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SCALING UP: IS IT TIME TO TRANSITION FROM EOS?

By: Dan Hurley, *Chief Growth Catalyst*

Scaling Up (Verne Harnish) and the **Entrepreneur Operating System** (EOS — Gino Wickman) are two highly-utilized and well-received methodologies for building a foundation of sustainable growth in a business. All-too-often, however, organizations will see them as competing with one another.

In reality, a better perspective is that the Entrepreneur Operating System (EOS) serves as a foundation for and can lead to a gradual transition into the Scaling Up strategic and operational framework. **It's not only a feasible transition but also one that can be inherently smooth if you really look at the two frameworks for what they are and what they aren't.**

EOS and Scaling Up: A Brief Overview

The **Entrepreneurial Operating System** (EOS) is a set of concepts and tools that help entrepreneurs and businesses grow through better management of tactical issues and daily operations. Gino Wickman founded EOS's Traction system, and its six components of a business that need to be in place and well-managed for a company to be successful. It is most meaningful when applied to smaller, more entrepreneurial businesses.

The **Scaling Up** system, created by Verne Harnish of Gazelles, is more comprehensive than EOS addressing a wider range of strategic, tactical and operational business issues. Although Scaling Up is well-suited to any organization, it is very effective in scaling businesses to mid-market and beyond.

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EOS (Entrepreneurial Operating System)

EOS has 20 business growth tools, and there's no room for working outside of the confines of those tools with this system. EOS is known as a closed-architecture system in that the philosophy doesn't bring in other approaches, tools or thought leaders.

EOS is made up of six components which are:

Vision: Everyone in the organization is on the same page.

People: The positions need to be filled by the best people from top-to-bottom.

Data: When you're looking only at numbers, there's no room for opinions and ego that can derail the mission.

Issues: An organization works to become excellent at solving problems at every level.

Process: A businesses' core processes are defined, documented, and systemized for consistency and scalability.

Traction: This relies on a sense of accountability and discipline to make vision a reality.

Overall, each of these components is intended to work toward an overarching goal of a company identifying its vision, building a strong, unified, and drama-free team, and ultimately bringing the defined vision to life.

SCALING UP

Scaling Up is a more comprehensive system with broader tools and a more inclusive open architecture. Scaling Up is based on the Rockefeller Habits and Four Decisions. The premise is that there are four decisions every entrepreneur needs to have right for scalability.

The four decisions are:

People Decisions: Again, as you see with EOS, scalability depends on the right people being in the right position. Scaling Up is more thorough in providing a means to achieving the identification of the "right" based upon clear definition of the right roles, right things and what it means to do those right things right. Scaling Up provides several tools to support practitioners in working through this decision.

Strategy Decisions: Strategy work is supported by over a dozen tools all culminating with the completion of the One Page Strategic Plan (OPSP) that has served as a basis for a number of similar tools and knock-offs. The OPSP provides on one page (front and back) a complete document addressing the strategic and execution oriented activities that will focus efforts on moving the organization toward the achieve of a clearly articulated and desired future. Key outcomes are clarity, alignment and focus.

Execution Decisions: Everyone should be on the same page as to how the business will achieve the defined strategies. Execution is all about the data, metrics and information/ communication rhythms required to assure dedication, diligence and discipline in achieving the clearly articulated and desired future. There are several tools that support work at assuring good execution choices.

Cash Decisions: This fourth decision area is one that stands apart from EOS. A high-growth company requires much cash, similar to how a body uses oxygen to survive and grow. Cash flow has to be a key priority. One of the big downfalls of a lot of profitable companies is ultimately issues with cash flow. This being true, CASH also addresses key cycles and processes via tools designed to assess and improve revenue, profit and cash growth.

When Does EOS Work?

The EOS system is useful in building a strong foundation for, as the name implies, entrepreneurial companies or those generating 1-15M in revenue annually. It's simple and versatile enough to work for any company irrespective of industry. This framework is good for putting in place those basic elements of a business that can help increase revenue. There is an emphasis on building out a plan and then aligning the team with measurable and specific goals. In that regard, it is similar to Michael Gerber's E-Myth.

You're starting broadly with the implementation of EOS principles. You're building a vision and then, you're getting more specific as you move along. Finally, you start to create those essential processes that you're going to use to operate your business in a reliable, consistent way, and reinforcing accountability at every level. With the implementation of EOS principles, you're also taking into consideration the importance of having great people to fulfill your vision.

The concepts of EOS are going to allow you not just to create a plan but also track your plan. You're ensuring that you stay on track with your vision and goals.

Ultimately, you could implement the components of EOS into your processes in a single quarter.

When Is It Time to Transition to Scaling Up?

Now, while EOS offers foundational principles that are brilliant in their simplicity, there is likely going to be a time when you may need to transition to Scaling Up. Scaling Up often becomes the next logical step for those aspiring middle-market organizations that need something more robust to build on in periods of rapid growth. Too often, organizations will look at EOS and Scaling Up as an either-or, and they can be, but they can also work with one another, particularly when used in succession rather than borrowing from elements of each simultaneously.

