software executive magazine

DECEMBER 2017

Inside Sales At A SaaS Pioneer

As SaaS adoption speeds up, what can developers learn from cloud trailblazer Digitech Systems?

p. 16

SHAWN MORRIS
Director of Sales
Digitech Systems

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DR. SHERRY WALLING
LICENSED PSYCHOLOGIST AND FOUNDER OF ZENFOUNDER

Who isn't feeling stressed with Q4 wrapping up and the holidays approaching? Dr. Sherry Walling knows what this stress can do to software executives. Her life's work is to help high-performing professionals maintain personal sanity and find a sense of fulfillment. She's married to a serial entrepreneur so she's seen firsthand what it's like in the trenches of the tech world. On page 42, Walling calls out some of the causes, symptoms, and treatments for executive burnout.

Burnout: The Subtle Shift You Can't Afford To Ignore . . . . p. 42

IVAN RUZIC VP, THE CORUM GROUP

When Ivan Ruzic delivered a keynote at our ISV Insights conference in Philadelphia back in October, his presentation stole the show. His 30+ years in software have included virtually every senior executive position at both startups and mature companies across the globe. He's successfully sold his own software companies, and he's the guy you want in your corner when you're ready to sell yours. Check out page 8 where Ruzic provides a quick-hit list of ways you can increase your software company's value today.

8 Ways To Increase The Value Of Your Software Company . . . . p. 8

QUANG HOANG COFOUNDER/CEO, PLATO

Ever wish you could pick up the phone and ask an engineering manager at Google how you should deal with a developer's drop in performance? Quang Hoang, cofounder and CEO of Plato, can make that intro for you. His network includes engineering leaders at companies like Slack, Box, Google, and Zendesk. He's a Y Combinator grad who knows firsthand how to turn young, aspiring engineers into rock stars. Tear out pages 34-35 about the importance of mentoring programs and hand it to your engineering managers and your best young developers.

How Good Engineering Managers Become Great Engineering Leaders . . p. 34

WILL CORDES FOUNDER, CORDES CONSULTING

Calling Will Cordes a "consultant" is an understatement. Yes, he provides outsourced CFO and consulting services for software businesses. But he also leads corporate development and M&A for a Thoma Bravo-backed SaaS platform, and he's a successful investor himself (with exits like Dollar Shave Club in his portfolio). On pages 32-33 he explains why financial modeling should include functional leaders across the business, not just the CFO. He spells out six focus areas that should shape every software company's financial model.

6 Focus Areas For Shaping A SaaS Financial Model . . . . p. 32

Responsible, Sustainable, "Regular" Software Businesses

ABBY SORENSEN Executive Editor

Shortly after I returned to my alma mater as a part-time assistant golf coach, I wrote our first team handbook. Page one lists two goals for each season: Earn a bid to the NCAA Division III National Championships and win the athletic department's team GPA award. When the handbook was first distributed, we gave the team a few days to read it and submit feedback. I didn't expect these goals to be questioned (but I did anticipate pushback on our "no cell phones at team meals, meetings, or practices" policy). Surprisingly, the senior captain on our men's team wanted to revise our goals. He wanted to *win* a national championship, not just compete there.

It's hard to disagree with a leader who would go on to be an All-American and rewrite our program's record book. But he is in the top 1 percent of all of the golfers I'll ever coach. Right now, our golf team isn't trying to be the best in the nation. Eventually I hope we will win at that level, but for now I'd be happy winning a conference championship. That doesn't mean we need to set the bar higher; it just means we have realistic, attainable expectations for the student-athletes on our regular golf team.

There is a point to this anecdote, other than the fact that I love talking about coaching. When I was at the Business of Software conference in September, Wildbit co-founder/CEO Natalie Nagele had one of the best slides of the entire event. During her talk, "Keeping The Fun In Your Business Life," she called out the limited framework for defining software companies — you're either a startup, lifestyle business, or unicorn. Her slide with the words "regular business," and her explanation of Wildbit's desire to be just that, got a round of applause.

Wildbit has been in business for 16 years and has about 30 employees. It hosts an annual company retreat for employees from five countries, recently released a fourth product, and is experimenting with a 32-hour work week (read more about that on our website). The company is organically funded, too.

It seems to me that being a "regular software business" like Wildbit has an unfairly negative connotation. Why is that? Consider this:

- According to OpenView's *SaaS Benchmarks Report* published in October 2017, **SaaS startups have a 0.1 percent chance of reaching $100M in five years**. The report concludes, "For far too long, the tech ecosystem has focused on growth at all costs and glorified so-called unicorns. These companies are often used as benchmarks for success, leading followers to grow unsustainably and irresponsibly. It's time that software startups start benchmarking themselves against their peer group and setting realistic expectations for growth and spend."
- According to The SaaS Report's *The SaaS Industry*, published in September 2017, there are only about 50 publicly traded pure-play SaaS companies (and these are the ones that get most of the headlines). **There are another 10,000 private SaaS companies, and most of these are generating less than $3 million in annual revenue**.

Being a sustainable software business is commendable, whether you're a startup or a mature company, whether you're bootstrapped or chasing VC money, or whether your software is cloud-based or on-premises. A company doesn't have to be the All-American caliber golfer of the software world to be considered successful. In 2018, your resolution should be to do the best you can for your business. Maybe that's triple-digit growth. Or maybe it's releasing a new version ahead of schedule. As *Software Executive* magazine looks ahead to our second year of publishing, we want to make sure we're writing about how regular software businesses can continue to grow sustainably and responsibly.

