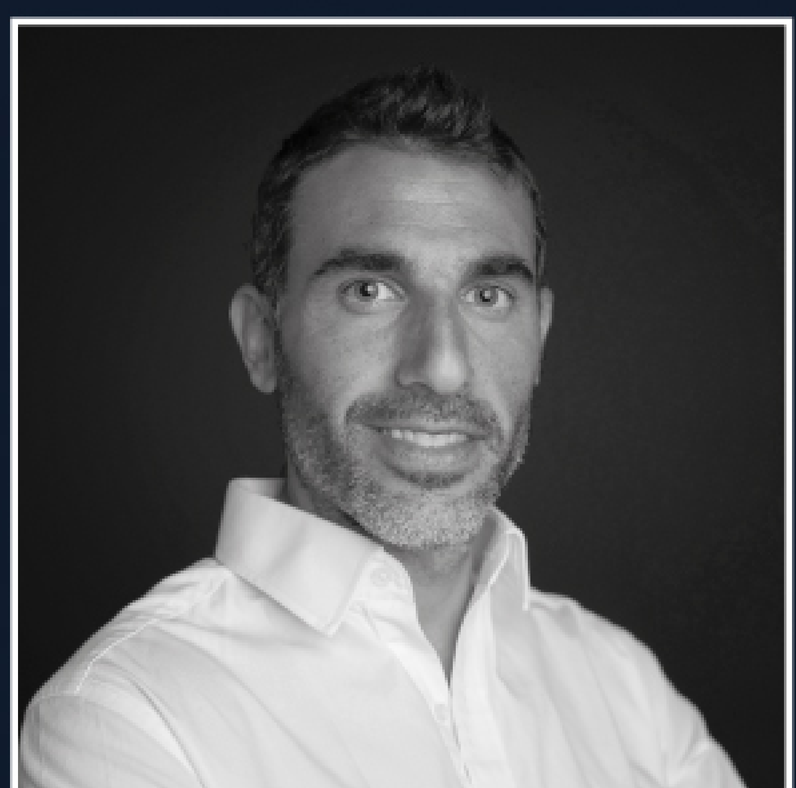
"Business Leaders' primary mission is to scale their companies. This book gives them proven tools to make it happen."

Mike Wood
President & CEO
of Winsight

"If your goal is to scale a B2B company, this book is for you. You will find 24 actionable items to:

- *Multiply your recurring revenue*
- *Triple your teams' productivity*
- *Lead a team through a scale journey."*



Lionel's mission is to enable 1,000,000 entrepreneurs to Scale their lives and businesses. He is a serial CEO who combines the best of startup growth techniques, special forces methods, & business performance principles in one unique approach.

100 WEEKS TO SCALE

LIONEL BENIZRI

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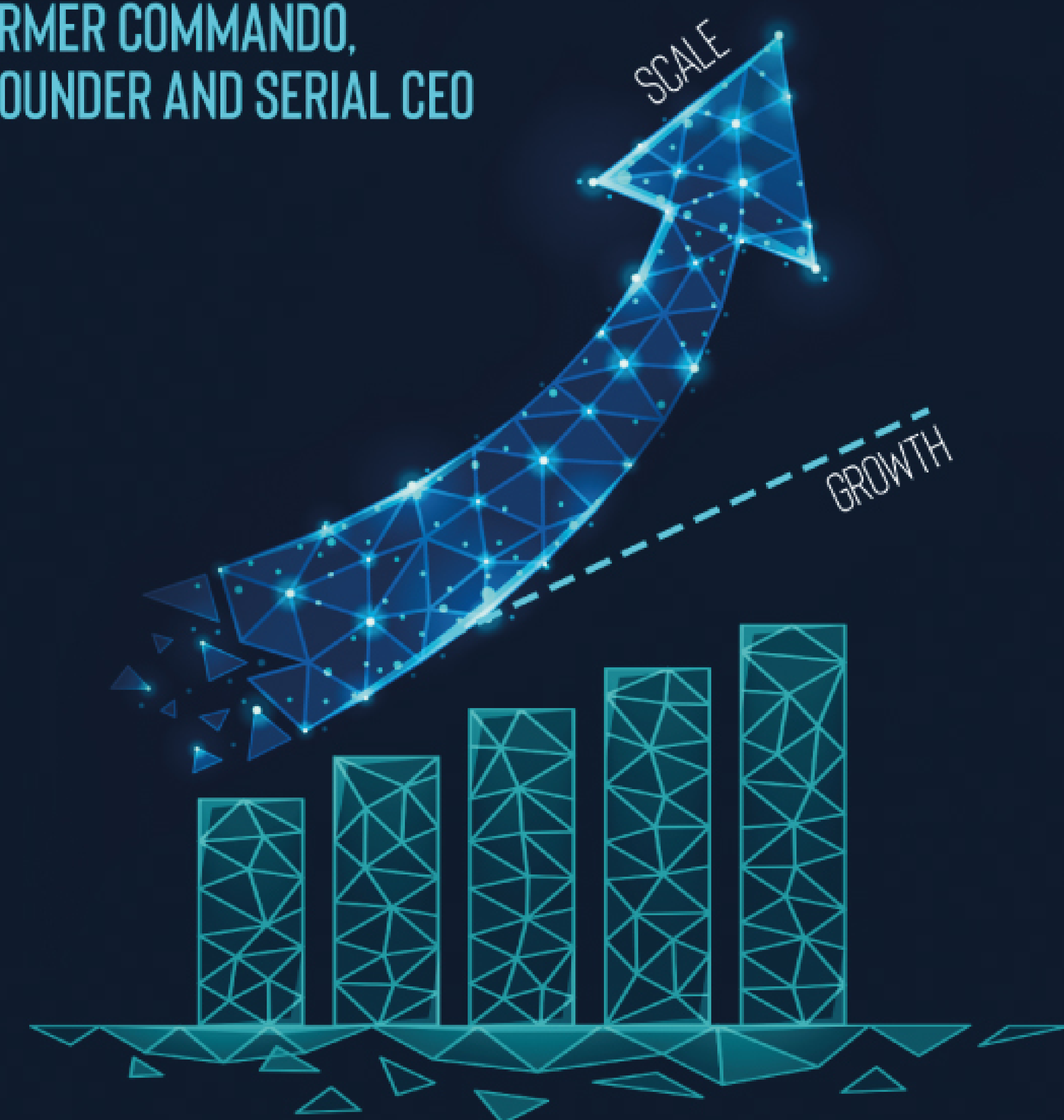
ACTIONABLE ROADMAP
TO SCALE YOUR BUSINESS
FROM A FORMER COMMANDO,
STARTUP FOUNDER AND SERIAL CEO



