5 Smart Strategies of Super Startups

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1. Build HR systems early

"You might as well invest money where it counts, which is people"

Human resources issues are widely neglected in small or emerging firms. It's not because entrepreneurs don't care about staffing. Rather, most founders of high-growth businesses have a background in sales, finance or engineering, which can lead to an under appreciation of the HR function. Still, 88% of the leaders of this year's PROFIT HOT 50 companies say the ability to attract and retain great staff has been critical to achieving super growth. To find and keep top-notch people, the smartest companies put HR systems, tools and personnel in place right from Day 1.

With the skills and experience gained as a partner at consulting firm Deloitte & Touche, Lynn Cooke has implemented Fortune 500-worthy HR policies at 360 Visibility Inc. (No. 16 on the 2006 HOT 50), which provides outsourced IT to small and mid-sized firms. "Right from the beginning, we've had group RRSPs, employee share ownership and a bonus scheme," she says. Cooke also practices open-book management: "You need to be able to explain to them why they aren't getting a big bonus this summer." Staff at 360 Visibility also enjoy profit-sharing, a formalized telecommuting program and flex-time.

To some, all these policies and programs might seem like too much work. Not to Cooke. "I didn't see it as a huge administrative undertaking," she says. "Having a group RRSP is one extra cheque you have to cut a month." But are these tactics really necessary when Cooke has just seven full-time staff? "In order to attract skilled people," she says, "we had to have these types of perks." Her telecommuting policy meant she was able to hire a top-notch account executive who lives 90 kilometers from 360 Visibility's headquarters in Markham, Ont. "I have to get the best," says Cooke. "I don't have the time or the resources to hire junior people to train."

Of course, some entrepreneurs are neither able nor inclined to implement people policies. That's why, on the advice of his angel investor, Robert Masse hired a consultant to help with HR at his Montreal-based IT security company, GoSecure Inc. (No. 46).

For less than $2,000 a month, HR management at GoSecure is no longer "half-assed," says Masse. The company boasts many best people practices, including formalized employee offer letters and contracts; regular performance reviews, complete with proper documentation; and written job descriptions for every position. The consultant also takes care of those dreaded and time-consuming job interviews. "I can't do this stuff well," says Masse. "It's not what makes me wake up every morning."

Ultimately, Masse is confident that he's getting good ROI. "She isn't directly responsible for turnover," he says of his HR consultant, "but her efforts contribute to our rate, which is almost none. You might as well invest money where it counts, which is people."

2. Make acquisitions

"It's the easiest and cheapest way to expand"

Growth by acquisition isn't a wildly popular strategy among entrepreneurs. Many are hung up on the idea that their company's products and assets ought to be brand new in order to be truly their own. Others fear that buying another company will be overly complex and time-consuming. But despite their youth, four HOT 50 companies have built their businesses by buying others.

Jim Sheehan, president of Oshawa, Ont.-based Trillium College (No. 23), says that acquiring schools has been "the easiest and cheapest way to expand." His firm provides diploma programs to aspiring dental hygienists, office assistants, network administrators and the like out of four Ontario locations. Rather than building schools from scratch, Sheehan finds existing schools in financial distress and buys their assets — including students — for a small fraction of their real value. (He recently purchased $320,000 worth of one failing school's equipment from the bank — everything from the carpets to the LCD projectors-for just $7,000.)

"What I do is not very difficult. Anyone can do it," insists Sheehan, who says he gives struggling business owners an exit strategy. "I make their phone calls go away, make the bank stop calling and make their blood pressure go down." Sheehan advises entrepreneurs embarking on an acquisition to hire a lawyer experienced in takeovers. "The deal should not be done on a handshake because there can be too many ghosts in the closet."

One of the most compelling benefits of buying an existing company is quick access to a market. Nesmith Chingcuanco, whose Toronto-based firm Devhaus Corp. (No. 17) operates child-care centres, didn't want to wait the three years required to build centres from scratch. Chingcuanco advertised in daycare magazines and used agents to help him find centres for sale. He investigated six before he bought the first one, using personal funds and capital from family and friends.

Unlike Trillium College, when Devhaus buys a company, the deal includes the firm's employees. "We believe in keeping people and training them," says Chingcuanco. This practice eliminates the trouble of hiring from scratch, yet comes with inherent challenges. "The first year, you're feeling each other out," he says. "It takes time to build trust." But even trust doesn't solve the issue of getting staff up to speed with the Devhaus way. In order to educate acquired employees in its operational practices, Devhaus conducts a one-week in-house training program and also sends some employees on external courses.

