MODULE

7 Business Structure and Scaling

"Growth is never by mere chance; it is the result of forces working together."

- James Cash Penney, founder of JC Penney

Introduction

This module causes students to further expand upon their product/service by exploring different types of business structures (non-profit vs not-for-profit vs for-profit) and the five stages of scaling their business after its initial implementation. These skills are vital for the students to be able to adequately plan for their businesses.

Objectives

1. Students should be able to distinguish between non-profits, not-for-profits, and for-profits and each of their respective strengths and weaknesses. Additionally, they should determine the business structure that is most effective for their product/service.
2. Students should comprehend the five stages of business scaling.
3. Students should understand and begin working on the cost structure and revenue streams sections of the BMC.

Agenda

1. Business Structure
2. Growth/Market Share Matrix
3. Business Scaling
4. BMC Work Time

Facilitation Notes

The stages of scaling should not be the focus of the module because the latter stages are not relevant to the students at the moment. You may provide a brief overview of the stages to emphasize certain concepts/resources people must keep in mind when expanding their business.

Lecture Notes

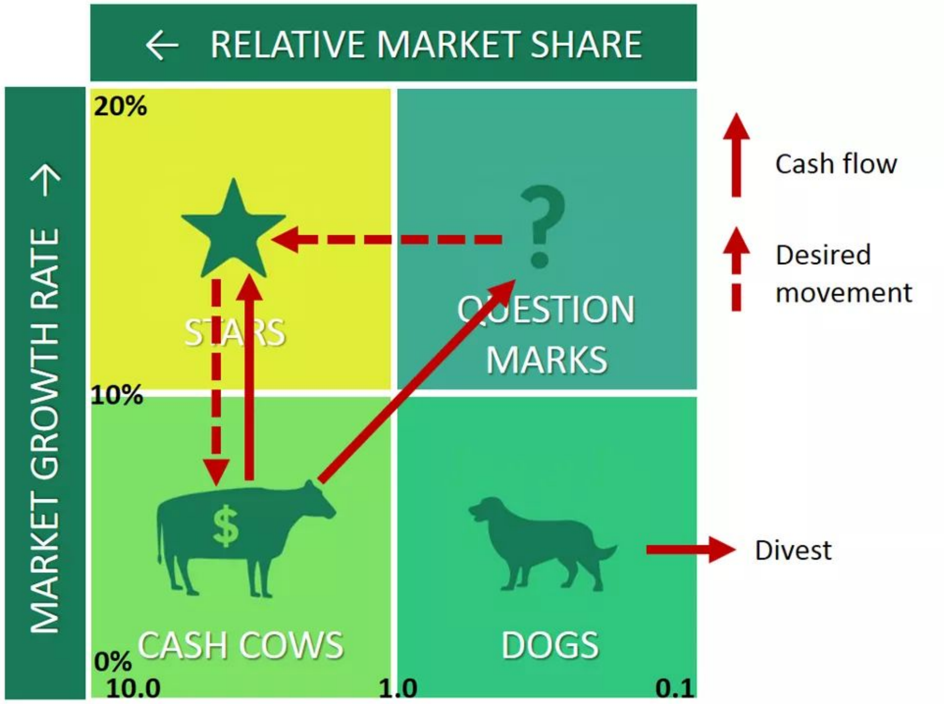
1. Business structures
    a. Profit-seeking ventures
        i. The goal of a Profit-seeking venture is in the name; their overarching goal is

to gain profits for personal gain. Most of the time, a for-profit will fund themselves initially through loans from banks and investors, and gradually move over to sales of their product or service. These for-profit companies often attract employees financially; they make money and offer it competitively to those who work there.

    ii. For-profits do not benefit from tax exemption and should look up local tax laws.
    iii. Interesting Psychological Strategies of Businesses
        1. Risk Reversal
            a. A hedging strategy that protects against unfavorable price movements in the underlying position but limits the profits that can be made in that position.
            b. For example, Zappos, an online shoe site, offers free returns on all shoes thus diminishing the risks (not being able to actually try the shoes on) customers may see with purchasing online.
    iv. Business Models
        1. Subscription services
            a. The subscription business model is a business model in which a customer must pay a recurring price at regular intervals for access to a product or service.
        2. Manufacturing
            a. The making of articles on a large scale using machinery; industrial production
        3. Distribution
            a. Company that manages the shipping of a manufacturer or wholesaler's products. Operates warehouses.
        4. Retailer
            a. Buys from wholesalers, marks up the prices, and focuses on their customer experience.
        5. Risk Reversal
            a. A hedging strategy that protects against unfavorable price movements in the underlying position but limits the profits that can be made in that position.
            b. For example, Zappos, an online shoe site, offers free returns on all shoes thus diminishing the risks (not being able to actually try the shoes on) customers may see with purchasing online.
b. Nonprofit ventures
    i. This entity focuses on public service rather than generating a profit. Although certain types of profit are permitted, they must be used for the benefit of the organization. These companies are often funded by general donations, or philanthropists, and can apply for tax-exempt status.
        1. Dictionary of Business Terms - David I. Scott
c. Not-for-profit
    i. Although nonprofit and not-for-profit are used interchangeably, not-for-profits are specifically tax-exempt organizations under the federal law. Not-for-profits can be found on the local scale, such as cemeteries,

