# Can Scalability be a Marketing Liability for Sustainability?

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## Introduction

A common principle of modern business marketing is that growth is good. It is usually thought that all businesses should market themselves with the goal of increasing their revenues and gaining market share. Scalability is developing products or services that people want and figuring out how to produce and promote many of them for lower costs while selling more of them (Dudnik 2010). It is the purpose of this paper to show that some businesses, especially small ventures with unique value propositions, should not necessarily seek to grow or scale up. There are numerous examples of new ventures failing for various reasons, and many of these have to do with growth. While new ventures frequently offer creative solutions to market needs, there are also aspects of these businesses that will be crucial to maintain while scaling up. Consequently, some new ventures may succeed based on aspects of the organization that are not feasible to scale, and thus a more conservative growth strategy should be undertaken.

Blumberg and Hindi (2013) recently published a book, *Startup CEO: A Field Guide to Scaling up Your Business* that describes five main facets to scaling a business. Focusing on storytelling, building human capital, execution, the board of directors, and personal management, Blumberg and Hindi imply that all businesses are scalable given careful growth management. The first two considerations, storytelling and building human capital, address early-stage components of scaling a business. Explaining the importance of developing a compelling and well-meted story, Blumberg and Hindi suggest extensive testing and explanation of why a business was started. Building human capital addresses the needs of a growing business to develop a corporate culture, and structure payment, promotion, and firing of personnel. The Execution component of Blumberg and Hindi's guide is of interest because it addresses the specifics of raising capital for growth, structuring a "Company Operating System," and managing the company through troubled times. The last two tenants of the book focus on building and managing a Board of Directors and concepts of a "Personal Operating System," which they use to describe a framework for marketing yourself.

Gartner et al (1998) used the criterion for determining if a new venture had survived over a four year timeframe. New ventures that survived were more likely to have: entrepreneurs who gained knowledge and ability during the founding process, devoted greater efforts to dealing with suppliers, analyzed potential new entrants, and devoted less time to determining the identity of the business. Survival was also more likely for businesses that had fundable resource requirements, focused on products or services that were designed or produced to order, and were in high growth industries. Of the 27 businesses profiled at the beginning of the comparison, 17 were still in operation four years later.

The Small Business & Entrepreneurship Council (2011) published the *Small Business Survival Index 2011*, which describes the overall climate for small businesses in every state. Focusing on the impact of public policies, such as taxes, regulatory costs, government spending, and energy costs, the report covers 44 individual factors. One aspect of the research conducted by the Small Business & Entrepreneurship Council is the correlation that they found between sustainability costs and small business survival. A March 2012 survey that they cite in TechnoMetrica states that 41 percent of small business owners said higher prices were affecting their plans to hire.

Sutton and Rao (2014) examined over 400 companies. Their premise was that, although situations vary greatly, there are common lessons learned. One is that many entrepreneurs take on too much, too soon. They also found that it is important to take the time to do things right, and forming a culture is important for success. Emphasizing the need for adaptive practices, they advocate flexible practices and roles for the sake of fostering an empowering culture. To achieve this goal it is important to use "hierarchy to defeat bureaucracy." They claim that more knowledge at the start of a new venture can actually be a hindrance because of biases and the "success syndrome." However, an inexperienced entrepreneur may in fact be more receptive to iterative learning and open-mindedness.

Kumar (2010) found that marketing to grow or scale a business can be approached from two main perspectives regarding timing of expansion. The question is a paradox: whether to grow in advance of demand with the hopes of capturing maximum market share and minimizing foregone revenue; or, more conservatively, does the business grow when demand already exists? Increasing the scale of a business in advance of real demand relies on careful forecasting and represents a greater risk. However, waiting to grow could result in the business losing customers to competitors and potentially missing an entire swing in the market. While many factors go into the decision to grow a business, forecasts are ultimately only accurate to a certain extent, and as new ventures are formed they must decide how they will approach such an important part of the lives of their businesses.. Consequently, the environment of forecasting and planning has changed because forecast-based planning methods and/ or budget-oriented planning are not sufficient for any business to be sustainable.