Abby Sorensen

➔ Have a response to our experts' answers?
Send us an email to atb@SoftwareExecutiveMag.com.

Software Executive has yet to talk to a software company that claims to have 100 percent effective internal communication 100 percent of the time (if you are that company, please shoot us an email and tell us how you're pulling it off!). We asked our editorial advisory board to sound off on how they communicate across teams to streamline processes and ensure projects are completed on time.

Q | **What advice do you have for other software companies who are struggling to communicate across different teams working on the same project?**

A A MULTIDISCIPLINARY APPROACH to projects works well in a software company. Put someone in charge of overseeing the project across units, with target dates for each task assigned to those who need to get it done, and a date for completion. Utilizing an agile approach and regular standups with those assigned targets to review progress allows for open communication and briefing. Everyone involved then knows what each other is doing and any targets that are behind can be debugged quickly. Each area is assigned its own targets and any necessary coordination is done on the spot, without lost time or added complexity. This method works exceptionally well with managers overseeing different departments or divisions. It also allows for an easy way for those on the project to stay briefed on any trouble spots bubbling up for quick resolution by the overall project leader. The quality of communication improves as does the overall outcome of the project.

STU SJOUWERMAN
is the founder and CEO of the integrated security awareness training and simulated phishing platform KnowBe4, Inc. Sjouwerman's fifth startup, KnowBe4, debuted on the 2016 Inc. 500 list at #139, the Deloitte Technology Fast 500 at #50, and #1 on the Tampa Bay Best Places to Work for 2017.

A ONCE THE PROJECT SCOPE HAS BEEN CLEARLY DEFINED UP FRONT, the key component is clear and immediate feedback. This can be accomplished across multiple locations and time zones in a daily meeting or call. No BS on this call. Key questions to address are: What were we supposed to get done for today? Did it get done? If not, why, and what do you need to get it done? How are we on other tasks? Our job as leaders is to set objectives, to help provide solutions, and to challenge our teams, all of which can be aided by daily meetings. Anything else is doing the job of a team member.

JOE MEYER
is the founder and CEO of CentralBOS, a cloud ERP software company based in Atlanta, GA. He is a serial entrepreneur and a retired U.S. Army major who has worked with large and startup enterprises in the telecom and financial technology sector since 1992.

A I THINK REGARDLESS OF A COMPANY'S STRUGGLES TODAY, we all need to focus on clarity and consistency. Building the tools necessary to facilitate clarity and consistency is easy. Keeping your team utilizing those tools is where the real challenge lies. I have found in my businesses it's not creativity that provides the best ROI, but the ability to execute simple processes with consistency. I utilize daily employee dashboards that require employees to pinpoint what is accelerating their productivity and effectiveness within the company, as well as what is holding them back. (Employees' dashboards are reviewed daily by their manager and upper management.) When necessary, comments in the dashboards are shared with other resources across the organization to enable communication flow for optimal performance. Additionally, each department utilizes assessment reports that capture all aspects of their department's projects and functions. These assessments are prioritized weekly to make certain that the department is dedicating resources only to the most important projects. If a business is struggling, it has been my experience that clarity and consistency are lacking.

DAVID WIBLE
is the president and CEO of Industry Weapon, a digital signage SaaS provider based in Pittsburgh, PA. Founded in 2003, the company has a global reseller program and has customers in more than 60 countries.

EAB

Editorial Advisory Board

Software Executive is happy to welcome
Jim Cloughley, David Duncan, and Michael Mittel
to our editorial advisory board!

8 Ways To Increase The Value Of Your Software Company

IVAN RUZIC Vice President, Corum Group

Whether you are considering selling in the short term or not, every software CEO wants to build a more valuable company. Here are some lessons I've learned from over three decades of helping software companies realize that value.

1 HIRE A QUALITY MANAGEMENT TEAM

When hiring management, consider what buyers and investors will want in terms of experience, credentials, ability to work well together, and how your team complements each other in skills and backgrounds. A great management team that is more than the sum of its parts gives buyers confidence in the future of your company and therefore increases its value.

2 PRIORITIZE CUSTOMER RETENTION

Minimizing churn is especially important for SaaS companies. As a subscription base becomes larger, any churn against that base becomes a large number. That loss of revenue requires more and more bookings from new customers to replace. As a result, growth slows. For many buyers, this will be the most important metric they look at.

3 BUILD A COMPELLING DEVELOPMENT ROAD MAP

Your road map should plan for products and features to delight current customers, capture new ones, and create opportunities for revenue. Look for disruptive trends you can leverage to benefit your market. Road maps that balance ambition and innovation with discipline and process are assets for you and potential acquirers.

4 DIVERSIFY YOUR CUSTOMER BASE

Having too many eggs in one basket is a risk that will make buyers hesitate. If 20 percent of your business comes from one loyal customer, it may well be a safe source of revenue. But what if they switch IT strategies, file for bankruptcy, or are acquired by someone using a competitor's products? You could be hit hard by the loss of that income, and it takes a lot of time to make it up. Keep your customers happy, but diversify your base.

5 SHIFT TO A SAAS MODEL

If you haven't made the leap, 2018 may be your year to move to SaaS. This means both a shift from a perpetual license to subscriptions, and from on-premises to hosted solutions. The subscription model eliminates "lumpy" perpetual revenue and increases predictability. Hosted solutions mean easier deployment using a common code base, eliminating version-control issues, and providing insight into customer usage, which creates opportunities to improve user satisfaction and retention rates.

