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Inside the engine room: Debunking the myths of scaling a new business

Demystifying the narrative around five fundamental elements will help start-ups and scale-ups grow efficiently and continuously.

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Building a business is hard, and doing so in a start-up or scale-up context is even harder. Building a successful start-up is akin to building a rocket ship: the team setting the direction (market and product–market fit), growth engines (go-to-market [GTM] strategy and product), crew (talent and leadership), and capabilities (strategy and planning) are essential to helping the start-up reach new heights. Another critical element is the engine room: the team, tools, and systems that produce the product and grow the business.

The recent publication “From start-up to centaur: Leadership lessons on scaling”[1] uses insights from McKinsey research on successful software-as-a-service (SaaS) companies[2] to highlight the tactics these start-ups used to scale and excel. These lessons aren’t exclusive to SaaS companies; start-ups and scale-ups in any industry can use these techniques to be successful. Based on this research, five elements of an engine room prevailed as the most essential for successful scaling journeys: the ability to overinvest in attracting and developing talent, to adapt and pivot to optimize product–market fit, to set a clear plan for growth, to organize for scale, and to establish multiple growth engines. However, these five core elements often seem overly complicated due to the common myths attached to scaling start-ups—that they’re near-sighted and shoot from the hip, for example.

This piece expounds on these engine room essentials and dispels the five myths that mystify building a new business to offer invaluable lessons on scaling for founder CEOs[3] and start-ups in any industry—as well as for venture capitalists (VCs) and growth investors who want to learn how scalable a potential investment opportunity is and what growing pains the investment may experience once it becomes part of the portfolio.

The components within the engine room

When starting a company, founders should consider what organizational setup and talent are required to develop, produce, deliver, maintain, and enhance their product offering. Further, they should decide the best way to recruit, manage, and build capabilities and how to foster company culture. The engine room contains the elements that emerge from the decisions in these early stages and hosts the essential behaviors, practices, and skills a company needs to navigate and sustain successful growth.

For example, the right talent and leadership and a governance structure that allows for repeatable processes, core values, and clear benchmarks along the growth journey are all important components that fuel growth and would therefore be hosted within the engine room. These elements help companies reach their aspirations and scale intentionally and sustainably. Without them, a start-up risks stalling out and failing to achieve its full potential.

McKinsey research has found several common organizational challenges in building businesses with start-ups that affect an engine room and its capabilities. For example, talent can be an afterthought during business building. Establishing a strong talent strategy is one of the most critical early activities for a new business, and successful scale-ups make their talent engines their priority. Companies that de-emphasize the importance of this step may find that their workforce and managers do not possess the skills needed to take the company to the next level, causing them to experience more attrition and scramble to find the right talent to fill their skill gaps.

[1] Tomas Beerthuis, Claudy Jules, Shahar Markovitch, and Charlotte Seiler, “From start-up to centaur: Leadership lessons on scaling,” McKinsey, April 29, 2024.
[2] McKinsey researched 25 B2B SaaS companies that have surpassed $100 million in annual recurring revenue.
[3] For more lessons on scaling for founder CEOs, see Claudy Jules, Alok Kshirsagar, and Kate Lloyd George, “Scaling up: How founder CEOs and teams can go beyond aspiration to ascent,” McKinsey, November 9, 2022.

Scale-ups may approach their engine rooms differently, but McKinsey research found that five essential elements were consistent among successful companies, and dispelling the common myths about them is vital for incumbents' success.

Myth 1: Experienced talent will likely join at later stages

For early-stage companies, the team can undoubtedly make or break success. In fact, VCs have noted that, more than other factors—including the business plan, growth potential, market size, and product—a start-up's talent is the main indicator of whether it will thrive.[4] Moreover, of the evaluated founder CEOs in McKinsey's research, close to 70 percent consider talent development,[5] talent engagement, and culture to be their competitive advantage. Successful founder CEOs are deliberate about their hiring, taking time to find the right candidates that could help them scale. They also continuously develop their teams' skill sets to allow their companies to reach the next stage of growth.