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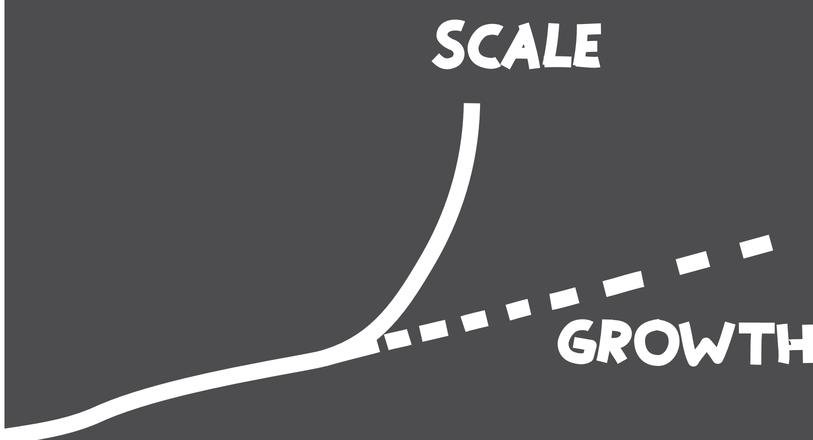
Translated by
Kelly Ramke Lardin

2021

Introduction



If you're an entrepreneur, you know there's a significant difference between a growing business (growth) and an *exponentially* growing business (scale). Their valuation curves are far from similar and suggest two completely different strategies.

The goal of this book is to help you move from one to the other. "How to scale up?"

I thought long and hard about how to present this topic in a way that is clear, actionable, and easy to read. It's more than just a topic for me; it's my passion. There's so much to say and so few pages!

Built on more than fifteen years of experience, the methodology you'll discover in this book is the fruit of many journeys: the adventures of a startup founder who sacrificed days and nights to transform an idea into a successful venture; the journey of a former elite commando and intelligence officer experienced in the management of exceptional teams, formed to successfully carry out ever more difficult field operations; the odyssey of a business strategist with a mission to triple the productivity of multinational organizations through agile processes; and finally, the journey of a serial CEO focused on executing a plan to triple the valuation of mid-sized companies in two years. The many anecdotes you'll find in these pages are drawn from these four life experiences.

I'll often say "we" when referring to the teams I've had the honor of working on. Nothing great is accomplished alone.

I'll often mention a company that's dear to me, CHD Expert, as a typical business on which this entire program was tested – 500 days of exciting work, crowned with success. The fact that this company specializes in the production and use of databases in no way means that the methodology presented here cannot be applied to other industries. Quite the contrary, it's up to you to adapt each process mentioned to your own business just as I continue to do for the company I manage. Believe me, these tactics can be used in various and sundry industries.

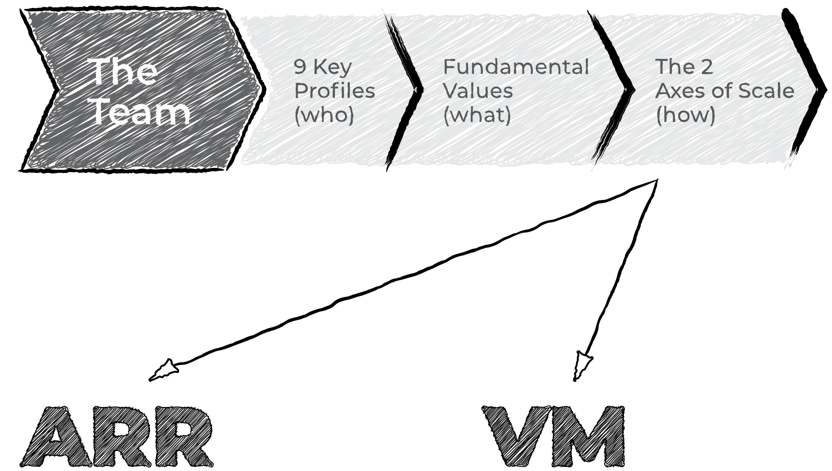
I also designed the program in this book for a particular type of entrepreneur and CEO, for whom I have a great deal of admiration and respect. These are the men and women who started a business from scratch without the fortuitous contribution of large venture capital funds. They've succeeded in keeping their organizations alive and sustainable. After so much effort and hard work, they want their now mature company to experience the value curves of booming startups. Their goal: to grow their business exponentially in just two or three years so they can fully realize their life's work. Their problem: they aren't always familiar with the strategic tools needed to effect the metamorphosis of scale. This book is dedicated to them.

I want this methodology to be relevant, measurable, and reproducible. Each scale project is measured using relevant indicators. Each action can be replicated in your company with the help of your teams. Each theme mentioned is relevant because it is dealt with by many businesses in exponential growth.

For some, doubling or tripling the value of their organization is just a means to an end. For me, realizing the full potential of your life's work is an end in itself.

This program is based on formulas used by many entrepreneurs when scaling their businesses.

Now they're yours. And the rest is up to you!



