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YOUR AWKWARD PHASE, AND WHY YOU SHOULD LOVE IT

All growing companies eventually reach an adolescence—a no man's land between scrappy startup and big, established company. It may make you feel like an overwhelmed teen again. Don't let it

By **LEIGH BUCHANAN** Illustrations by **PAUL BLOW**

PHIL LIBIN LIKED IT better when all he had to worry about was survival.

"It is very clarifying and liberating—and in hindsight, kind of fun—when the challenges facing you are making payroll and keeping the lights on," says the co-founder—and, until recently, the CEO—of productivity juggernaut Evernote. "You don't feel like it's a luxury when you are in it. But it feels like a luxury afterward."

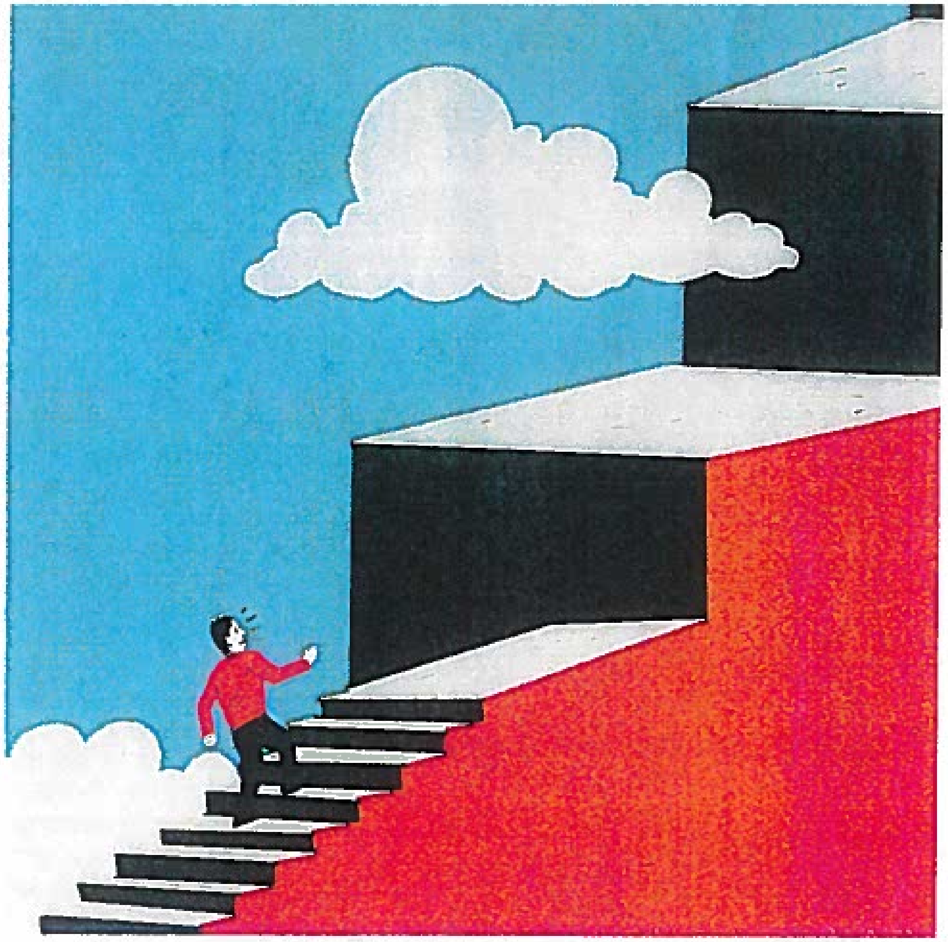
"*Say what?*" gasp entrepreneurs clinging to crumbling cliffs while hungry tigers snarl below. "A founder with 400 employees and a billion-dollar valuation is telling us that life post-startup gets *harder*?"

Not exactly. But running a business in the foothills of the middle market is dramatically different. Between startup and maturity, companies navigate a period of adolescence that—like its biological counterpart—is awkward and uncertain. If you're reading this because you're among the 2015 Inc. 500, congrats on growing up so quickly. Now prepare for escalating customer expectations, relentless operational demands, and starkly different leadership requirements from those that got you off the ground. (You know how you've liked to joke that you don't know what you're doing? Now you scare people when you say it.)