churches, fraternal societies, sports teams, and labor unions. Although a nonprofit must take any profits and apply it back to the goal of that company, a not-for-profit specifically has the purpose of achieving a goal and does not gain extra profits.

2. Growth/Market Share Matrix



a. The Growth-Share Matrix classifies businesses into four categories: the question marks, dogs, stars, and cash cows. They're sorted by market share, the portion of the market controlled by a company, and market growth, the rate of their expansion.
    i. Dog
        1. Slow Market Growth and Low Market Share
        2. Reinvests profits to sustain the business. In other words, it's a waste of time and a great method of burning money.
        3. Example: Taco Stand, Strip Mall Hair Salon
    ii. Question Mark
        1. Fast Market Growth and Low Market Share
        2. Is yet to have a deep wallet, yet is working hard to expand rapidly in hopes to join the cash cows and stars.
        3. Example: Silicon Valley Startups
    iii. Cash Cow
        1. Slow Market Growth and High Market Share
        2. Doesn't have to put much work into expansion. The companies simply keep the gears turning and keep the cash flowing in.

        3. Example: Oil Conglomerates, General Motors (expansion, yet not rapid expansion)
    iv. Star
        1. Fast Market Growth and High Market Share
        2. To keep up with the market, stars use rapid innovation to make massive profits.
        3. Example: Big Tech: Facebook, Apple, Amazon, Netflix, Google, Microsoft
  b. The wisdom from the growth-share matrix is that when starting out, **you're either a dog or a question mark.** Be the question mark, and make it to be a star or a cash cow.

3. Scaling
  a. The ability of a business to increase its revenue while keeping their costs down in order to gain a larger profit margin
    i. https://hbr.org/1983/05/the-five-stages-of-small-business-growth
    ii. Stage 1 - Existence
        1. During the initial stage of a business, it simply must exist within the market. In order to do so, the product/service must be viable and obtain an initial customer base. When a business fails to gain sufficient product capability or customer acceptance, its capital may run out, and the owners will be forced to either close the business or, more rarely, sell it for its asset value.
    iii. Stage 2 - Survival
        1. If the business is able to retain its customer base, it moves on to the second stage, Survival. During this stage, the main goal is to gain enough short term revenue for the company to break even or pay back their initial investors. Sometimes businesses are not able to survive this stage due to the loss of customers and/or logistical issues.
    iv. Stage 3 - Success
        1. After the business is stable and sustainable, the owner is faced with a dilemma. They can either choose to expand their business with their company's revenue or stay the same size and remain sustainable. If the owner decides to expand, refer to Stage 3-G. If the owner decides to remain at its current size, refer to Stage 3-D.
        2. Stage 3-D
            a. Stage 3-D is low maintenance, but still sustainable. During this stage, the business has reached a big enough size to be economically stable. In some cases, independent managers can cover some of the responsibilities of the owner, making this the go-to option for those who do not want to

constantly manage the company. Businesses can remain in this stage indefinitely. Although this is the safer option, there is still always a risk that the company might fail.

3. Stage 3-G
    a. Stage 3-G is the more risky option of the two. The owner consolidates and obtains as many resources for financial growth. At this point in time, the company will shift from short-term to long-term thinking. While increasing in size, it is crucial for the company to remain sustainable to cover for the funds being expended for expansion. Companies failing to remain sustainable in Stage 3-G either liquidate or switch to Stage 3-D.

v. Stage 4 - Delegation
    1. In this stage, businesses focus on rapid growth and financial sustainability. Owners must decide between delegating responsibility to others to improve management, abdicating their position, or selling the business for a profit. The business also must maintain an adequate cash flow that satisfies the demands for growth. Due to the business's increasing complexity, leadership usually becomes more decentralized. Although the owner maintains a notable presence and stock control, operational and strategic planning involve key managers. Unsuccessful businesses in this stage may grow too fast and run out of cash or struggle with effective delegation of tasks.

vi. Stage 5 - Resource Maturity
    1. Companies that achieve this last stage must consolidate and control the revenue that they obtain from their growth. During this stage, management should also be expanded to eliminate inefficiencies in growth.