Value Proposition:
The 9 Components of the Pitch
Recurring Pricing
Lead Generation

Niche Market:
Positioning
The Strategic One-pager
Partnerships

Scalable Product:
The Intrapreneurial Framework
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PART I

THE FOUNDATIONS OF THE SCALE PROCESS

All lasting construction rests on solid foundations. An exponentially growing company is no exception to the rule.

So, the idea of this first part is to show you the elements which, in my opinion, will best position you to succeed in your scale process: a team that brings together the necessary skills, forms a united group, and is driven by strong and relevant values. We'll also see that there are two main levers that can be used to increase the value of a company in line with your ambitions.

CHAPTER 1

THE SCALE TEAM: NINE KEY PROFILES

April 2007. Our Trojan horse was stationed near Amin Lubada's house. He's a notorious terrorist, wanted for years for masterminding seven bombings that injured and killed dozens of innocent people. There we were, immersed in the silence and total darkness of a windowless truck, in the heart of extremely dangerous territory. It was 3:00 A.M, and the adrenaline was at its peak. We were waiting for the agreed upon signal. Under the pressure, our brains were reviewing all possible scenarios one last time.

Pow, pow, pow!

The back door opened violently, and we tumbled out of the undercover car. A dozen well-trained fighters. We split into four distinct task forces and sprinted into position, a well-established strategy to flush out one of the most dangerous terrorists in the Middle East without collateral damage.

Another long silence.

Bam, bam, bam, bam!

A burst of bullets was fired. A projectile passed right over my head and Elisha's, a longtime teammate in the elite Unit 217. We located the origin of the shot and repositioned ourselves, taking cover in a blind spot. We returned fire and signaled to the task force stationed on a roof overlooking the scene. In no time at all, Amin Lubada was neutralized. Mission accomplished.

Exceptional Challenges Require An Exceptional Team

In the years since this operation and others that followed, I've had the opportunity to analyze the efficiency of many teams in different environments. Whatever their missions – launching a startup, scaling up mature companies, or carrying out a difficult operation in enemy territory – they all had one common denominator. When faced with risk, teams can only succeed if they include certain key profiles. When one of them is missing, the entire endeavor is at risk. Scaling up is an exceptional challenge and therefore requires not only efficient but also particularly complementary teammates. Here are the nine key profiles that, in my experience, make all the difference between a good team and an exceptional team.

1. The visionary – imagines the concept

You know this profile well. Like Henry Ford or Steve Jobs, this leader is able to galvanize a team around a clear long-term vision. Creative, often a business thinker, he is driven by the burning desire to have an impact on the society of tomorrow. This person is far-sighted and imagines the product or service likely to carry the initial vision forward. His credibility will be directly proportional to his ability to carry out each of the steps required to complete the project. Henry Ford left humanity with a unique industrial concept leading

to productivity increases of around 300%. Steve Jobs, on the other hand, was the forerunner of technological ubiquity.[1]

Visionaries are usually the founders of companies. Those who also combine coaching, composure, charisma, and organizational skills usually play the additional role of CEO.

2. The Builder – Designs the Product

Leonardo da Vinci was an incredible visionary, the father of civil and military mobility. However, he lacked the presence of one key profile at his side to turn his concepts into reality. Hundreds of years before their time, he imagined and tried to prototype models of airplanes, tanks, parachutes, and even drones. But none of these machines ever became a product *sold* on the Venetian market. The builder is there to ensure this essential step: transforming a vision into a finished product.

This is the role Steve Wozniak brilliantly played alongside Steve Jobs in the early '80s. With the construction of the Apple and Apple II, he turned a tiny startup of three people crammed in a garage into a phenomenal industrial success. These product builders often have strong problem-solving skills and are instrumental in developing innovative products.

3. The Coordinator – Listens to the Client

The launch of our first startup ended in failure. The second, however, kept its promises. One notable difference between the two enterprises was the presence of a coordinator. In our first entrepreneurial odyssey, we managed to transform our vision into a tangible product, a mobile knowledge management application. But the sequel

1 Access to information for anyone, anywhere, anytime.

was cut short by a lack of coordination between customer requests and the features developed. We failed to achieve the all-important product-market fit.

The coordinator is like a midfielder who acts as the link between defense and attack in a soccer game. He ensures that what is delivered is always perfectly in line with what customers want, even if their requests change. To be effective, he must be a good listener, be able to translate customer needs into technical adjustments, and ensure good operational follow-up.

4. The Booster – Builds a Sales Machine at Scale

The visionary provides the vision, the builder builds the product, and the coordinator ensures the constant matching of product to customer requests. This embryonic success still needs to be scaled up. This is precisely the mission of the booster.

In the early '70s, a now-famous coffeehouse chain had only three locations in the city of Seattle. Its concept was based on the importing of high-quality coffee beans, produced by a Dutch roaster, and customers loved this premium coffee. But the chain struggled to grow. It stalled with six locations for about fifteen years. And then, in 1987, it took off. That year, Howard Schultz took the reins of Starbucks to turn it into an industrial empire that today operates more than thirty thousand locations for fifty million daily visitors.

This example perfectly sums up the importance of the booster in deploying a small business's products on a large scale. But this principle is still valid for medium-sized companies which, when scaling up, have no choice but to acquire a bulldozer profile capable of making sales skyrocket. The booster is often the VP of Sales.

5. The Strategist – Pilot to the Future

The strategist is a missing profile in many organizations. He is the architect of strategic projects. He is proactive and gifted with strong analytical skills. His impact on setting objectives, measuring performance, targeting priorities, and anticipating market trends likely to affect the company's future performance is decisive.

In 2008, a company specializing in social networking enjoyed increasing traffic but also generated huge losses ($130 million in 2007), due to the lack of an efficient operational structure and business model. Luckily, during a Christmas party, the young founder met a formidable strategist and master in the art of scaling. Three months later, Sheryl Sandberg took her place alongside Mark Zuckerberg to triple Facebook's profits and quintuple its valuation in just three and a half years.