Operationally and psychologically, this is a tough stage. When you start your company, you yearn to capture lightning in a bottle; in its adolescence, you build bottling plants. Priorities change—a professional cadre is recruited, infrastructure erected, strategy rethought. Often, the pace slows. "I've hired great people and we are putting processes in place," says Mark Tacchi, CEO and founder of Vendini, a 115-employee ticketing and event-management company. "It's just that while that's happening, we're sort of at this plateau."

Many still find this passage exhilarating: a chance to lead leaders and run something too big to wrap their arms around. And not everyone is champing to break out as a larger business, despite pots of venture capital and private equity money awaiting many middle-market entrants. "Many people are delighted to hang around at $20 million for 15 or 20 years," says Robert Sher, author of the book *Mighty Midsized Companies: How Leaders Overcome 7 Silent Growth Killers*. "It can be a great place to exist."

If, that is, you know what to expect



You'll feel less epic—and you'll have to work to get that feeling back.

Phil Libin knows from startup terrors. In 2008, Evernote was almost out of cash. He was preparing to shut it down—but a bacon-saving superfan in Sweden swooped in to invest $500,000. In such times, decision making is easy: Choose the option least likely to kill you.

Things are less focused in adolescence, since death no longer loiters in the lobby. Instead, decisions grow more complex, because options multiply, and it's harder to tell when you've succeeded. At that stage, "many goals are no longer externally imposed," says Libin. "So not only do you have the stress of executing, but you have the additional stress of not being sure the goals you have set are the correct goals."

And absent life-or-death issues, "you start feeling less heroic," says Libin. "The level of drama changes. It becomes more nuanced."

But adolescence is also when companies can start making a real difference. "When you are a startup, your job is to be flashy and impressive," says Libin. As companies mature, he says, so should their priorities: from "optimizing for what will get noticed" to "optimizing for what will have the most meaningful impact."

At Evernote, that meant jettisoning beloved projects, including a study aid and a parenting app. The key question for founders in this phase, says Libin, is "Are we being sufficiently epic?"

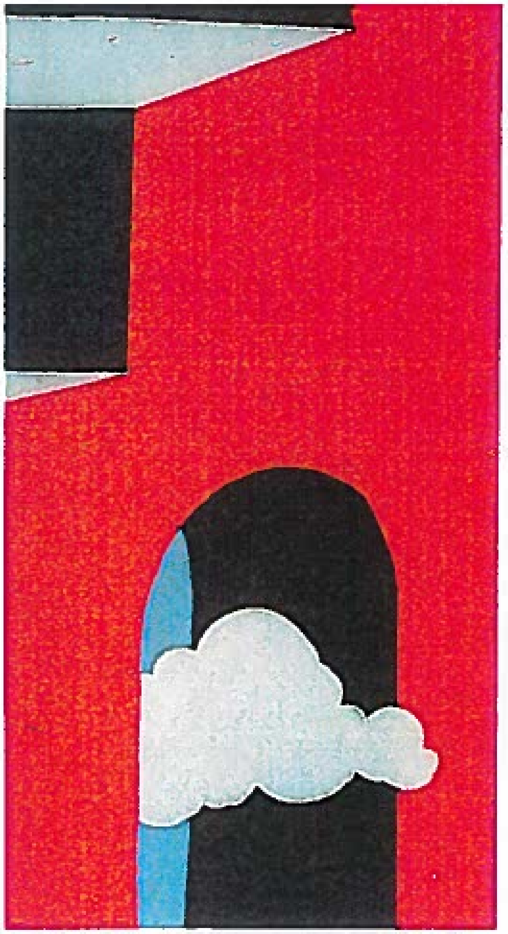
Be prepared to make some unfamiliar moves if your answer is no. Chris Hubble relished the early years of Db5 (No. 110 on the Inc. 500), a market-research business in Los Angeles. But this year, as the company closed in on $10 million in revenue and 30 employees, "there was a complete loss of startup hunger," says Hubble. "A kind of apathy set in."