6 BUILD ALLIANCES & PARTNERSHIPS

Many growing companies forget to play well with others because they are focused on building products and winning sales. Don't overlook the benefits of an ecosystem of business alliances and companies invested in your success. Alliances take time to build and maintain, but that's exactly why they create validation. A partner ecosystem will expand your value proposition, generate leads, extend your sales team, strengthen competitiveness, and make you an easier, safer decision for customers and acquirers.

7 EMPHASIZE YEAR-OVER-YEAR GROWTH

Profits versus growth is a classic value question, but growth is the safer bet. It provides a clear metric of your company's operations and market reception. If you're investing your earnings into expanding geographically, increasing market share, and beating out the competition, a buyer will see this growth as reflective of future performance — and after all, the future is what they're buying.

8 TIME YOUR SALE

You want to realize the value of your company when things are going well, inside the company and out. Obviously, it's better to sell when public markets are strong, demand is high, and valuations are attractive. But there are internal issues to consider — you shouldn't wait until health, relationships, or changes within your market degrade your value. Every company's timing is unique, but it is always better to sell too early than late.

#

SMB SaaS Trends For Q3 2017

SOURCE: Blissfully – www.blissfully.com/saas-trends

Blissfully recently published a report about SaaS adoption among SMBs. Increased usage and spending means it's a cutthroat world for new SaaS players who want a piece of the SMB pie, but all signs point to a continually growing opportunity in the SMB space.

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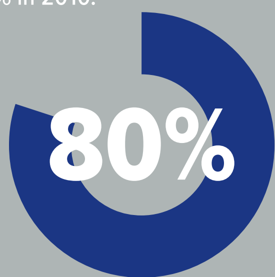
The average number of **PAID SAAS SUBSCRIPTIONS** used across the average SMB's entire organization.

The percentage of **NON-ENGINEERING SAAS SPEND**, an increase from just 10% in 2010.



1 in 7

EMPLOYEES IS MANAGING, or being the billing owner, for a SaaS product within their organization.

The percentage of the top 50 SaaS companies **BASED OUTSIDE OF SILICON VALLEY**.

$ $ $ $ $

15,500+

The average **AMOUNT SMBs SPEND** each month on SaaS products, a 4x increase in the past 2 years.

FastSensor

Slimming down and specializing its team after shifting from direct sales to a reseller model has set this SaaS company up to double revenue every quarter.

ABBY SORENSEN Executive Editor
@AbbySorensen_

Most founding stories start with a pain point. The idea for DropBox was formed when one of its co-founders kept forgetting a USB drive as a college student, which was long before the company hit a $1 billion annual revenue run rate. FastSensor was born trying to answer, “How do you get a customer to buy one more beer?” It’s evolved into a growing software startup doing much more than helping clients boost drink sales.

Four years ago, a large beverage manufacturer approached FastSensor looking for deeper insight into customer purchase behavior. Founder and CEO Daniel Bichara was already using IoT and sensor technologies to track things like refrigeration and distribution logistics, and he realized he could adapt this to analyze how a customer’s physical movement was indicative of purchase behavior. To do this, the solution uses sensors to track radio frequency signals emitted from personal devices. This triangulated data creates billions of vectors, which are shot up to the cloud and run through a machine-learning algorithm. The end result is a dashboard of data about things like unique visitors and customer frequency. Sounds like a complex way to sell a beer, right? Apply that tech to a retail environment, and this startup had an opportunity to provide actionable business intelligence at scale.

Make no mistake — FastSensor isn’t a hardware company. “Some people look at us and say, ‘Wait, you’re selling sensors,’ and we say, ‘No, we’re selling software and business intelligence and data and dashboards,’” says Kalon Welch, co-owner and EVP of business development. The solution has many moving parts, which is why it took nearly 45 people to build it. Today, the team is less than a fifth of that size. Once the product launched, a robust engineering team wasn’t necessary, and the team focused on creating other operational efficiencies. For example, the setup guide is designed to take 60 to 90 minutes to complete. That process was solid, but customers kept asking if the installation was done correctly even when it was, which caused unnecessary support calls. To streamline this, the company developed a self-check algorithm where a single click will tell the installer a success rate and identify any incorrect actions. This eliminated countless hours of customer support time. “Looking at the entire process and reducing friction points are how you create that exponential growth curve every business is looking for,” Welch says.

Two years after launching, FastSensor saw an internal friction point: its direct sales model. As of September 2016, FastSensor’s primary focus has been building an international reseller channel, and it already has upwards of 40 resellers across 10 countries and four continents. “I’ve built and managed multiple global direct sales teams, and the energy and pace compared to a reseller model are just painfully slow,” says Welch. His advice to other software companies interested in resellers is to simplify as much as possible. For example, resellers pay the same price for the solution regardless of vertical or region. This prevents end users from shopping resellers for a lower price. “I wanted our pricing to be so easy that any reseller could understand it in 5 minutes. You need resellers to be able to quickly calculate how much money they made at the end of every day,” says Welch.

FastSensor has put a stake in the ground that it will succeed through resellers. And it’s putting its money where its mouth is: Resellers are paid on the lifetime recurring revenue of the client. Welch isn’t looking for just any reseller, either. He’s focused on supporting “A” resellers instead of trying to onboard “C” resellers. “You have to help resellers see immediate wins, because the first customer they close will help them realize how easy it can be if they do it right. Then, all you need to do is replicate, rinse, and repeat.”