So, to build our exceptional team, we must create a new position, that of Chief Scale Officer, mandated by the board to work, not in place of but alongside the Founder. Do you have this key profile in your ranks?

6. The Ambassador – Increases the Visibility of the Company

The five previous profiles are literally indispensable. Ideally, this initial team is complemented by the ambassador. The latter is in charge of concluding as many partnerships as possible, developing the company's address book, and above all creating, establishing, and then increasing brand awareness. Perfectly embodied by Tifani Bova at Salesforce or Nancy Kramer at IBM, the role of brand ambassador has grown considerably in recent years.

In 2012, a very small Australian company called Canva had only twenty employees. Guy Kawasaki was appointed Chief Evangelist. He contributed to the rapid increase in the company's fame, helping it to grow exponentially from twenty to two hundred employees in four years. Its valuation increased tenfold. It's hard not to be convinced by such figures.

7. Execution Manager – Runs the Operation

In the middle of a shooting range, somewhere in the Middle East, an instructor asked one of my friends who had just assisted me in an urban combat exercise, "What's the name of Napoleon's lieutenant?"

When he got no response, he continued, "You see, no one ever remembers the number twos."

This conclusion is so far from reality that we laughed. In the daily life of a commando, whether an intelligence agent or an entrepreneur, there is one inescapable principle: you cannot accomplish anything alone. The CEO who does every job is a myth.

Without its extraordinary number two, Sergei Brin and Larry Page's Google would never have become a unicorn. Susan Wojcicki[2] aptly dubbed "the most important Googler *ever* hired," organizes everything there. Pure and simple. From technical operations to business presentations, the execution manager implements the strategy of the strategist. She usually occupies the position of COO.

8. The Perfectionist – Refines and Improves Deliverables

Many leaders are satisfied and take pride in having several, if not all of the above profiles on their team. That's fair. Armed with a demand-driven product, a differentiation strategy, and an operational machine, they are already generating results that command respect.

2 Now CEO of YouTube.

This is the case with a company I was coaching in early 2018. The manager wanted to start a scale process, but it seemed that something was hampering the quality of production and the work of the sales teams. One Friday morning, during a leadership seminar, I invited them to think about the problems they wanted to solve and to articulate them clearly. They all expressed their frustration:

"The datasets we provide often contain errors."

"Our sales presentations are never perfect."

Etc.

The situation became crystal clear: they lacked one essential profile, the perfectionist.

Steve Jobs embodied this profile to perfection when he made his comeback at Apple in 1997. He ensured that each component fit seamlessly into the sleek and stylish design of iPods and iPhones. Whether it's controlling the quality of a product in all its aspects or refining a commercial deliverable, the perfectionist is essential for generating excellence where competitors settle for very good.

9. The Expert – Brings Technical Expertise

The last profile is that of the Chief Expert.

On this subject, I remember an anecdote that occurred when I was still a young entrepreneur. I can see myself going to the most prestigious law firms to present some a project management and documentation software that we had created. Our prospective clients listened, looking interested. Some associates invited us back to explore the possibility of a pilot test while others decided not to proceed beyond our first exchange. Yet, the pitch and the level of preparation were the same for each meeting. But each time, the participation or absence of a single person made all the difference. Ittai Artzi is a former head of the intelligence services' technology department. He has indisputable expertise in his field and because of this, exudes a natural authority with our clients.

Without going too far, this is the function of a Chief Technology Officer (CTO) in a technology company. A tenor in his field. Over the past few years, I've had the chance to team up with this profile. It's largely because of his level of expertise that we were able to gain the trust of renowned companies, where our competitors deployed many more resources. People in this profile, who are passionate about their field, have a decisive impact on the credibility of an organization.

How Do We Proceed Concretely?

Three questions were often raised when I presented this model to the hundreds, if not thousands, of entrepreneurs, consultants, and board members of mid-sized companies that I met.

The first is systematic. It's the issue of people with multiple roles. There are indeed many organizations in which the founder (visionary profile) also plays the role of sales booster, strategist, or even Chief Expert. This is a disaster. Chasing two deer at the same time is a bad hunting strategy. It's just as bad on an entrepreneurial level. In these organizations, an executive wearing several hats never manages to perform well on multiple simultaneous projects during the same quarter. This makes sense if we recall the characteristic of efficient organizations: by definition, each role, each position, each profile is evaluated by *one* indicator and aims at *one* objective, both of which are unique to it.

The second question, quite common among entrepreneurs, concerns the order in which to recruit profiles. This order is

based on the model itself. Indeed, it is thought that the success of a startup[3] can be broken down into three phases. The first objective is to obtain the concrete use of a new product by the target users. This phase, known as the product-market fit, necessarily requires a concept imagined by the visionary, a product developed by a builder, and the matching of product to customer requests ensured by the coordinator. There's no need to expand the team before the completion of this first phase.

The next phase is structuring the business model (the strategist's role) and establishing a large-scale reproducible sales machine (the booster's work). Finally, the last phase sees the advent of a company strengthened by brand awareness (cultivated by the ambassador) and optimal organizational processes (designed by the execution manager) to maximize productivity. The expansion of the scale team follows the same trend.

3 I'm talking about the startup here because this type of structure faces many challenges similar to those of a mid-size company in the scale process. I'll repeat the comparison regularly throughout this book.

The third dilemma facing many growing companies is how to fulfill these complementary roles when the company's funds in the expansion phase don't yet allow it to recruit these nine key profiles. There are several solutions. In times of budget constraints, it's undoubtedly best to ensure that everyone wears only one hat at a time in order to properly manage a single project before embarking on any other side projects.

For example, in June 2019, we encountered many problems related to data quality. The founder of CHD then took the risk of withdrawing from several projects such as selling to international accounts, creating new products, or establishing strategic partnerships. With the extra time, he was able to tackle the most important issue head-on. In the scenario above, the visionary here had the courage to take off his booster, builder, and ambassador caps to focus momentarily on the Chief Expert profile. For one quarter, he isolated himself in order to draw up an action plan that would allow us to retain our long-standing clients. The strategy is paying off.

