Monica Somandroiu
Management and Its Best Practices
Prof. Edson Agatti Lima

Analyze the stages of growth, and how the company's human resources and departments should differ at a hypothetical company in the industry you are most familiar with. Describe in as much detail as you can from the most incipient stage of existence into the most mature stage.

Bonus: Apply the concepts of Coase´s "The Nature of the Firm", and/or Hayek´s "The Use of Knowledge in Society" to your story.

In the lines below, I will present the stages of growth for a coffee shop franchise as I see it, using the template proposed by Neil C. Churchill and Virginia L. Lewis[1]. Though the concept of a coffee shop as a franchise is not new on the market (of ideas), I will use an existing business and configure several working hypotheses for each growth stage.

In a country located in Eastern Europe, 2 local entrepreneurs decided to start a business based on coffee. They did some math and realized that they could sell several products related to coffee at the price of 5 lei (1,19 USD) and that is, briefly, how the concept of 5tog0, a fixed price coffee shop, was born[2]. In a very short period of time, they opened several shops and, given their success, the idea of transforming it into a franchise came almost naturally.

During the **Existence phase**, the owners play a major role, they are responsible for everything, both literally and figuratively, there are only several employees (one barista for each location, an accountant for all locations, and the owners in charge of the rest), the focus of the business is to attract the customer, to have him try the coffee and the other products sold at 5-to-go, as well as making sure everything gets delivered on time for each location, and that the customer service and the customer's experience is very good; so good, that he returns the second time and the third time, and the quality remains at least the same (or it is improved, in the better scenario). As far as procedures go, there are some minimal steps to be followed when it comes to preparing and serving coffee, to make sure the product is constant regardless of location.

When the **Survival stage** is reached, the coffee shop proved to be a workable business entity: it has enough regular customers who appreciate the products, the prices and the services provided. The focus switches from the products (quality, consistency, stability of suppliers for coffee beans, milk, cookies, teas) to generating cash so as to break even or even to further develop the concept with the opening of other shops. If the numbers go up constantly, then a person in charge of finding the best locations should be hired. Probably a general manager or an operational manager for all locations also. The major decisions continue to be made by the 2 owners, and the employees continue to follow their instructions and work style. The main goal remains to increase the number of customers per day or the value of the fiscal receipt (encourage the customer to buy more; upsale), in order to survive.

---

[1] Churchill, Neil C., Lewis, Virginia L., "The 5 stages of small business growth", HBR, May-June 1983.
[2] https://fivetogo.ro/en/concept/

At the **Success step**, all locations are on break even and continue to grow regularly. The decision of the owners is to use this achieved goal as a platform for growth: they decide to franchise the concept. In order to achieve this goal, the company itself has to be consolidated and all resources should be used for growth. Now, what is being sold is not simple coffee, but an entire coffee shop concept. Thus, operational planning, established procedures and precise numbers (budgets, cashflows, predictions) have to exist and to be well organized. People are hired for key positions and these people should have a clear vision for where the company should be. Examples are: marketing-communications manager, financial manager, trainer, real-estate expert, lawyer.

During the **Take-off stage**, the owners delegate part of their attributions and remain in charge of monitoring the performance of their managers and of their franchisees. The cash flow is partly solved by having each franchisee deposit a certain amount at the beginning of the business relationship. Also, that amount can be bank financed, as the business model has proven to be successful. At the same time, adequate expense controls should be put in place, so as not to undermine the work so far. Concerning human resources, each location has at least one manager. Classes are organized for the newly barista. More strategic organizational planning is required to make sure the value of the brand is consolidated. The business can now be separated into sales (selling the brand, the franchise) and operations (developing manuals, creating various training courses, ensuring proper quality control), but the owners are still present in the business and their control remains quite visible.

For the **Resource maturity phase**, the company hires enough financial, legal and operational staff to be able to deal with the challenges brought on by the success: franchises at a national level. There are regional managers in charge of the franchisees at a local level, financial, legal experts available to support the development of each location. At this stage, the owners and the business itself become separate entities. The major decisions are no longer taken at a central level, but at a local one (the franchisee in X city has better local knowledge than the manager who first opened a location in Y city, just as Hayek explains it[3]. The CEO of the company though remains in charge of further developing the brand, of growing it outside the country.

[3] Hayek, Friedrich, The Use of Knowledge in Society, 1945, https://www.econlib.org/library/Essays/hykKnw.html.