KALON WELCH
Co-Owner & EVP, Business Development

Vital Statistics

Headquarters
Wilmington, DE

Year Founded
2013

Finances

100%
Bootstrapped

40+
Resellers

Notable Customers

Honda

Chevy

Samsung

Key H-1B Employment Data Implications

New research from Softletter shows 26 percent of software companies employ H-1B personnel, and that's about to get more challenging.

RICK CHAPMAN Managing Editor & Publisher, Softletter

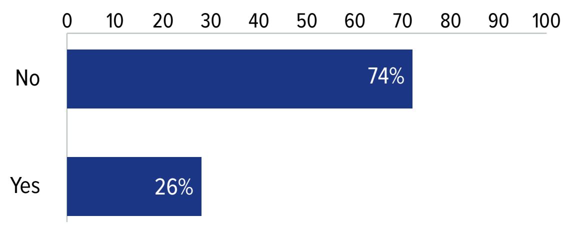
In September 2017, Softletter closed its latest software staffing survey, which for the first time asked our respondents to tell us about their usage of H-1B personnel. We felt it would be important to include this data in light of the increasing controversy surrounding the program, as well as the fact that in March of 2017 the U.S. Citizenship and Immigration Service announced that it was temporarily suspending premium processing for H-1B visas. The Trump administration's follow-up announcement in April of a Buy American, Hire American Executive Order only made the topic more timely.

Below are some key H-1B highlights from the *Softletter 2017 Software Company Staffing Survey*. Decimals have been rounded off to 1 degree of precision for summary results and percentages may not equal 100 percent.

The survey was launched in autumn of 2017, and the MatrixCX (www.allegiance.com) online system was used to generate and manage the survey. The questionnaire recorded over 300 valid responses from senior software executives. The purpose of this survey is to develop a comprehensive snapshot of the current state of how software companies staff, what jobs are most typically outsourced, and how staffing resources are typically allocated.

DO YOU EMPLOY H-1B PERSONNEL?

In the U.S., the H-1B program allows a company to employ non-U.S. citizens if there is a shortage of U.S. workers to fill skilled technical jobs. If your country has a similar program and you do employ this class of worker at your firm, please answer "Yes." If it does not, please answer "No" and proceed with the survey.



DEMOGRAPHICS

69%	Privately owned, privately funded
12%	Public
10%	Privately owned, venture funded
9%	No significant customer revenue

DEVELOPMENT STAGE OF YOUR COMPANY

75%	SaaS, B2B
12%	On-premises server-based or desktop software
7%	SaaS, B2C
4%	Mobile applications, B2B
1%	Mobile applications, B2C

There's been a great deal of speculation about the extent of H-1B employee usage in the software industry. We had originally thought the number of companies reporting "Yes" would be lower than 26 percent, something in the range of 15 to 20 percent.

ON A YEARLY BASIS, WHAT PERCENTAGE OF YOUR ENTIRE EMPLOYEE BASE CONSISTS OF H-1B EMPLOYEES?

- 1% to 5% – 80%
- 6% to 10% – 20%
- 11% to 15% – 1%
- 16% to 20% – 0%
- 21%+ –0%

The low percentages seen here are not surprising. H-1B visas are limited in number, and we believe will become increasingly difficult to obtain.

FOR WHAT POSITIONS ARE YOU MOST LIKELY TO RECRUIT FOR H-1B PERSONNEL?

- Product Development – 73%
- Sales – 16%
- Other – 7%
- Marketing, Product Mgmt., Administrative – 0%

The "other" answers all centered around technical and customer support personnel. We thought the 16 percent reporting they recruited H-1B personnel for sales positions was very intriguing. The fact that the primary target of H-1B hiring is software development positions is not surprising, but we would have predicted a higher number than 73 percent.

THE INCREASING CONTROVERSY OF H-1B VISAS

H-1B was originally designed to allow U.S. companies to hire employees who possessed skills not easily found in the pool of available U.S. applicants. In 2015, a total of 348,669 applicants filed for H-1B visas, of which 275,317 were approved.

The program was initially not very controversial, but this has changed. The actions of companies such as Disney and SoCal Edison, wherein entire IT departments were gutted of U.S. workers and replaced by foreign workers, have radically altered perceptions of the program in the public's mind, and have attracted intense interest by some in the media (Patrick Thibodeau, senior editor at Computerworld, provides some of the best ongoing coverage on this issue).

At Disney and SoCal, the laid-off workers trained their foreign replacements under threat of losing their severance pay, making a mockery of the claim that the H-1B program was filling technology holes at either company. Rather, the clear goal in both cases was to replace highly skilled American workers with more cheaply paid foreign workers. From a PR standpoint, both initiatives were disasters, with the Trump campaign focusing attention on the plight of the laid-off workers in certain venues, while the Clinton and Sanders forces were largely silent on the issue. Sources within the Republican National Committee claim the H-1B topic was a significant contributor to Trump's narrow victory in Florida.

Another problem with H-1B is it raises the issue of what is the ultimate value of free trade. High-tech is dominated by liberals and progressives, who were overwhelming supporters of Clinton and are the loudest voices calling for expanding H-1B. Trump effectively used this issue to help him win an improbable presidential election victory, and protectionism, tariffs, and similar measures against foreign involvement in U.S. hiring and free trade practices reentered the national debate.