Essential Cohesion

These profiles only make sense if they form a cohesive group. Just as in sports the mere addition of individual superstars doesn't necessarily improve the quality of the team, scaling up requires strong team spirit. This brings us back to the root of the word company, *cum pane*, evoking the idea of people with (*cum*) whom we break bread (*pane*). If you are responsible for building such a team, keep in mind that certain values will be essential to guarantee its performance. That is the focus of the next chapter.

↘ Things to Remember:

These nine key profiles distinguish an exceptional team from a good team:

1. The visionary, designer of a solution to a problem
2. The builder, architect of that solution
3. The coordinator, guarantees the constant matching of product to customer requests
4. The booster, capable of reproducing large-scale commercial success
5. The strategist, spearhead of long-term success, master of the methods for increasing market share and operational excellence
6. The ambassador, driving force behind the company's visibility and instigator of strategic partnerships
7. The execution manager, responsible for operational success
8. The perfectionist, guardian of the temple of ergonomics and product design
9. The expert, technical authority embodying business expertise

CHAPTER 2
FUNDAMENTAL VALUES

The Strength of a Team

Twenty-two people stood side by side. The recruits, including me, were selected from a group of ten thousand highly motivated young soldiers after completing a series of tests. The best of the best. You'd expect to find a certain standard profile that the instructors would've been screening for. But this is not the case; the group was very heterogeneous. What could possibly link a guy from a small village in Samaria to another from the worldly elite? A former chess champion and a marathon runner? A well of biblical knowledge and the son of an anthropology professor?

Elisha, from a village in the West Bank, is impressive for his endurance during long night walks, weighed down by eighty pounds carried on his back. David Aran is at the other end of the psychological spectrum. He excels in mental tests that simulate detention in extreme conditions. Ori crosses the perilous paths of Ramallah like a gazelle. Yochai still finds the strength to sprint after days of physical exhaustion. Yehuda is a master of disguise and truly *becomes* the most suspicious characters during espionage operations. And Gilad navigates at night, without any map, in regions where all the mountains look alike.

Ten long years later, we met again in group therapy in a remote forest in Romania. We wondered about the common denominator that once brought us together in the famous elite Unit 217, commonly called "cherry unit" (*Duvdevan*), in reference to the "cherry on top," which it is among anti-terrorist commandos. There we were on a mountain thousands of miles from the regions where we served.

Having reached the top of a summit, we suddenly understood the source of our cohesion. It never depended on our age, our abilities, our backgrounds, or even our respective achievements. No. Our group was first and foremost formed on values: fervor, pushing limits, daring, and adaptability. Values that we demonstrated in multiple high-risk operations. Values that brought us together again a decade later.

Like elite commandos, a scale team also needs strong values to be successful. Let's take a look at their essence and what they bring to our companies.

Values Are Not Run-of-the-Mill Principles

It's very simple. Values represent the DNA of a group. They are to a company what foundations are to a building. They're unique to it. You'd, therefore, be unlikely to find one set of values common to several companies. And yet...

It was Wednesday, April 18, 2018. I started my day in the southwest of Paris where the magnificent offices of Accor Hotels are located. I continued to EDF headquarters to meet the director of the innovation center. I finally ended with a visit to Sodexo, in the suburb of Boulogne. The activities of these three industry leaders are radically different: hotels, energy supply, and food services.

And yet, the exact same values are displayed on the walls of these three establishments! Innovation, Integrity, Customer Satisfaction, Excellence... A set of values that has become generic and in no way distinctive. In short, run-of-the-mill values.

A value must be a principle appropriate for the company. In other words, the opposite value must also be completely valid. For example, if the value of "risk-taking" is perfectly understandable for a young startup, "security," the opposite concept, is just as valid for a private bank working to grow its clients' assets. In the same vein, we would be horrified if a company active in the nuclear industry chose "risk-taking" as its rallying cry! In light of this reflection, choosing innovation, excellence, or customer satisfaction would make no sense! Who would want to promote immobility (as opposed to innovation), mediocrity (as opposed to excellence), or customer frustration, regardless of the company's activity?

Like DNA, a set of values should distinguish your company from all others.

Why Bother with Values?

In an interview with a British journalist, one of the greatest industrialists of the twentieth century Bernard Arnault explained the two pillars on which the success of the world leader in luxury goods rests.

"Disruption and organization," the master of industrialization calmly asserted in front of the cameras.

The journalist was surprised. He believed these two aspects were total opposites. It's true that we're used to contrasting the young disruptive startup with the well-established company: Silicon Valley's innovative ecosystem with the well-organized German industry, or the daring visionary entrepreneur with the cautious strategic consultant. We've forgotten that disruption and organization can

and must coexist in order to instill a strong growth dynamic within an established structure.

We can look at disruption and organization as the supporting walls of a scale project. And three values adopted by our teams reinforce these foundations: uniqueness, execution, and modularity.

In his excellent book *Blitzscaling*, Reid Hoffmann reviews the different phases in the life of a company. By examining them, we can quickly grasp the importance of these values.

At its founding, a company is in "family" mode. The company is born from the hard work of an entrepreneur and his relatives. Then, the young company moves to the "tribal" stage. The team, made up of ten to fifty employees, indeed resembles a tribe in which some people wear several hats. We're dealing here with generalist profiles. But when the company moves from the "tribal" to the "city" stage, the challenge of scaling is to convert these generalists to a mindset where each of them becomes a specialist in their field. In other words, the whole managerial challenge is to put every team member in the activity that they understand infinitely better than all the others.

Uniqueness

Uniqueness is the first value necessary for a disruptive dynamic.