Hubble and his executive team aired their concerns at a board meeting in February. They'd just declined two

"YOU START FEELING LESS HEROIC," LIBIN SAYS. THE BATTLES YOU FIGHT WILL CHANGE TOO.

acquisition offers, but soldiering on seemed dispiriting. "We said, 'What if we don't want to do just more and more and more of the same?'" recalls Hubble.

Hubble saw no obvious route to epic. Then he had an idea: "What if we make the company the best university in the world for market researchers?" For the next two years, Db5 will spend close to half of its pretax profits hiring top trainers, developing the curriculum, and sending employees to outside programs. Hubble's goal: to field a work force of unparalleled expertise, forged



in a workplace with an unparalleled focus on professional development.

Hubble expects the investment to pay off as more clients choose—and, he hopes, pay a premium for—Db5's homegrown talent. And beyond that, his company has recaptured the fire. "Our energy wasn't what it should be," says Hubble. "Now it is."

You'll probably need a new team. That will be hard.

At a 2010 companywide meeting, Brian O'Kelley told his 50 employees that it was time to grow up. The first few years had been fun at AppNexus, a New York City–based digital ad technology company. But now, O'Kelley explained, "we are going to be this big, real company that makes real money and needs to do adult things." From here on out, he said, people would stay with the business "not just because you're around or because you're talented or because of some special thing you did a year ago, but because you are the best person for your job right now."

Installing more experienced employees—and a professional management tier—ties in with creating processes as the most recognized rite of adolescence. Don't think this is boring. Says Doug Tatum, Newport Board Group chairman and author of *No Man's Land: Where Growing Companies Fail*, "It's exhilarating when people who have all these other options think what you're doing is worth betting on"—people from large, sophisticated companies who've lived your future and know how to get there.

But recruiting seasoned executives is easy to screw up. How do you judge the talent of large-company managers if you've never worked in a large company—or managed anyone who did?

Tatum says that in a company's early days the CEO runs the business through his or her inner circle. The ticket in is often loyalty to the leader. In adolescence, as O'Kelley told his troops, the ticket must be performance.

Finessing any such guard-change goes a long way toward maintaining morale. In 2014, no one held the chief operating officer title at PureCars (No. 335), a $21 million digital advertising firm for automotive dealers that's based in Charleston, South Carolina. PureCars needed someone who got the big picture and could handle increasingly ambitious goals—and no one at the business fit that bill. "I knew that if I just brought in a COO and said, 'Hey, guys, meet so-and-so,' then it would have caused a shit storm," says CEO and co-founder Jeremy Anspach: Several existing managers "would have thought that they were as good or better."

Anspach recruited a seasoned leader and persuaded him to accept the title director of operations and report to someone else. But Anspach quietly promised to fast-track him to COO. "This relieved the pressure of others that were fighting for the role," says Anspach—and, he adds, after "working next to them instead of above them, they all knew he was the right person."

Tacchi recalls a key juncture for Vendini. Its vice president of sales was "a great sales guy" and also the company's first employee. But as Vendini scaled, says Tacchi, "we needed someone who had deep experience with a com-

HOW TO EASE GROWING PAINS

1 RECOGNIZE THAT MANAGEMENT IS A SKILL Evernote's Phil Libin observes that, in startups, managing is viewed as a less important activity when people with real skills are working. As Libin has relied on professional managers to scale his company, "I've realized there is a lot of wisdom in things I used to roll my eyes at," he says.

2 HIRE A ROCK STAR COO It makes sense for young companies to emphasize product development and sales over operations, says author Robert Sher. But in adolescence, it's important to hire early—and support loudly—a COO who loves operations and loathes sloppiness. "Customers have to be sure you can deliver," says Sher.

3 GET COMFORTABLE SAYING NO "It's tempting during adolescence to keep taking any job that comes your way," says Highpoint Global founder Ben Lanius. But when you draw firm limits, he adds, "you are respected more by your customers—and it gives employees a really good sense of who you are."

4 BE RUTHLESSLY FOCUSED ON REPEATING YOURSELF Startups are project-based, explains Princeton professor Derek Lidow. But new projects can be an unreliable route to real growth. "You have got to get out of that mode of doing everything differently," he says, "and turn to repetitive sets of tasks performed by people that become more and more expert in them."