The traditional argument in favor of H-1B and free trade is that the efficient market eventually rebalances industries by opening up new job opportunities in spots up the employment food chain. But, in the eyes of most people, the Disney workers were already close to the top of the skills ladder. It's one thing to tell burger flippers they need to obtain more skills, but what are highly knowledgeable IT specialists supposed to do? Obtain jobs at Nerds to Go? All become Ruby on Rails or JavaScript coding cowboys? Not that Mark Zuckerberg, Sergey Brin, or Tim Cook will hire them, as age discrimination is rife in high-tech.

And can the U.S. support the process of stripping away the employment layers of workers who listened to their parents, focused on the industries and skills of the future, and are now expected to hold down jobs at food courts in local malls? It's one thing to turn critical rare earths production over to the Chinese, but quite another to turn over maintenance of the country's technology infrastructure to outsourcing.

THE FUTURE OF H1-B VISAS

In Silicon Valley H-1B is quite popular, but when you raise the issue of the Disney and SoCal firings, lips purse and eyes begin to focus on distant objects before program advocates wander away from the discussion. Regardless of Valley opinions, the opposition arising to oppose H-1B is a potent and growing political force. Some of the most significant reforms proposed for the system require that visa applicants be paid top-tier wages, thus removing the incentive to use the program as a cost savings opportunity. Other reforms recommend an auction approach to granting the visas. Regardless, the Trump election ensures the program will stay in the public eye.

One startup we're aware of is attempting to deal with the issue of the U.S. workforce lacking key technology skills by creating a new vocational partnership of local industries, educational institutes, and government. The concept revolves around creating new two-year colleges, with the first schools located in the country's principal technology centers: Silicon Valley, Austin, Boston's 128 corridor, and possibly centers such Research Triangle Park in North Carolina, Silicon Alley in New York, and others.

The curriculum would focus heavily on teaching students the latest and most in-demand programming, design, and engineering skills. During their matriculation, local technology companies would offer extensive internships to students, and would actively recruit graduating students for their companies. The educational infrastructure would be created by partnering with local schools augmented by distance learning systems. The price for attending these new colleges would be a fraction of what it costs to obtain a liberal arts B.A. at a typical four-year college, and the degrees would receive official state-recognized accreditation.

Looking beyond just the H-1B controversy, while it's not surprising that software companies rely on H-1B primarily for developmental talent, in our survey 24 percent of our respondents reported that their key developmental resources were staffed externally. We would have predicted a percentage between 10 and 15 percent. What accounts for this?

One major factor is that as applications leave local servers, the idea that that software code can be maintained and upgraded internationally becomes conceptually easier for companies to accept. Another driver is that in SaaS and mobile, the concept of domain specialists creating online software systems has gained traction. In this model, a person or group expert within the business processes of an industry (e.g., a cosmetic surgeon), in developing an application to schedule surgery consults remotely, dictates product specifications to a hired group of developers. This is a different perspective from the traditional mythology surrounding software, where software is created by boy genius programmers (Bill Gates, Mark Zuckerberg, Bobby Murphy, et al.).

A final question swirling around the issue of H-1B and development ties back to Silicon Valley's pervasive ageism. There has been a great deal of skepticism directed at claims made by major firms such as Microsoft, Apple, and many others that there is an actual shortage of programming talent in the U.S. Is it true that a 50-year-old C++ programmer can't be quickly retrained to code in Python? Swift? Whatever the latest wonder language happens to be? We're unaware of any objective tests, and it would be interesting to see some.

One thing becoming clearer as the Trump administration further develops its immigration policies is that H-1B as it's now constituted will undergo extensive revision. Increased focus on American firms such as Carnival outsourcing its IT departments in order to cut costs is reaching increasingly sympathetic ears in Congress, and with the active support of the White House, several initiatives are underway to completely revamp the program. While high tech has been a reliable supporter of the Democratic Party and its candidates, support for IT outsourcing is a PR and political nightmare.

The increasing usage of contractors and temporary workers also presents a challenge to critics of H-1B. Software companies, particularly startups and newer firms such as Snapchat and Slack, are not easy, soft political targets in the manner of established companies such as Carnival and Disney (if you're IBM, Microsoft, or even Facebook, your PR exposure is much higher). Startups are expected to be small, scrappy, and cheap. By nature, software development is becoming increasingly international and distributed. A Ruby on Rails coder hired in Islamabad to help produce a new online collaboration app is not going to attract negative press attention, and attempting to police and limit such hiring would be a pointless exercise. Ultimately, the battle against H-1B may simply drive the increasing growth of virtual companies.

We believe it prudent for software companies to plan around the possibility that the availability and costs of H-1B personnel are going to change radically. The current administration has announced far-reaching plans to change the current structure of the country's immigration structure. We believe it politically inevitable that the U.S. will adopt a "points-based" immigration system based on the Canadian and Australian models. In both of these countries, this approach has helped import more high-tech talent, though local complaints from high-tech firms about the difficulty of finding talent are persistent and ongoing.

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Inside Sales At A SaaS Pioneer

As SaaS adoption speeds up, what can developers learn from cloud trailblazer Digitech Systems?