Of particular interest for this paper, Walsh (2015) refers to MetLife suing a panel of regulators to fight its designation as "systemically important," making it the first financial company to go to court over the issue since the government started singling out too-big-to-fail institutions in an effort to stem future financial crises. MetLife did not like the negative connotation of being singled out for stricter oversight while other similar businesses were not. In short, scalability appeared to be a marketing liability.

Kumar (2010) notes that scalability in an entity begins by addressing four concepts: customer value proposition, business attribute analysis, change capacity, and market analysis. Understanding CVP (the customer value proposition) is an important determinant of scalability because it reveals just how the entity is adding value while driving return business. Changing CVP can reduce the customer base and diminish branding. Business attribute analysis reflects the need for the entity to gain an awareness of just what differentiates it from the competition. Change capacity can be used to evaluate sustainability. Change capacity specifically looks at the tradeoffs of increasing capacity or scalability. Many businesses benefit by being able to offer and promote high levels of customer support, flexibility, customization, and response, while change capacity seeks to address just how much scaling can be accommodated before any of these core attributes begin to diminish. Kumar refers to capacity of this nature in stating that high performance entities rely on high-performance people.

## Future Work in Progress: Case Studies in Scalability

The authors intend to include several short case studies of small service and product oriented businesses which illustrate successful and unsuccessful examples of the effects of scalability in the marketing of small businesses.

## Scalability across Different Businesses

The scalability of businesses is affected by the industries in which they operate. Some business models are easier to scale, while others can be much more challenging. As found by Sutton and Rao (2014), culture and structure are often more important than anything else. Businesses that produce a tangible product, like most types of consumer purchased goods, are inherently simpler to scale. Small ventures of this type have many opportunities to achieve economies of scale, cost savings, and increased efficiencies. However, scaling up to achieve greater efficiencies and production levels exposes the entity to problems, such as decreased quality, lessened control over processes, and increased complexity. Another important aspect of scaling up for small businesses is the customer value perception (CVP), where perceptions of organizations may become negative when they grow.

Entities that offer services, particularly small businesses, are more complicated to scale. Both product and service businesses require intelligent leaders, but it is this aspect of the organization that can make a service-oriented new venture difficult to scale. Bringing unique intelligence, experience, and passion to the organization, a small venture offering services must maintain these factors as they scale up. Services offered by small ventures are known for being customizable, personal, flexible, and of high quality. These are the salient attributes which smaller service providers use to promote themselves to their target markets.

## Conclusions

Scalability describes an aspect in the marketing of many small businesses that often involves intangible influences. Frequently focused on growth and increased revenue, small businesses offer an intrinsic value that is easily overlooked, and it should be used for marketing purposes. Providing flexibility, customizability, personality, and quality, small businesses need to consider that some aspects of their value proposition might be irreplaceable in growth. The very nature of small businesses and their approaches to value can represent traits desired by consumers. Therefore, sustainable and consistent value in some cases will be achieved only through maintaining current business operations and foregoing growth opportunities.

Views of business models continue to change, and with a growing concern about small business survival in the face of big business economies of scale, the importance of recognizing just where a business belongs in terms of its size or scale is more essential. A conclusion can be reached that the spirit and energy that enabled small entrepreneurs to start service businesses are difficult to replicate. Thus, some businesses might not be scalable without changing the aspects that have defined them in their marketing strategies. In other words, scalability can be a marketing liability for these businesses.

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**Relevance to Marketing Educators, Researchers and Practitioners:** Providing flexibility, customizability, personality, and quality, small businesses need to consider that some aspects of their value proposition might be irreplaceable in growth. The very nature of small businesses and their approaches to value can represent traits desired by consumers. Therefore, sustainable and consistent value in some cases will be achieved only through maintaining current business operations and foregoing growth opportunities.

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