5 UNDERSTAND THAT IT'S NOT DO OR DIE If you lack a clear strategy for traversing "no man's land," there's nothing wrong with staying put. Says author Doug Tatum: "It is perfectly legal, ethical, and common sense for you to stay small—and make money."

pany that had grown the way we needed to." It was time to bring in someone new.

Wanting everyone to feel comfortable with his choice, Tacchi interviewed applicant after applicant, hoping for a cultural lightning strike. He finally found one, and the VP chose to move laterally into a product position in which his strengths would have the greatest impact. The successful transition made that process "less of a threat to the people who were already here," says Tacchi.

You will also need a new you. That will be harder.

At the meeting in which O'Kelley challenged his staff to step up, he led off with an announcement: "Today is the day we have to get rid of our founder."

AppNexus staffers reacted with confusion and concern. Was O'Kelley kicking curbside his co-founder and CTO, Mike Nolet? "I told them, 'No. It's me.'" recalls O'Kelley. "From now on, I'm not going to be the founder. I'm the CEO."

O'Kelley had been CEO since AppNexus's birth in 2007, but his announcement was meant as a pledge:

STOP THINKING LIKE A FOUNDER. START THINKING LIKE A CEO.

He intended to earn anew the right to lead the business. "I was going to hold myself accountable," says O'Kelley. "I would start thinking and acting like a professional executive in ways a founder doesn't necessarily have to."

To retain or relinquish the CEO role is among the most personal and painful decisions faced by founders in adolescent companies. "There is a level of saying, 'I'm a Navy SEAL with a gun and a knife,'" says Tatum. But "to win, I now have to become a platoon leader. For many people, that's hugely rewarding. Others never want to get beyond the knife and gun stage."

When Lew Cirne launched enterprise software company Wily Technology in 1998, he had never managed more than two people. Through bootstrapping and angel money, he grew the business to 50 employees. As responsibilities expanded, Cirne worked hard to keep up. "I felt like to be an effective CEO, I had to be good at running large meetings, driving the planning process, and putting together quarterly business reviews," says Cirne. "When people try to be someone they are not, it rarely turns out well."

It didn't. After Cirne took venture capital investment, he was asked to step down as CEO. He began questioning his performance. And then, to his surprise, the team decided he should relinquish his role as chairman. Figuring education mattered more than ego, he stayed on as CTO and studied his replacement to become a better leader.

Cirne says he grew accustomed to the change, and that he and the new CEO led together in essence, if not in title. And in 2008, Cirne got a do-over. He launched New Relic, a software-analytics company, and decided, this time, not to live up to someone else's idea of what a CEO should be. He began a New Year's tradition of building a pie chart that divvies up his time among things he does well that contribute to New Relic's success. Everything else, he delegates. When the business reached 50 people, Cirne hired a president who had previously run a 1,200-employee-strong division.

Some founders embrace their CEO title's expiration date. In July, Evernote announced that Chris O'Neill, formerly of Google, would become CEO. Libin, now executive chairman, says he had long considered replacing himself among his biggest responsibilities. In fact, he suggests he was never the best possible leader of Evernote, even in the startup phase. "I was a good-enough CEO who was available at the time, and I've gotten better," he says. "But there's a limitation to how good I was going to get."

Any captain of a newly big boat needs time at the helm before knowing how the tiller feels in his hands. "Capable founders can get what they want," says Derek Lidow, a Princeton professor and author of *Startup Leadership: How Savvy Entrepreneurs Turn Their Ideas Into Successful Enterprises*. "But they usually don't understand what it is that they want"—so what makes them happy and effective often surprises them.

"What I thought I wanted was to be a CEO who did it all," says Cirne. But now he knows that "effective CEOs are those who are comfortable being themselves. I am a much stronger leader at New Relic thanks to this realization."

You'll have to decide if you'll get big, and what it will take to get there.

Sometimes, a founder learns that her business has the legs of a Shetland pony rather than an American Pharoah. Her company is hopelessly niche, or its survival depends on her staying right where she is, forever. Entrepreneurs often change what the business does in its adolescence, to keep growing.

HighPoint Global (No. 26) started in Indianapolis as a subcontractor focused on projects that improve citizen-government interaction. In 2009, it had 12 employees and revenue in the low seven digits. "Subcontracting was fine," says founder and CEO Ben Lanius. "But I didn't want us to be known in 10 or 12 years for just keeping the lights on."