MATT PILLAR Chief Editor @MattPillar

Enterprise content management might not strike you as a burgeoning space in B2B software. In IT years, it's a borderline geriatric concept that saw its heyday back in the 1990s, when large organizations were committed to scanning physical documents measured in tonnage and stored in massive Remstar Lektriever filing carousels into rudimentarily searchable digital formats. Back then, content management systems were among the poster children for expensive, complex, proprietary software-based systems. By 1999, growth among ECM solutions providers was beginning to wane. ECM software and service providers were beginning to look all too similar to one another, and the implementation of a content management system was prohibitively expensive to the underserved mid-market. To some, it was looking as though the movement had peaked.

The scenario might look familiar to veteran software execs who have ridden a growth spurt to exploitation of a well-heeled market, only to struggle to maintain returns when market saturation forced their hand toward a move downstream. At the time, ECM was on-premises, cumbersome, and inherently ill-suited for reverse-scalability into the mid-market.

Fortunately, 1999 was also the dawn of an inflection point in software delivery models. While ECM sales were stalling, they had yet to peak. Digital transformation, IoT, and the great data awakening mean ECM has never been sexier—and with the cloud facilitating an affordable subscription-based application delivery model, there's new life in content management. MarketandMarkets predicts the ECM market will grow at a CAGR (compound annual growth rate) of 18.7 percent to $66.27 billion through 2021.

But back in 1999, ECM platform providers were at a crossroads. Denver-based Digitech Systems was among those providers, but the company wasn't long for the fork in the road. It jumped into the cloud when cloud wasn't cool.

Big Risk, Big Reward

The cloud, in fact, wasn't just uncool at the turn of the century. It was poorly understood and in many ways maligned by wary enterprise IT users. The dotcom bubble was beginning to burst. Fear of the unknown IT implications of Y2K had just about everyone on pins and needles. There wasn't much appetite for the concept of an internet-driven, subscription-based service driving critical applications to thin clients at a monthly rate with no visible, on-premises big iron to be seen. If you're under 30 you might just have to take my word for this — or ask your parents about it. It was a tough time for any company to sell the concept of cloud-based Software-as-a-Service.

I asked Shawn Morris why, then, did Digitech Systems move its ECM application to the cloud in 1999? We've ascertained that cloud-based anything-as-a-service was a tough concept to sell back then, so who better to ask than the guy in charge of overseeing its sales at Digitech? His response is brilliant in its simplicity. "The ECM space needed a game changer," he says. The company was doing just fine building ECM applications and selling them through its network of some 500 worldwide resellers, but, says Morris, "If you really want to upset the industry or change the status quo to grow your company, you have to change the delivery mechanism you're using to get your product to market."

"The ECM space needed a game changer. If you really want to upset the industry or change the status quo to grow your company, you have to change the delivery mechanism you're using to get your product to market."

SHAWN MORRIS
Director of Sales, Digitech Systems

That couldn't be truer given the previously mentioned economics of on-premises ECM applications. Digitech knew there was no taking that kind of price tag into smaller markets. "We were selling into increasingly saturated large enterprises," explains Morris. "We asked ourselves who else we might add to our customer base if we rented the software, eliminated all of the client-side IT resources necessary to maintain it, removed the hardware and storage capital outlay, and eliminated the expense of a major on-premises refresh every three to five years."

The answers to those questions seeded Digitech's ImageSilo cloud-based ECM offering. Morris says clients can assign unlimited users at a price point that's typically within the auspices of departmental head decision makers — clients pay merely for the storage they use on the system — and they get the full functionality of an on-premises ECM. Or, they can buy a license and host the system themselves, on their own servers.

Christina Robbins, who leads marketing for Digitech and has been with the company since 2004, says the palpable shift to cloud began during the Great Recession. "Right away, almost overnight, everyone was feeling resource pressure. They were constrained by their budgets, there was suddenly little capital outlay, but they couldn't simply stop updating their content management technology." You can't stop systems and processes from going digital, she says, and when budgets were tight, the cloud became the CFO-friendly enabler. "That's when we started to see that real shift," she says. While Robbins adds that Digitech is more than happy to sell on-premises solutions, she confirms that the majority of the company's new sales opportunities are in the cloud.

Of course, the virtues of cloud-based SaaS have been told at length. Getting to the point where Morris, Robbins, and their sales and marketing charges could deliver on those virtues wasn't so easy.

Cloud-Specific Considerations

Morris is quick to point out that established providers of software designed for on-premises execution don't just wake up one day and "park that software in the cloud." To get there, Digitech had some rewriting to do — which only exacerbated the risk of taking to the cloud in the first place. This is an important point given the surprising reality that SaaS has yet to eat the world. In fact, a late 2016 survey of 300 IT pros conducted by endpoint management and security solutions provider Adaptiva found that 70 percent of businesses used predominantly on-premises software deployments. Of course, SaaS is growing at a faster 20 percent annual clip — representing a whopping $46.3 billion market this year, according to Gartner — and even more compelling is Gartner's forecast for a nearly $76 million

A BIG TRANSITION TO AWS

In a recent letter to stakeholders (employees, resellers, and customers), Digitech founder Scott Matthews laid out his rationale for the company's transition to Amazon Web Services, and how the move supports his vision for the company. In that letter, Matthews explains that he had been watching AWS for more than a decade, "waiting for it to mature, and waiting for the on-demand market in general to mature."

