

4 tips to maintain profitability as your business grows



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As your business grows, follow four tips to maintain profitability.

In brief

- ▶ Successful business founders focus on profitability from the start, surrounding themselves with like-minded teams who share that goal.
- ▶ Hiring specialized talent – and investing in their success – can help founders uncover new strategies to unlock growth.

When Ganesh Shankar cofounded the software company Responsive, its primary mission was to maintain profitability. The scrappy startup's leaders went so far as to work with make-do furniture. As Responsive grew to a company of more than 500 world-wide, new hires took cues from those leaders and built their own desks with parts from the hardware store. For entrepreneurs focused on growing profitably, Shankar advises to be disciplined and clear about your priorities.

After several years of a growth-at-all-costs mindset, many CEOs are now shifting their focus toward efficiency and profitability. While the **EY-Parthenon Deal Barometer** indicates recovery in 2024 with profit margins likely to stabilize, the current environment of inflation and the rising cost of capital were cited as top barriers to profitability in the latest **CEO Outlook Pulse survey**, making it more difficult for companies to fund their growth initiatives. Entrepreneurs will struggle to secure funding for growth in the absence of profitability or a clear path to it.

Read on for more tips about maintaining profitable growth.

1. The most successful entrepreneurs think about profitability from day one.

Don't wait until you grow to think about profits and cash preservation, says Craig Schneider, Chief Strategy Officer of Bridgestone Americas, Inc., which has a mobility solutions group that invests in entrepreneurs and startups.

Recognize that not all your ideas are going to work, he tells entrepreneurs. What is the cheapest way to prove or disprove your key assumptions? "What's the least amount of money you can spend to figure that out, and then let's do the next step," Schneider says.

2. As you grow, stay focused on strategy.

It's easy to get distracted as you bring on new people and add product lines, says Jenny Jing Zhu, CEO of Lush Décor Home. As she added collections, her primary question was, "How much profitability can this product give me?" She advises businesses to look at each business unit, keeping two numbers in mind the top line and the bottom line. "We not only make designer products; we make designer margins," Zhu says.

Zhu moved to the US from a rural home in China in her 20s and worked as a nanny and a maid, developing an eye for décor. As she built a \$100 million business through e-commerce, her motto was, "Adapt fast. Fail fast. Learn fast."

As the company expanded, her search for specialized talent grew. She knew she was entering a new stage in scaling her business when she hired her first CFO (a retired CFO on a part-time basis), who helped her realize even though she had high margins, she had money tied up in inventory.

"I strongly recommend working with a CFO, even a fractional CFO," Zhu says. "It's going to open your eyes to where you need to push, especially in the early stages. The numbers don't lie."

3. Double down on success.

In the beginning, Responsive did not hire a salesperson. Instead, the company focused on search-engine optimization, offering a free template that potential clients could use for their specific need. The approach delivered in-bound web leads.

"We got to be the number one organic search. It worked magic," Shankar says. "As an entrepreneur, you should know where your customers are. ... It could be a crowded stadium. It could be TV or online. You have to be in front of where your customers are looking for you. That's where I would start, and then double down on that area."

4. Elevate people from the beginning, and make your people successful.

As you expand and scale a business, leadership can be exhausting, Zhu says. As a new leader, she wanted to make all the employees happy. As the company grew, she chose to be transparent with the employees.

She put thought into how salaries were structured in the beginning, keeping in mind that specialized talents would be needed later on. As Lush grew, her mindset shifted. Beyond profitability, she says, "when you get to a certain stage, it's about how you can make your people successful."

Summary

Maintaining profitability starts on day one of a business. By building a strong team, entrepreneurs can benefit from sustained, profitable growth.

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