Written as a scientific equation, the true added value (or utility) of each member can be expressed as follows: $\mathbf{\Delta U = Uind - Uall}$. Marginal utility, or more simply a person's real expertise, is equal to the set of skills that person brings to the company (*Uindividual*) minus the skills of other employees (*Uall*). This is the unique skill each member brings to the team. "What's the concrete activity that I carry out with ten times more ease and expertise than my employees?" becomes not only a useful, but also an essential, question when scaling up. The objective here is to create a task force of specialists for each major topic.

Execution

My brother Yohan has his own way of asking what someone does for a living. Rather than dwelling on professional titles, he's interested in the specific actions people do when they arrive at work.

"You go to your workstation, and then?"

It's an interesting question. Speaking in terms of activities (I build Excel tables, I answer emails, I write a document, I structure a plan, I talk to clients, I write lines of code, etc.) is indeed much more revealing than reciting opaque titles that say very little about our daily work.

Execution is the second essential value in the art of scaling. Once everyone has (re)discovered the unique activity in which they excel, you still have to be able to execute. That is, to produce a tangible deliverable. This could be the number of business proposals developed by a salesperson, campaigns created by a marketer, prototypes designed by an innovator, products delivered by an operations manager, customer interactions conducted by an account manager, or even strategic plans drawn up by a planner.

As I write these lines, a troubling story comes to mind. Matt, an excellent project manager was promoted to VP of Innovation. He's a good communicator, very well organized, and particularly good at translating customer needs into technical tasks. But he was unable to truly assume his position as innovation manager. He would arrive at work and spend his day in front of the computer answering countless emails or attending internal meetings. His team created few deliverables. Not a single prototype. No pilot tests. No product sheets. And maybe just one customer interaction per week. In short, a fine mess.

Good execution involves developing a deliverable that meets a priority. Even the most sought-after skill (a very high **ΔU**) must be complemented by the ability to execute.

Now tell me... What deliverable did you produce today? And which one will you create tomorrow?

Modularity

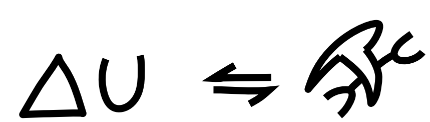
The value of uniqueness participates in disruption, and execution meets the requirements of the organization. But a third pillar remains to complete our picture: modularity.

In 2012, Google conducted the largest research ever on team efficiency. The famous project is called Aristotle. It involved identifying and then studying the five predominant characteristic factors of a productive group by observing hundreds of teams. These five decisive elements are:

- Being able to speak out without fear of being judged
- Dependability, a performance generator
- Clarity of objectives
- Accuracy of work
- Meaningful projects accompanied by a feeling of having an impact

Another surprising conclusion of the study: the longevity of a team doesn't guarantee success. On the contrary, its modularity makes it rich because each project differs from the previous one and requires a specific assembly of various skills.

In the same spirit, an organization must bring together the skills necessary to accomplish each project.



First Example:

One morning in December 2018, we dedicated a special work session (a Sprint) to improving our customer delivery process in order to save precious time. So, I very logically brought together a master in the art of designing organizational processes, a creative collaborator from the delivery team, and another in charge of automation. Thus, I formed a high-performance task force that produced a concrete deliverable (a standard computerized format summarizing the clients' needs) to meet this challenge in barely five hours. We managed to save hundreds of hours compared with standard practices. This success is linked above all to the work of a team formed to achieve a specific objective (modularity), made up of the most competent people for the project (**ΔU**), and having to produce a concrete deliverable (execution).

Second Example:

This also applies to a project of a completely different nature. When we initiate a fundraising project, it's essential to build a solid case. Venture capital funds, accustomed to dull presentations and bland Excel spreadsheets, are always surprised when they attend our "scale workshops." There is a background presentation, but each slide has a maximum of three words for a high-impact idea.

"We've never seen a case presented in such an inventive, structured, and interactive way," said the head of a leading software company on Chicago's north side.

This is because, on this kind of project, we also form a small task force, made up of a person in charge of the structure and central message, a brilliant and detail-oriented designer, and a virtuoso accountant who bolsters the dossier with a credible and detailed forecasting plan.

Uniqueness, execution, and modularity was it?

Now that the team is in place and ready to move mountains, let's take a look at the paths it can take for a successful scale-up.

Things to Remember:

1. A true value is a principle particular to one company, and its opposite value is also valid (risk and security).
2. Uniqueness, execution, and modularity are the three values that help with scaling up:
   - Uniqueness refers to a unique competence, to the idea that all employees invest in a single activity that they master ten times better than their colleagues.
   - Execution is measured in deliverables produced, not in the number of emails sent!
   - Modularity involves the flexibility to bring together the unique skills needed for each project.

CHAPTER 3
TWO AXES FOR A SUCCESSFUL SCALE UP

A Simple Formula to Measure the Valuation of Your Business

There we were in small offices in the middle of a renovation one evening in January 2018. Nothing suggested what Paul was about to tell me after a few minutes of conversation, "I'm almost fifty-five. I'm thinking about retiring in four or five years after selling my business."

I was surprised. Why would this talented businessman want to part with a fine family business[4] rather than ensure its continuity by laying the foundations for his children to take over? It's sometimes said that the first generation builds the business, and the second expands it. There we were faced with the perfect example of this popular adage. Succession was assured, the company had reached maturity, its management was prepared for the innovation turning point, and the finances were well managed. So why this sudden desire to disengage? As a family friend, I took the liberty to ask the question.

Paul gave me a few explanations, "The kids may have other plans. And then I'd like to see these twenty-five years of hard work

4 This is CHD, which I mentioned in the introduction. As a reminder, the company provides data management solutions for Food & Beverage companies.

pay off... Today, this type of company with data-oriented activities seems to be of great interest to the market. But who's to say it'll always be that way?"

He had clearly thought long and hard about these three arguments. As a scaler, my mission is to bring the venture to a successful conclusion rather than discussing its purpose. So, I asked Paul: "Great! And what valuation would satisfy your expectations?"