Chingcuanco is so confident that growth by acquisition is the right strategy for his firm that he plans to apply it stateside. "If we go to the U.S.," he says, "we'll definitely acquire a centre there to learn the local market

3. Try outsourcing

"We want to focus on what we do best"

If "outsourcing" brings to mind only massive Asian call centres or manufacturing plants that do work for the largest corporations, then you'll be surprised at the leverage achieved by HOT 50 companies that delegate jobs traditionally done in-house to outside parties. 360 Visibility's Lynn Cooke wanted the best talent available to develop marketing strategy and generate sales leads through a website and marketing seminars. "Could I afford the high-priced salary of a full-time marketing director, plus a team? No." Moreover, Cooke explains, "We want to focus on what we do best. We do IT consulting the best." So, she turned to outsourcing.

Cooke soon found a company that could deftly handle her marketing needs and had experience with firms similar to her own, even though its headquarters are 3,400 km from 360's home in a Toronto suburb. "We turned to the best person in the industry, who happens to be out in Vancouver," she says. "I obviously have local marketing people here who execute, [including her executive assistant and a marketing assistant] but from a strategic, driving-the-campaign point of view, [the marketing firm] takes care of all that."

Some entrepreneurs will never outsource; they don't like to give up control, or they are convinced that it can't be cost-effective. Cooke believes otherwise. "It's at least 50% less than hiring one person, and you'd only get that one person," she says. "I get a range of resources." Plus, using an external firm requires less of a commitment than a full-time employee. Not happy with your marketing director? Firing her is complex and costly. But when you outsource a business function, says Cooke, "it's completely up to you if and how you want to go forward."

4. Choose partners wisely

"We went into business together because our skill sets were so complementary"

From 14-hour workdays to the stress of wondering if you'll make payroll, starting and running a fast-growth company can be an overwhelmingly tough job. Having a business partner helps. Almost 60% of the companies on this year's HOT 50 were founded by a pair (or trio) of ambitious entrepreneurs. But a business partner who simply shares the workload is nowhere near as valuable as one whose skills and background complement yours.

Adam Cooper, Kalpesh Rathod and Deland Jessop met in an MBA program at the University of Western Ontario's Richard Ivey School of Business, and conceived the idea for their company while chatting about their previous careers over beer. Cooper had worked in the standardized testing industry; Rathod was a tech whiz with experience in e-commerce; and Jessop had spent years as a police officer. They were the perfect team to create Mississauga, Ont.-based Dekalam Hire Learning Inc. (No. 11), a provider of online training to help people pass pre-employment exams for positions in policing, firefighting and the public service.

"We went into business together because our skill sets were so complementary," says Cooper. The partners divide their labour in a way that makes maximum use of their skills. When there's a problem with one of the firm's many websites, Rathod, the IT guy, takes care of it; if a customer has specific questions about being a police officer, Jessop, the former cop, replies.

Dovetailing skills powers the HOT 50 partnership of Will Black and Robert Zagorsky, co-founders of Calgary-based iON Secured Networks Inc. (No. 32), an IT security firm. "I do sales," explains Zagorsky. "Will sticks to the technical side of things." They typically come to business decisions by giving final say to the partner with the most expertise in the area in question.

Rivaling the importance of harmonizing partners' skills is developing trust and communication between them. "There are times when you're working in different provinces or even different countries, so you're basically entrusting your livelihood to your partner," notes Black, who believes he's "the most untrusting person that you could probably ever meet" because of his background in security. "It took me a long time to get over." Black achieved a healthy trust in his partner through constant communication. "The first year, it rivalled a marriage," recalls Zagorsky. "We're always on the phone, strategizing and working through issues."

5. Develop your product pipeline

"If you think 'I've built it, they'll come', you won't be in business for long"

One-trick ponies can make a big splash and enjoy fast growth, but they don't last long. That's why smart young firms don't delay the search for their next big thing.

A well-developed product pipeline "is fundamental," says Joyce Groote, CEO of Vancouver-based Holey Soles Holdings Ltd., which rode the foam footwear wave (think hot pink garden clogs) to the top of the 2006 PROFIT HOT 50. "I've always known there would be an end to the product life cycle," she says. "If you sit back and think 'I've built it, they'll come', you won't be in business for long."

That's why, despite the frenzy that resulted when her shoes became this year's dominant fashion fad, Groote and her team found time to research new product ideas, hire consultants and designers, and finally probe retailers "to determine which products have legs." The result: a line of foam-based accessories, including hats and handbags that should reach warehouses in October. "I would have loved to have things ready a little sooner," admits Groote, "but it was too important to get it right."

Anjou, Que.-based FinTaxi LP achieved second place on the HOT 50 by lending money to Quebec cabbies to buy their taxi permits. The loans will always be the firm's primary source of revenue, says president Serge Mâsse, but FinTaxi recently introduced a new product: long-term disability and life insurance for taxi drivers. Mâsse admits that the insurance is currently a loss leader and will never represent more than 5% of revenue, but, he says, it will protect if not increase FinTaxi's share of its existing market — a goal every young company should consider for the top of the to-do list.