Typical HighPoint contracts at the time ranged from $1 million to $4 million. To scale, HighPoint required projects "10, 20, 30 times that size," says Lanius. For that, he had to sell directly to the government. That meant recruiting executives with state-level and Washington expertise—an investment that wouldn't pay off until after a very long sales cycle. Oh, and an important potential customer required proof that HighPoint had the financial wherewithal to service its contract for eight years. "We had to get creative," says Lanius.

Online sleuthing led him to a company willing to provide $6 million in financing if HighPoint won that contract, which was good enough for that customer. This lender kept HighPoint afloat for a year while Lanius put people and projects in place.

Today, HighPoint has sized out of adolescence, with $95.5 million in revenue and 225 employees. Lanius places the breakout point two years ago, when he won a $60 million contract from the Department of Health and Human Services. A government rep said he "looked forward to working with [us] for the next nine years," says Lanius. "You know, at that point, you have really taken off."

Harry Hoffon launched Eagle Fire, a Richmond, Virginia-based business that inspects and maintains fire-protection systems, in 1987. By 2004, its revenue was just $4 million, in part because Hoffon chose not to pursue the lucrative business of installing fire-protection systems in new buildings. Then customers began offering to negotiate six-figure contracts for construction work. Successful projects begat others.

This made Hoffon nervous. "I'm taking people away from my service division who are really good, and putting them into construction," he says. He scrambled by adding construction labor. "But something was biting at me and I didn't know what it was," he says.

That year, Hoffon attended a presentation by Tatum, who "talked about this chasm, where you either stay small on this side or make the jump to the other side." That's when Hoffon realized he was straddling a motorbike midair between two cliffs—and, to complete the arc, he needed more juice.

For the first time, Hoffon increased his line of credit. He restructured the financing on his trucks and negotiated better terms with vendors. Then he hired a CFO, an HR director, and an executive with decades of construction experience. The company now has $19.5 million in revenue and 135 employees.

More important, Hoffon says, "we've made it to the other side."

FOUR REASONS TO LOVE YOUR ADOLESCENCE

As you might guess from its title, *Mighty Midsized Companies: How Leaders Overcome 7 Silent Growth Killers* is a cautionary tale. But while Robert Sher's book offers an unsparing look at what could go wrong as companies scale, he shared with *Inc.* what's great about this stage.

You can afford an interesting, smart leadership team.
Having really talented people next to you is like having playmates who are also your peers, and their ideas will stimulate your own.

You have the cash flow to not sweat every little expense.
Don't go crazy. But you can spend $50 to upgrade your seat on a flight so you'll arrive at your meeting rested.

You have less risk of death from small mishaps.
If you have 10 employees and a key person leaves, you may be left struggling to meet your commitments. If you have only a handful of customers and lose one, then you may have to lay off someone. Scale relieves that constant anxiety.

You can hire specialists.
When you and everyone with whom you work are jacks-of-all-trades, half-assing things is a painful necessity. It's fun to watch quality rise once you can afford to hire a graphic artist or business analyst.

ADOLESCENCE IS WHEN YOU balance selfishness and selflessness. Selfishness is critical to launching a business, says Lidow: "It is where the energy comes from: why you put yourself and others at risk; the thing that drives the business forward." And why shouldn't the founder be selfish? At startup, she is essentially selling herself: an act of creative hubris from which all else springs.

In adolescence, though, a founder starts building a machine that can sell without her. Now is the time to be selfless: to sacrifice for those who make the machine possible—who work in it, buy from it, invest in it. When things don't go her way, she swallows her frustration for the greater good. Because the greater good is now what matters.

Libin didn't feel too responsible for Evernote's founding team, "because everybody knew what they were getting into," he says. "But at a few hundred people, the majority of our employees didn't join because they were looking for adventure. There are a lot more people with families, with bills to pay, with expectations that this is a career."

But here's the funny thing Libin discovered about his company's adolescence. Even though he no longer knows everyone's name, "they still feel like my people," he says. "Maybe more so."

LEIGH BUCHANAN *is an* Inc. *editor-at-large.*