About three years ago, Matthews decided that time had come. Digitech set out to test AWS with its ImageSilo ECM offering, running ImageSilo in the Amazon Cloud in tandem with its own cloud offering. Among the benefits Matthews extols are:

- AWS's storage (known as S3 and, as referenced in the accompanying story, the base billable of Digitech's subscription model), stores multiple copies of objects in multiple data centers simultaneously, resulting in 99.999999999 percent durability over a given year. "That means if you stored 10,000,000 objects, you could expect to lose a single object every 10,000 years," explains Matthews, adding that the failure of entire data centers would be undetectable to customers.
- Unlimited storage scalability, which enables Digitech customers to expand to a global scale without the need to deal with the limitations of CIFS (common internet file systems) and NFS (network file system) storage filers.
- The ability to dynamically and automatically scale web, application, and automation servers as loads increase or decrease.
- SQL Server management and expandability. Digitech's use of Microsoft SQL Server on AWS allows the company to more quickly and efficiently scale to handle additional system loads and customers.
- Efficient upgrades and decommissioning. Rather than having to take servers out of production to upgrade them, says Matthews, the company can simply and automatically create new ones running newer versions of ImageSilo, deploy them, and then discard the old versions at will.
- The ability to provide ImageSilo locally in foreign markets to meet regulatory requirements and provide physical proximity to improve performance for those customers.
- The ability to maintain completely redundant ImageSilo offerings in multiple regions.

Making the wholesales switch isn't for the faint of heart. When Digitech engaged the long-term process of moving ImageSilo to AWS, it made significant investments in people and man hours to gain the operational, architectural, design, and development expertise along the way. Matthews says the company spent more than three years developing its engineering expertise, and Digitech software developers spent more than two years integrating support for object-based storage systems into ImageSilo in order to migrate away from file-based storage.

SaaS market by 2020. Firm research director Sid Nag says that more than 50 percent of new 2017 large-enterprise North American application adoptions were composed of SaaS or other forms of cloud-based solutions, and that by 2019, more than 30 percent of the 100 largest vendors' new software investments will have shifted from cloud-first to cloud-only. Despite that litany of stats supporting a SaaS future, media conjecture that cloud-based SaaS is already ubiquitous is flat-out premature. Many legacy software providers have yet to take the leap. That makes Morris and Digitech's early learnings relevant all these years later.

Morris points to a host of concerns Digitech had to tackle before launching in the cloud — the market's skepticism regarding security and uptime, for instance — but the scalability opportunity is the one he finds most compelling. He's quick to point out that the scalability benefits of the cloud work for both end users and software providers. Of course, users can add seats (or, in the case of ImageSilo, storage) at their discretion, but Digitech benefits equally from the efficiencies and economies of scale. "We created our software offering as a multi-tenant environment from the beginning," says Morris. "We did that to ensure that we'd benefit from the economies of scale associated with having all of our thousands of global customers running the same application." If Digitech rolls out a new feature, function, or upgrade, it's available for every customer to take advantage of instantly, and Morris likens that to sending his company's smartest tech in to every customer site all at once. That would obviously be cost prohibitive in a distributed on-premises environment, but not when one instance of software is maintained for the benefit of all customers.

Changing The Channel Mentality

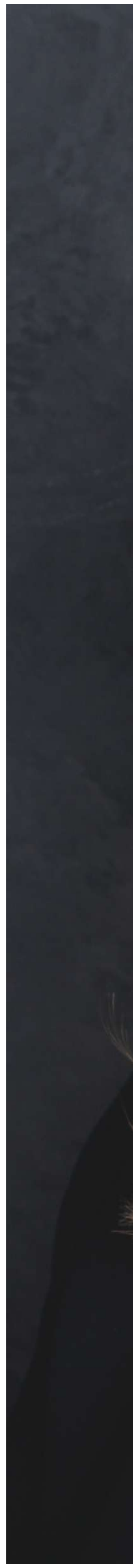
I don't recall interviewing a software company executive as rabidly enthusiastic about his channel sales partners as Morris. Still, I won't let him sugarcoat his 500-plus channel partners' acceptance of selling software subscriptions in place of all the server sales, networking, and integration work that came with on-premises sales. The launch of ECM as a service, particularly back then, was surely met with some trepidation on the part of Digitech's channel partners. "Without our channel partners, we wouldn't be here today," says Morris. "We recognized that there was some uncertainty about how selling ECM Software-as-a-Service would impact the reseller's sales cycle, and how that would impact cash flow." Morris says Digitech had to demonstrate its willingness to support its resellers through the temporary revenue lull that's required of the transition. "If a reseller is enjoying three or four enterprise sales per month, it might be a matter of only a few months before cloud subscription revenues begin to replicate on-premises sales figures," he says. "It's educating resellers on the conscious decision to take that temporary hit, and showing them the success stories about resellers that are experiencing far shorter sales cycles and more predictable cash flow after making the switch." Sales cycles, he says, are minimized due to the very factors resellers initially feared — there's no hardware, no staging, and no on-site implementation necessary. It's also a win for the reseller that the customer's nominal capital outlay for the software typically mitigates the need to engage the C-suite, and training is reduced to hours, minimizing the customer's time to value. "We were early to the game, so pushing this transition was a bit more challenging for us than it is for software developers today," says Morris. "Today, a combination of younger 'cloud-native' resellers and end users' sheer acceptance of cloud delivery, in large part due to its enablement of a remote workforce, are combining to drive acceptance by the reseller community."