With Scaling Up, there is a more comprehensive and thorough approach to meeting the needs of a growth oriented business that is experiencing drama associated with the inherent complexity of growth. Scaling Up focuses on vision and foundation, but also goes beyond that with strategy and cash. Traction, on the other hand, ignores financials.

To see how Scaling Up could be a relevant transition to your business, you can look at the natural growth cycle of a business. In the early days, you're introducing one product or service. You're perfecting it, and you're tailoring your marketing to your customer base. You want to get that one thing just right, which is where the simplicity of EOS traction can be beneficial.

You're not worried as much about profitability or cash flow in the early stages. You're concerned more about revenue, and building to a point where you are eventually profitable. You're not trying to maximize your margins because you're not even at a point of being profitable.

During the launch phase of a business, you have low cash flow, and it may include losses. During your growth phase, you work toward a positive cash flow, and then during later phases of the business life-cycle, you will see increased sales though they may be moving at a slower rate. Your cash flow may exceed your profits, and then as you're at the point of maturity in your business, sales decrease, but you might add new markets during this time.

It's natural that initially, your product sales grow exponentially and then growth will taper off with those products. To sustain overall growth, you'll need to reach new markets but at the same time maintain support for existing customers. All of this means increasing complexity and the need for cash flow.

Verne Harnish himself describes it best. He says you can get by with just decent people, decent strategy, and decent execution, but you can't go a day without cash. He goes on to say that if you run out of cash, it's game over. You need consistency in cash flow and also discipline in not only how you manage but also forecast it.

Cash becomes more critical with growth, and you'll see that the best and most successful companies have more cash reserves on-hand than their competitors. It's the cash flow and reserves that allow businesses to weather storms and maintain their growth trajectory. Cash flow is important because it can help your business be more liquid. Liquidity can allow you to secure financing, often imperative in the growth phase.

Strong cash flow gives you more opportunities, and you can then assess your cash flow as one of the ways you make other decisions about your business.

Profitability also has to be something you keep an eye on along with cash flow. If you have strong profits you have strong control over your resources, and it tells you that you are executing well on your current strategy.

While the simplicity of the Traction framework allows for full implementation within a quarter, this isn't the case with Scaling Up. Instead, there is a breakdown of measurable goals that you work toward on a quarterly basis, but full implementation is usually going to take longer.

Scaling Up and Cash Acceleration Strategies

Scaling Up uses Cash Acceleration Strategies, which can be valuable for middle-market organizations. Cash Acceleration Strategies look at the Cash Conversion Cycle as part of the operational framework. You're asked to address four areas of improvement as far as cash flow, which are:

✓ **Ways to improve the sales cycle**

✓ **Ways to improve make/produce and inventory cycle**

✓ **Ways to improve delivery cycle**

✓ **Ways to improve billing and payment cycle**

You're also asked to remember the underlying concept that improving margins will improve cash flow. For more established middle-market companies, improving margins may be the primary goal, whereas this wouldn't be a goal for a startup.

With the Scaling Up business operating system, the idea is that you don't have to make massive changes. You could look at the four areas of improvement above, make a small percentage change in each and see big improvements in both cash and profitability. Verne Harnish calls this concept "The Power of One," which refers to making incremental 1% changes.

Beyond the fact that Traction doesn't touch on financials, Scaling Up also has more tools related to models, cash flow and financial guidance. Scaling up is also an open architecture, so it allows for the bringing in of methods and tools from other people, which can work well when a businesses' needs become more complex.

Cash Flow Story, Scaling Up's CASH software program, serves as a practical platform to systematize control of your cash flow. It provides insight into the seven levers for driving valuation. It provides a way for people, including those who aren't "financial" to gain an understanding of the numbers and how to work on improving cash and profit.

Also, both Traction and Scaling Up call for a one-page strategic plan. For Scaling Up it's called just that and with Traction, it's part of the EOS Toolbox and it's referred to as the Vision Traction Organizer. Both are similar in many ways, but you may find that logistically it's a struggle to represent multiple products and sales channels with the One-Pager from Traction. This again speaks to the simplicity of EOS that works well for newer, smaller and slower-growing organizations that don't always meet the robust needs of other businesses.

The Final Takeaway

The initial components of both EOS and Scaling Up systems are very much similar. Both offer the opportunity to build a strong foundation in business, focusing on strategy and execution. There will likely be a time when you outgrow EOS, and rather than seeing Scaling Up as a change, it's valuable for businesses in a period of rapid growth to see it as a seamless transition. While Scaling Up can work for any organization at any point in time, it's especially beneficial for those organizations that want transformation as an underlier of growth.

Scaling Up is one of the most comprehensive business operating systems, yet one of its advantages is the fact that it remains simple enough to implement at every level.

If you would like to know more about Stratecution and how to begin Scaling Up from EOS, please contact us today at 810-625-0169 or visit us online at www.stratecution.us for a free consultation.

Dan Hurley is the owner of Stratection and certified Scaling Up coach.

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