While many start-ups pay significant attention to hiring the right talent, the best start-ups emphasize growing and developing their teams. By doing so, they create a stronger company and have more bandwidth to adapt to ever-changing circumstances, further the goals of the company, and foster skills that can help it launch new products and navigate complex initiatives (see sidebar, "Leadership creates company culture"). Successful scale-ups use a mix of talent-focused best practices to enable their teams to succeed, including robust talent management with formal performance reviews and clear links to compensation, a rigorous development-first culture with opportunities for employees to test and learn new skills within their roles, and a clear emphasis on employee experience to ensure all employees maintain energy and purpose in delivering the company mission.

[4] Paul Gompers et al., "How venture capitalists make decisions," *Harvard Business Review*, March–April 2021.
[5] For more on investing in leadership development, see Alok Kshirsagar, Arne Gast, Claudy Jules, and Fleur Tonies, "Ready. Set. Scale. Shaping leaders for hypergrowth," McKinsey, May 22, 2024.

Leadership creates company culture

Employees who believe in the mission of the company are vital for helping businesses move forward harmoniously. High-growth companies ensure alignment between the corporate culture and the values that are important to individuals within departments. Of course, this balance doesn't happen automatically. Leaders are responsible for building corporate culture and fostering it throughout every stage of growth.

When Netflix[1] was scaling, for example, it was commended for its approach to talent and the adjustments it made to ensure productivity.[2] Among several tactics, it adjusted meetings to be shorter and more action-oriented, which helped improved its efficiency and transparency. Employees had access to almost all meeting recordings, and employees were encouraged to speak up if they didn't understand something or disagreed. Any questions they had were answered within 24 hours via messaging channels. A cross-functional team was also in charge of evaluating meeting efficacy through the recordings and followed up with stakeholders whenever necessary to make improvements. Over time, the volume of meetings was reduced by more than 60 percent, and 85 percent of employees found the newly designed meetings more effective.

[1] Netflix was not one of the 25 B2B software-as-a-service companies researched for this piece.
[2] Patty McCord, "How Netflix reinvented HR," *Harvard Business Review*, January–February 2014.

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For example, fraud management company Riskified invested in developing internal candidates for sales and client development roles, creating an internal academy that allows employees to grow and learn on the job. Another company noted that it focused on maintaining a bench of top product talent by using a differentiated employee value proposition that focused on talent development and culture, which also allowed them to easily launch new product expansions and learn from each iteration.

Myth 2: Start-ups only pivot when they have to

One common belief about start-ups is that they only pivot their strategy when there's a problem or challenge to overcome. McKinsey research finds a different reality for successful companies: these start-ups demonstrate a continuous evolution, adapting and evolving their strategies continuously and pivoting when they see an opportunity, even if things are going well.

Successful start-ups also iterate on their market, buyer, strategy, and business model in addition to their products, which allows them to seize opportunities more actively. Some companies even established a new subsidiary as they entered fresh markets and geographies to further accelerate growth. These companies exemplify agility and resilience early on and were able to maintain these traits even at advanced stages of their growth.

For example, data aggregate company Similarweb realized the potential for greater success by shifting their market focus from B2C to B2B, despite doing well in a B2C market. By offering their B2B product for free initially and validating it, they generated market interest and expanded their product line to meet growing demand. Moreover, by listening to the market, they found that some businesses were selling the data they produced, so they pivoted to sell the data themselves and enter that lucrative market. Similarweb's success story demonstrates the importance of being adaptable and willing to make bold moves to stay competitive, even when things seem to be going well.

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Research indicates that top-performing start-ups and scale-ups also modify their operating models as they experience rapid growth to meet the needs of a given phase of maturity. For example, web advertising company Taboola frequently altered its GTM sales team structure to meet the growth requirements of each stage effectively. Additionally, when marketing software company Natural Intelligence's market evolved, it iterated between a shared-platform organizational model and a business line–focused model to create a customer-centric strategy. This model allowed them to have frequent contact with customers and deliver high-quality services through client management agents, who strengthened customer relationships and loyalty. These efforts allowed Natural Intelligence to not only attract new customers but also maintain clients for up to ten years without long-term contracts. Finally, when app monetization company ironSource created new offerings, it established new units and subsidiaries to accelerate the development and growth of these products.

Myth 3: Structured strategies are only for large companies

For successful scale-ups, having a clear growth plan is essential. A common belief about start-ups is that strategy is only relevant for larger enterprises and that start-ups can survive by trial and error, executing blindly and pivoting constantly. However, the most successful start-ups have a clear strategic understanding of how to grow, outmaneuver competitors, win in the market, and target customer segments.

