the business worth choosing, then test whether a given form of growth reinforces it.
- Follow the work behind the revenue. Coordination, rework, senior time and the work being displaced belong in the decision alongside projected sales.
- Before the next step, ask five questions about customer value, economics, strategic fit, capacity and commitment. Match the size of the commitment to the strength of the case.

A growing business is easy to recognize. Revenue rises. The team expands. New services appear on the website. The calendar fills up.

What those changes mean for the business takes more work to understand. The additional revenue may come with weaker margins, more demands on the owner, or commitments the team struggles to fulfil. A business can become larger while becoming harder to run.

When I think about growth, I want to understand what the business will be better able to do as a result. Will it serve its customers more effectively? Earn a better return on the resources it uses? Develop capabilities that make future growth easier?

These questions matter whether the owner wants to build a larger organization, create a business that can operate with less day-to-day involvement, or eventually prepare for a sale. Each ambition calls for choices about the kind of business being built.

Growth needs an economic reason

There are good reasons to pursue scale. More demand can support specialist roles that a smaller business cannot afford. Higher volumes may allow better use of equipment, systems, or existing capacity. Expansion can reduce dependence on a small number of customers or open a market where the business has something distinctive to offer.

Choosing to remain small also carries risks. Capabilities can become outdated, a narrow customer base can become vulnerable, and competitors can move into opportunities the business leaves unexplored.

The strategic question is which form of growth strengthens the business, and why.

Richard Rumelt's discussion of growth in *Good Strategy/Bad Strategy* connects healthy expansion with capabilities and advantages that give customers a reason to buy.[1] I find that a useful starting point: identify what makes the business worth choosing, then examine how growth could reinforce it.

That may mean reaching more customers with an established offering. It may mean solving a more valuable problem for existing customers. It may require a different business model, with capabilities that take time and investment to develop.

The explanation needs to go beyond the appeal of a larger revenue figure.

Follow the work behind the revenue

Consider a hypothetical professional services firm with a small team and a strong reputation in a particular field.

An existing client asks for an additional service. The firm accepts. Another client requests a different variation, and the firm accommodates that too. Both decisions appear reasonable: there is demand, the relationships are good, and the new work brings revenue.

Over time, however, each variation requires a different proposal, delivery process, set of tools, or quality review. The owner becomes the person who understands how all the exceptions fit together. Staff can complete individual tasks, but questions repeatedly return to the same desk.

The firm has more work and a broader offering. Its ability to deliver depends increasingly on the owner's attention.

The consequences may be difficult to see in a revenue report. Extra coordination, rework, and unpaid senior time can consume much of what the new work contributes. Hiring may relieve some pressure while adding supervision needs and a larger fixed commitment.

I would want to understand the economics of that work before treating it as a successful growth model. What does it cost to deliver properly? How much scarce senior attention does it require? When does the cash arrive? What other work is being delayed or displaced?

Those questions can lead to several reasonable responses. The firm might price the additional complexity more accurately, redesign the service around a repeatable core, develop a specialist role, work with a partner, or narrow what it offers.

Each option builds a different business. The choice depends on customer demand, the firm's positioning, and the resources it can commit.

Protect the reason customers choose you

A growth opportunity also needs to be examined from the customer's side.

A firm known for specialist judgement may be tempted to add services that are easy to sell but require very different capabilities. A business valued for responsiveness may take on a contract that absorbs most of its available capacity. A company with a clear offering may gradually accumulate enough

exceptions that customers struggle to understand its strengths.

Michael Porter's "What Is Strategy?" examines how expansion can weaken a distinctive position by introducing conflicting activities.[2] That risk deserves attention whenever growth changes the way a business serves its customers.

For the hypothetical firm, an adjacent service could strengthen its position if it addresses an important need for the same customers and draws on capabilities the team can develop. A seemingly attractive service could weaken that position if it demands a different delivery model while competing for the same limited expertise.

The assessment should include what happens to the existing business. Which customers receive less attention? Which commitments become harder to honour? Does the new work strengthen the reasons customers choose the firm?

These are opportunity costs. They belong in the growth decision alongside projected sales.

Build capacity that lasts beyond the next sale

Growth becomes more useful when it leaves the organization better equipped for the work that follows.

That capacity can take several forms: employees who can make sound decisions within their roles, knowledge that is shared across the team, a delivery process that handles routine work reliably, or systems that make useful information available when it is needed.

For an expertise-led business, the owner's involvement may remain an important part of the value customers receive. The practical question is where that involvement has the greatest effect, and which decisions the wider organization can learn to handle.

If every additional customer requires the same increase in the owner's personal effort, the business has a capacity limit that deserves a deliberate response. Software, automation, or AI may help with parts of the work. Their contribution depends on the surrounding process, the quality of the information available, and who remains responsible for the result.

Building this capacity can temporarily reduce profit. A senior hire, staff development, or a redesigned delivery process may cost money before the benefits appear. A short-term decline in margin can be consistent with a sound growth decision.

What matters is the reasoning behind the investment: the capability being built, the demand it will serve, and the evidence that will show whether the approach is working. It also matters whether the business can support the transition.

A credible growth plan makes those commitments visible.

Choose the next step with the whole business in view

Before committing to the next stage of growth, I would bring five questions into the discussion:

- **Customer value:** What important need will this growth allow us to serve better?
- **Economics:** What remains after accounting for delivery, coordination, investment, and the owner's time?
- **Strategic fit:** How does the opportunity strengthen the position we want to hold?
- **Capacity:** What must the organization learn or build to deliver it reliably?
- **Commitment:** What resources will it absorb, and what will we have less room to pursue?

The answers will rarely be certain. They should be specific enough to guide a decision, identify assumptions worth testing, and establish when to review progress.

For the hypothetical firm, the next step might be to test a clearly defined version of the new service with a small group of suitable customers. That would allow it to learn about demand, delivery effort, and profitability before making a broader commitment.

For another business, the evidence may already support a larger investment. The discipline is in connecting the scale of the commitment with the strength of the case.

When setting the next growth target, describe the business you expect to have when you reach it. Be explicit about its customers, economics, capabilities, and demands on its people.

Then ask whether the decisions being made today are likely to build that business.

REFERENCES

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