"Approximately 30 million. That would make a great exit!"

"OK... And how do you plan to reach such a number?"

The man was determined. He had carefully devised his plan. With the zeal of Roger Federer on the tennis court, he grabbed his HP and created an Excel table with a few dozen lines on the fly. Then he pointed to the words in bold,

"With a multiple of twelve, we need to generate an EBIT of 2.5 million euros within five years if we want to win our bet."

"Hmm, alright... And the current valuation?"

"Well... It's 15 million euros..."

Paul wanted to double the valuation of his company in five years. He'll ultimately be very surprised. The plan will far exceed all his expectations because the 15 million will have almost tripled... in barely eighteen months!

I'll detail this winning plan brick by brick below. But let's take a moment to look at some valuation techniques. While they may be perfectly known to multinationals assessed by the famous Market Cap (market capitalization), they remain a very vague area for mid-size companies. Should they base their valuation on EBIT, recurring revenue, or even the tangible assets they hold?

A valuation based on EBIT makes no sense since major investments necessarily affect a company's net profit in the short term. On the other hand, valuation based on recurring revenue and increased production capacity makes perfect sense. The valuation method for growing startups is therefore much more relevant

$$\overset{\text{Monthly Recurring Revenue}}{\uparrow \atop \mathrm{MRR}} \times \overset{\text{Yearly}}{\uparrow \atop 12} \times \overset{\text{Execution Velocity}}{\uparrow \atop \mathrm{VM}}\ (4{,}12)$$

for medium-sized companies in the scaling phase. It can be summarized in a simple formula often used in the software industry. It's based on two components: recurring revenue (MRR) and speed of execution (VM).

MRR or Monthly Recurring Revenue

Monthly recurring revenue (MRR) represents the revenue generated by customers who have subscribed to a subscription product or a multi-year contract. While MRR has long been considered the cornerstone of every SaaS (Software as a Service) company, it has also become the key metric for any fast-growing organization.

By definition, recurring revenue is acquired over time. So, in terms of valuation, a one-time contract of $80,000 will often be less attractive than a $30,000 per year license over several years. It is in fact the subscription that will ensure an "automatic" revenue base for the years to come.

Back to Paul. At the time of our discussion, I was worried as I examined his company's client portfolio: three hundred prestigious clients in the food industry, but very few recurring contracts to ensure the sustainability of the company. How could we change this?

The most sensible way was to rework his business model to focus on the sale of additional "modules" and thus build customer loyalty over the long term. This hundred and fifty year old technique still works wonderfully today. It's known as the "Razor-Blade" strategy. The founder of this business model, King Camp Gillette, was a visionary. He was reluctant to sell a very expensive product all at once. A tennis racket for example. He preferred to imagine a product whose price is affordable (a razor) but whose operation depends directly on an associated module (the blade). His economic model required the consumer to buy blades on a regular and routine basis. A great source of recurring revenue!

This successful model has since been widely adopted. Sony developed a cheap console (the PlayStation sells at a loss) with interchangeable games that generate substantial profits. Nespresso followed the same logic with its coffee machine and capsules. Likewise, HP with the printer and its ink cartridges.

Good news: it's possible to apply the same strategy regardless of the product you're marketing! This is what we hurried to do in Paul's business. We separated its flagship product (a database software) from an associated module (a rating system). And the average contract increased by 340% in one year in the North American market.

Think about it! Does your business model promote the sale of recurring modules?

The second, more difficult to execute, option is to enter a new niche market. Let's be clear on this point: moving into a new geographic area often requires a huge investment in terms of infrastructure. The niche market, on the other hand, offers the advantage of an additional source of income without needing to commit substantial funds. Let's take a closer look at this difference.

In the summer of 2018, CHD was betting on expansion. In Europe, the classic strategy of penetrating new geographic areas was implemented. Sales reps were recruited to sell databases in the UK, Germany, Spain, Belgium, Italy, Scandinavia, and the Netherlands. The investment was excessive for a delayed and disappointing return on investment. Based on this experience, we tried a more disruptive approach in the U.S. This consisted of launching in a niche market in an existing geographic sector. Rather than expanding geographically, we identified a new audience that our product could serve among the players who target restaurants. Our decision was made: the niche market would be for technology companies supplying restaurants (delivery companies, payment systems, facility management software). We started by discerning the customer frustration in this market (also called "pain"). Then we matched it with the right product solution and defined the added value that differentiates us from other data providers in this field. In the space of four months, we signed several contracts with some of the biggest players in the sector (UberEats, Doordash, Restaurant Technologies, ZumePizza, TouchBistro, etc.). For a ridiculously low investment, our recurring revenue increased by 60%.

Finally, the third possibility is launching a new product to generate recurring revenue in an existing market. This path is certainly more challenging to carry out, but it turns out to be quite impressive. While innovation processes are generally very time-consuming and have a high failure rate, expertise in rapid prototyping is nevertheless a major asset in terms of scale.

Here's one example. At the beginning of September, one of our long-term clients expressed the urgent need to prioritize the most profitable restaurants from the thousands found in our database.

About a month later, another client, a major distributor in the industry, wanted to achieve economies of scale in the travel times of its sales force. For the first, we imagined a target prioritization score based on a set of parameters. We submitted a travel optimization system to the second. In both cases, the process was similar: once the need was identified, we initiated the creation of a mock-up that we submitted to the client, precisely describing the associated profit. If they agreed, we developed the product. This was an extremely short and efficient innovation cycle. We then marketed these two additional features, and we realized an immediate profit of $200,000 as the first buyer of these two innovations was a modest company called… Goldman Sachs.

Speed of Execution

If recurring revenue is the heart of a scalable business, speed of execution is its heartbeat. It's a productivity indicator covering the entire sales cycle in the broadest sense, from prospecting to customer delivery.