For example, retention marketing company Yotpo realized early on that its product served a niche audience, and it wanted to expand its total addressable market. Yotpo hired a senior strategy vice president, organized regular off-site events for cofounders, and spent considerable time thinking through its plan to advance further. Eventually, the company decided on a multiproduct approach, which allowed it to expand its offerings to five unique products. By carefully strategizing its next move instead of rolling out one product at a time or staying on the same path, Yotpo found several avenues for growth that drove higher revenues.

Strategic clarity enables focused execution and decision making, propelling these start-ups to market leadership positions. Aligning the organization around this strategy and investing in structured strategic-planning processes, such as quarterly planning processes with cascaded objectives and goalposts, are crucial to realizing positive, long-lasting results. Companies can also implement effective performance management systems to ensure employees are rewarded based on their ability to deliver on these goals.

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Myth 4: Achieving immediate goals should be the main focus for start-ups

Rather than solely aiming for immediately reachable goals, companies need to think systematically about growth. High-growth companies strike a delicate balance between addressing immediate needs and setting the course for future expansion. They have a clear sense of what distinguishes them, set bold aspirations, and consider a portfolio of growth initiatives across several time periods. While the reality of a start-up demands a strong focus on the present state of the company, a lack of foresight will inevitably lead to "organizational debt," which occurs when a company becomes too bureaucratic to run efficiently and causes its processes, structure, talent, culture, and other vital aspects to break down every one or two years as each scaling phase presents new challenges.

To hyperscale, companies need to prepare the organization for new phases of growth and be ready to capture a sudden increase in demand or unique growth opportunities. For example, one company that experienced rapid growth established a data analytics team to track the health of the organization by measuring the efficiency of all functions, including sales, customer success, and human resources. It prioritized building an operating model that could react quickly to emerging changes, which helped the company stay ahead of growth so it could expand its teams, processes, and capabilities more effectively and ahead of time.

Another company received significant funding, which provided it an opportunity to hire new talent and revamp its organizational structure. But hiring exceptional talent takes time, so waiting to hire until the funding round was complete would stall progress. So as soon as the funding round began and the company received positive signals, the founders and management team identified critical roles and hiring needs and set up their recruiting pipeline for the next six to 12 months. These efforts allowed them to manage day-to-day operations while keeping the future of their employees and customers in mind.

Myth 5: It's better to invest in only one product or growth engine at a time

Maintaining the pace of growth becomes increasingly difficult as a start-up scales. For instance, to double a $50 million start-up with 20 percent churn, the company would need to generate $60 million in sales, or three times more than the previous year's sales, while reducing churn. To achieve this pace of growth, successful companies rely on more than one strategic growth driver; they deploy multiple growth strategies at once, including expanding across geographies, diversifying product lines, building robust partnerships, launching brand marketing, prioritizing customer success, and designing M&A strategies. Having the capacity to deploy and manage multiple growth strategies simultaneously allows start-ups to advance in various directions.

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A multifaceted approach is necessary but challenging—it introduces significant complexity and makes scaling the organization more difficult. It also takes time. Each growth strategy is nontrivial and could require a yearly or multiyear focus. As such, deploying multiple growth engines effectively is complex and requires a strong leadership bench[6] and organizational capabilities. Nevertheless, top performers navigate these challenges effectively by applying a methodical approach to growth efforts while creating cross-departmental cooperation that helps propel sustained growth. During market expansion, for example, successful companies doubled their headcount and leadership prior to expanding geographically and maintained a steady rate of hiring during the expansion. A robust talent-acquisition plan that includes sourcing, recruiting, and onboarding is vital to expanding across geographies and establishing a foothold in the new market.

For example, freight audit and payment company Trax exemplified this when it developed a formula on how to open new offices in new geographies, and ironSource created a mini start-up within their start-up to launch new business opportunities.

Building and scaling a start-up is difficult. While every company will take a different path, fostering the capabilities within the engine room allows companies to chart a course to scale and grow with the skills and tools needed to succeed. Founders and investors can proactively develop these capabilities within their companies to support growth in the short- and long-term and ultimately allow companies to scale faster and better.

[6] For more on leading through hypergrowth, see “Ready. Set. Scale.,” May 22, 2024.

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