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Fast 100

Fast-growth thrills, along with perils

Chase for growth entails risk, reward

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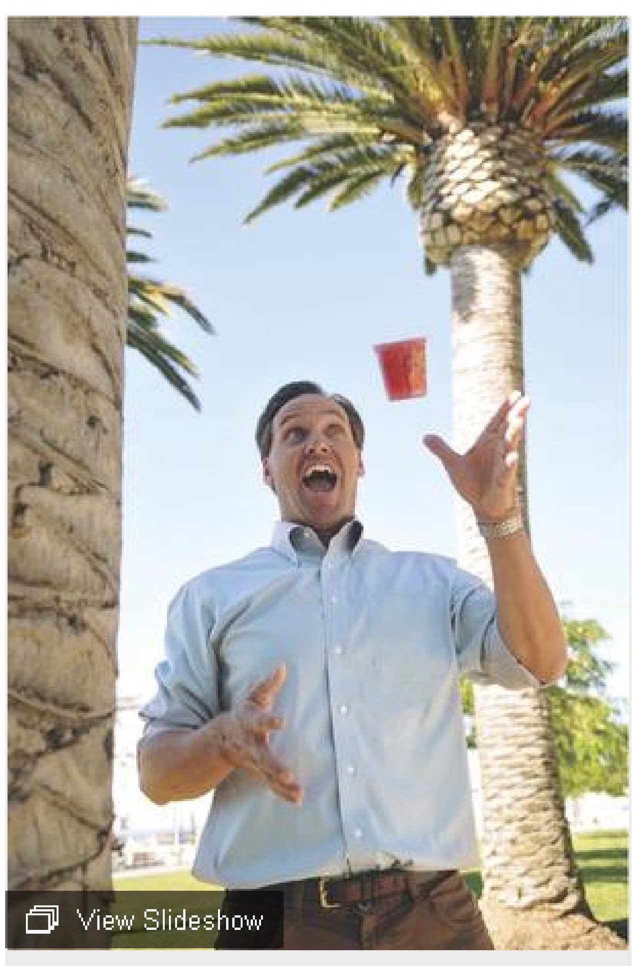

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Photo: Spencer Brown

Dan Hoskins

Speed thrills in every realm: Cars, Blue Angels jets, company growth.

AdRoll, the fastest-growing company on our Bay Area survey, zoomed from $221,000 in 2009 revenue to $12.4 million in 2011, powered by CEO Aaron Bell and 40 other employees, human engines of growth. AdRoll, based in San Francisco, had revenue last year that was 56 times its 2009 revenue.

Build Group Inc. saw revenue explode from $2.9 million in 2009 to $81 million in 2011 under the leadership of CEO Ross Edwards Jr. Evidently, the building industry slump has transformed into a building industry spike.

Strap on your five-point harness as you read this year's stories about dizzying growth.

In the spirit of speed, number 42 on our list, Rocket Science Consulting Group, launched from $1.5 million in 2009 to $3.7 million last year with pilot CEO Matthew McGraw.

Growth is always good, yes? Maybe, but too-fast growth or unexpected hiccups can also careen out of control and jeopardize the company. And rarely is the growth without course corrections or major mistakes.

Take Dan Hoskins, who co-founded Sundia Corp. in 2004 and dreamed of watermelon-juiced growth. He wanted to turn melons into sales. In theory, the juice of watermelon, one of America's five favorite fruits along with oranges, apples, grapes and bananas, ought to generate riches, said CEO Hoskins. For two years, from 2005 to 2007, Sundia squeezed $1 million worth of watermelons into bottles. Customers sampled watermelon juice — once — then soured on seconds.

"The product just never took hold," Hoskins said. "We had distribution in 2,500 grocery stores in the U.S. and Canada. Sales were winding down. We lost money."

Fortunately, the company's convenience fruit cups had a sales geyser.

"We had a course correction with watermelon juice," Hoskins said. "As an entrepreneur, you have to be flexible. Be quick to identify that it's not going to work." Sundia's sales, $23 million in 2011, will gush to $40 million by the end of 2012 with only nine employees and 10 contractors.

Jessica Herrin, CEO of Stella & Dot, which sells jewelry and accessories through a force of some 12,000 independent contractors, steered growth from a startup to an expected $200 million this year.

"There was a period when our revenues grew faster than our company," Herrin recalls, noting that parallel growth of infrastructure is essential. "We had inventory issues," she said. "Back orders. It's painful to be out-of-stock."

Jewelry design is fickle, tough to forecast. "You need a crystal ball to determine what style will sell," Herrin said.

Rarely does a founder view surging growth and hanker to decelerate. Instead, outside advisers such as lawyers and accountants urge gentler, wiser growth that can be sustained.

But fast growth can be managed well, according to Jim Atwell, national managing partner and West Coast leader for Deloitte & Touche's emerging growth company practice.

Fast growth entails risk, Atwell said. The top risk is founders who don't have the skills needed to lead a skyrocketing company.

"Ninety percent of the time, they're not the right people," Atwell said.

As a VC-funded company reaches its second or third funding round, investors "look for gray-haired management," Atwell said. "The 28-year-old founder may find himself with a 50-year-old president.

Of 10 typical VC-backed companies, "two succeed, five or six are acquired, a couple go out of business. Usually the product doesn't have demand."

That was the case for Assurz, launched in about 2005 to provide online warranties for consumer products.

The Redwood City-based company raised about $12 million in venture capital and initially grew fast, said attorney Danny Krebs, partner of San Francisco-based Alliance Counsel, which specializes in fast-growth tech companies. Assurz took on another $1.5 million in venture debt.

"People did not buy coverage. They had difficulties building it out," Krebs said. Assurz fizzled and filed for bankruptcy in 2008.

The key to steering through fast growth is hiring the right people, said Alex Bender, audit partner in Ernst & Young's San Francisco office and technology industry leader on the West Coast. Companies falter when they are "not investing in people, processes or systems to support where the company is going," Bender said, suggesting anticipatory strategy, managing today for a fast-growth company's future needs.

> James Dunn is a senior editor at the San Francisco Business Times.

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