4. Important aspects to consider while scaling
https://www.forbes.com/sites/forbesnonprofitcouncil/2018/12/04/how-to-successfully-and-sustainably-scale-your-nonprofit/#6af8a9485168

A. Data Infrastructure
    1. Continuously work with your group to devise ways that you can manage data. Find ways to collect larger amounts of data - data can consist of feedback that you get for your product, organization, or idea. The more data and feedback you are able to collect the faster you can go through the BML cycle and improve your product.
    2. Look at what aspects of your organization your collecting data on and if it is really helping you. By straightening out your focus and collecting data about the pain points of your organization it becomes more likely that you become a question mark.

3. (This is more of a consideration if this is something you want to continue past socent.) Consider making a website to be able to handle a higher influx of data when you get to that stage. Also, use the website to advertise the company and talk about projects that you are currently doing, especially local ones.

B. Budgeting and Funding
    1. One of the most important parts of scaling is making sure your organization/business has the funds to support your growth because without a decent revenue all other options to the growth of the organization are closed off no matter what business structure you have.
    2. Making a solid plan as to how you are going to get funding and more importantly how your budget will be spent a split up in your company. Starting with budgeting it is imperative you spend your money where you need to other what ends up happening is that you become a dog because any money that you make just goes down the train if you don't focus it in the right direction so you end up being a dog. Disperse your funds to address your pain points and one of the best things you can do to decrease your spending brings on new partners and work with them to achieve goals without spending extra.
    3. Funding is the next most important aspect of money in a startup. It is unrealistic to expect to effectively scale a business with only the revenue that you make for your company so what needs to happen is that in addition finding partners you also need to find investors who are interested in your product and willing to give you money to help you scale. Another option is that if you qualify you can file for grants (more for nonprofits) to gain funding for your organization.

C. People Management
    1. One of the most important things to consider (Especially for a non - profit) is how you are going to get more people to join you, what you to offer them, and how you are going to manage the new people that are being inducted into your organization because it is highly that you will be able to effectively scale the business with only the people who came up with the idea.
    2. When bringing new people in the first thing to consider is what you are looking to get from them, more specifically what skills you are looking for. By finding which skills you are specifically looking for and by identifying those skill sets you know the talent that you are looking for.
    3. When getting people to join you they need to be provided with an incentive. Being IMSA students one of the ways that you might incentivize other students to join your organization is by getting approval from admin to provide other people with service hours for the work that they are doing for your organization
    4. (Talk about business structures here)

D. Operating Strategy

1. This is the most basic and “unglamorous” of all the four aspects. You have to know how your organization will look in the future because without the basic planning of what you want your company structure to look like you won't be able to expand because when you get an influx of resources you wont be able to designate the funds effectively if you don't have the plans to revise your organization to be able to use those resources.

Classification Activity (20 min)

Purpose: To make students understand business structure and growth share analysis of different companies through classifying recognizable businesses.
Materials: Businesses slideshow:
https://docs.google.com/presentation/d/1D4lals-q9bIeAF6cpl9CbR5b9O0-fObuzQ1I6ZZ93yM/edit?usp=sharing
Directions:

1. Open the slides and loop through each example company.
2. Have them attempt to figure out the business structure and the growth-share matrix category for each business.
3. Reveal the real business structure and the growth-share matrix category and discuss why
4. Repeat until all businesses are done.

Discussion:

1. What business structure category did you not see much of on the slideshow?
2. Which ones surprised you?

Cookie Clicker Game (15 min)

Purpose: Students will learn the value of scaling their business by playing the online Cookie Clicker game for 5 minutes.

*Warning - This game is extremely addictive, and it'll be extremely hard to get students to pay attention afterward. Consider saving it for the end.

Materials: Cookie Clicker game link: https://orteil.dashnet.org/cookieclicker/
Directions: Students have to click the cookie until they accumulate enough to expand their business. When they spend some cookies expanding their business, they can employ grandmas or clickers to do their job faster. Students learn the value of money, as well as how to effectively spend money while scaling.
Discussion:

1. How does buying upgrades relate to scaling your business?
2. Which parts of the game represent each of the five stages of scaling?
3. Did you think buying upgrades was worth its cost?
4. In what ways is Cookie Clicker is an effective metaphor for a real business? In what ways is it not?

Facilitator Homework

1.

Student Homework

1. Finish BMC Cost Structures and Key Revenues for Module 8