Let's look at the case of one car company. Let's assume it's able to produce and deliver 100 cars per quarter. If it manages to produce two hundred cars during the same quarter the following year through new manufacturing processes, we can say that its speed of execution (VM) doubled. As a result, the company's valuation also doubles according to the formula MRR x 12 x VM.

When Carlos Ghosn, a renowned captain of industry, took the reins of Renault in 2005, he quickly set the tone. He declared, "The production cycle of a Renault Mégane is currently forty-eight days. Our goal is to cut this cycle in half."

He had acquired solid experience at Nissan a few years earlier and established a very precise methodology. The result of his action is well known. Renault's valuation tripled in just over four years (from April 2003 to July 2007).

If this bet worked for an industrial behemoth, it is even more effective for mid-sized companies, which are easier to scale. Indeed, their cycles are generally more easily automated. The principles are the same, regardless of the stage to be optimized: a sales cycle that's too long, an insufficiently automated customer delivery system, or even an implementation that is barely reproducible on a large-scale and with equivalent resources.

Here are some concrete examples illustrating the power of this kind of method.

First example:

YSB is a group of fourteen subsidiary companies, all specializing in infrastructure maintenance. The original time for setting up an infrastructure was one hundred and forty days. Today it's down to forty-five days for full implementation.

Second example:

At CHD (a mid-size data company), the speed of execution has tripled since the number of software programs delivered per person has tripled from one year to the next with equivalent resources. Here we targeted delivery capacity.

Third example:

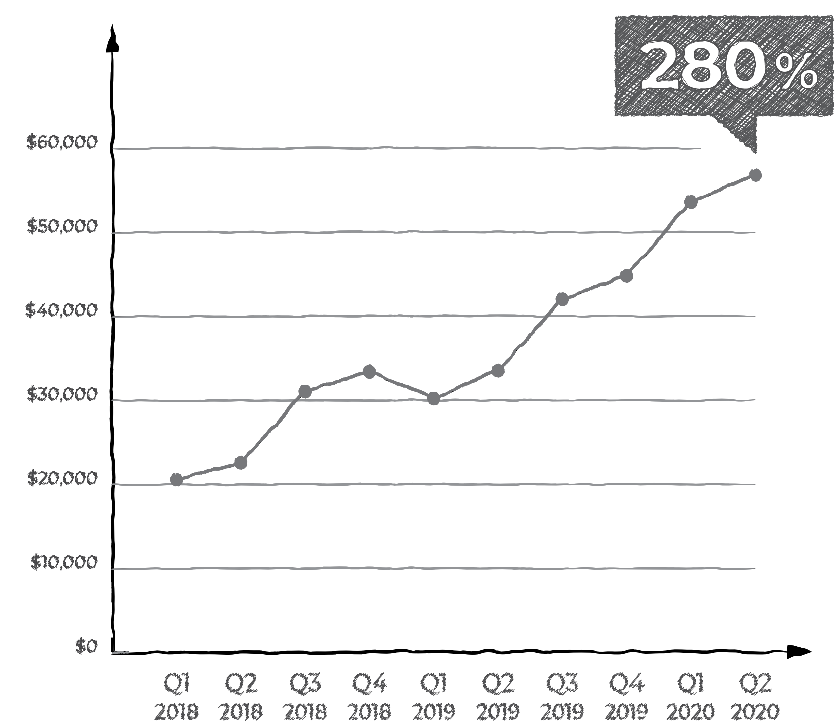
At Deloitte (auditing and consulting), we've been working hard to reduce the sales cycle. We've cut the number of days needed to conclude the – always very time-consuming – sale of supplemental programs by a factor of four.

Remember this principle: it's always possible to accelerate the speed of execution. And this is true whether talking about

an industrial leader, a data company active in a niche market, or a giant in the strategic consulting sector.

Edifying Results

Another very concrete example: the graph below shows the actual increase in the speed of execution and MRR over a three-year period. MRR initially experiences a short period of stagnation during the two quarters required to launch a new product or enter a new market. In turn, once the processes were put in place, the speed of execution tripled between the first quarter of 2018 and the beginning of 2019. Delivery capacity (in this case the number of software products deliv-



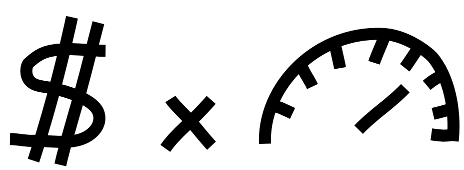
ered per person per quarter) jumped 250%, and the VM indicator increased by six points. The valuation of the company in question tripled in two years.[5]

But Is It Worth the Effort?

When a company fails to scale, we must first and foremost look for reasons other than the implicit failure to explore the two above-mentioned axes. We generally find several possible causes. The first is linked to management committees: too few companies put in place a team truly dedicated to their growth. The second is a misconception that the investment necessary to increase recurring revenues will reduce the EBIT and by consequence the valuation over the long term. Finally, a third reason is the lack of method or knowledge regarding the valuation of growing startups which applies equally well to mid-sized companies. Once again, the principles of scale are similar for a photo company from the 1960s (Polaroid) and a startup from the 2000s like Salesforce.

I'll describe this method to you in the following chapters.

In Part II, we'll reveal all the processes involved in increasing recurring revenue. In the next section, we'll take a closer look at all the actions that can be implemented to increase the overall productivity of a company.



5 This is the right time for fundraising or a sale. On the other hand, if you're aiming for an IPO or the handover of management to the next generation with an even higher valuation, it's more interesting to return to a valuation based on the EBIT generated (to which the multiple specific to your industry is applied) after the first 24 months.

Things to Remember:

1. When scaling up, the best valuation method is based on recurring revenues and speed of execution (productivity).
2. Increasing recurring revenues requires:
   - The launch of a new product in an existing market
   - The launch of an existing product in a new niche market
   - The transformation of the business model
3. The increase in speed of execution is achieved by:
   - A faster sales cycle
   - Reduced customer delivery time
   - A reproducible large-scale implementation technique