So important is the company's reseller community, and so central is it to Digitech's success, company CEO HK Bain addressed resellers via scripture when crafting the Digitech Systems guiding principle. That statement is based on Proverbs 16:8: *Better a little with righteousness than much gain with injustice.* "Every decision that we make, every strategy that we come up with, we consider how it's going to impact our reseller partners and how it's going to advantage them," says Morris. "They do very well. They solve their customers' problems, and we make a little bit of money along the way to take care of our 55 associates and their families." Digitech has, in fact, been profitable since its seventh month in business, and its growth has been completely organic.

I can't help but ask Morris and Robbins about the gravitas of building a scripture-based mission statement. Regardless of your faith, it adds a fair bit of weight to a promise. Robbins doesn't flinch. "We're committed to it. It's a core component of our culture, and we're committed to the entire ecosystem. That means refusing to take food off of our resellers' tables to feed our families," she says. In a healthy market for ECM—and in a software industry where many developers are motivated by greed to build value quickly and sell out—Digitech's commitment to spreading the wealth requires discipline, restraint, and foresight. The same kind of discipline, restraint, and foresight the company had back in 1999, when it realized before everyone else that the cloud would make it rain. S

HIRING FAST TO KEEP UP WITH RAPID CLOUD GROWTH

ABBY SORENSEN Executive Editor @AbbySorensen_



Alessandra Lezama was employee number 29 when AbacusNext hired her as CEO in September 2013. In the four years since then, AbacusNext has transitioned to the cloud, which resulted in the kind of rapid growth that required rapid hiring. The company now has more than 350 employees in its sunny San Diego office. And it's been hiring these new employees en masse.

Glassdoor.com's recently released report on average hiring times shows U.S. companies take an average of 23.8 days to hire a new employee. In the "Computer Software and Hardware" category, the average time to hire is 23.9 days. Even with some rounding, AbacusNext would have had to hire someone every 4.5 days in order to add 320 employees since Lezama took the reins. The company didn't have a small army of recruiters or an expansive HR department to shortcut the process. Instead, it threw the "hire slow, fire fast" mantra out the window and instead used open houses as mass hiring events to ramp up its headcount.

REDESIGNING SOFTWARE & HIRING

When Lezama started at AbacusNext, the company was in 5,300 square feet of office space. Founded in 1983, the law firm practice management software company (which recently entered the accounting firm market, too) has amassed more than 250,000 users. But technology changes meant AbacusNext was losing market share in fistfuls. Shortly after Lezama came on board, the company surveyed all of its clients. An astounding 68 percent response rate made it clear: Attorneys knew they needed to be in the cloud, but they didn't know how to get there, and they wanted AbacusNext to show them how.

Clients started migrating rapidly after the software was reengineered to deploy as a private cloud model. Growth was accelerated by the back-end infrastructure built during the redesign, which gave clients the ability to house all applications and converge them into a single sign-on, two-factor, authenticated virtual desktop space. This also meant AbacusNext could handle security for all of its clients' data. It was quickly apparent that the company would have to scale quickly to meet the demand its revamped software created. "At that point, I sat down with my management team and I said, 'Look, we have a great problem, but a big one at that: Demand is explosive and we simply don't have the time to go through conventional methods in hiring our staff,'" says Lezama. "We were creating departments overnight. We had to create a quality assurance department overnight. We had to create a client support team overnight. We had to create integration and provisioning departments overnight. How do you do that one employee at a time? You can't."

AbacusNext had to reconfigure its hiring process just like it had done with its software. In Lezama's mind, the conventional hiring process in corporate America is backwards. Filtering through hundreds of resumes trying to isolate a few dozen, setting up phone pre-screenings, then scheduling several rounds of interviews — it all takes too much time. Fast-growing companies need a way to turn the tables and have applicants do some of the filtering. And AbacusNext found a way to get in

ALESSANDRA LEZAMA
CEO, AbacusNext

WHY A SOFTWARE COMPANY WITH 500% 3-YEAR GROWTH HIRES EMPLOYEES IN BULK

front of as many candidates as possible without wasting time flipping through resumes.

Diana Sisti, director of talent acquisition at AbacusNext, purposely doesn't give too much detail when she promotes the company's next hiring event. Her LinkedIn post in August 2017 about an upcoming mass hiring event asked interested candidates to bring "your best you, two copies of your resume, three professional references, and a cover letter describing why you are a valuable contributor to a technology organization." The flier lists a date, time, address, and directions to free parking. It's recommended, but not required, to RSVP. There is a paragraph describing how Lezama will give an overview of the company during the open house, and it includes a handful of example positions available.

Some candidates might be skeptical based on this limited information, and that's just fine with AbacusNext. "All of those candidates that read our postings and decide not to make it into the open house because it may be suspicious or they just want to wait and hear about it from someone else, they never get hired here. That is the first process of pre-selection," says Lezama. The company wants to hire out-of-the-box thinkers who are open to out-of-the-box hiring methods. One candidate admitted it sounded like a multi-level marketing scheme.

AbacusNext doesn't have time to worry about candidates it might miss because of the unconventional nature of its process. After four years of hosting open houses, Lezama and Sisti know if they can get 60 candidates in the room that they're going to hire about 25 to 30 of them. At a recent mass hiring event, 36 candidates showed up and 14 were hired. Considering Glassdoor.com's research, it would take the average company about 333 days — almost a full year — to hire those 14 people. In the fast-paced technology world, 333 days may as well be a decade, and that's why AbacusNext keeps perfecting a process to hire in bulk. Sisti does occasionally hire on an individual basis too. In fact, it's not uncommon for her to onboard multiple candidates in a week. But overall, the company has found its most successful hiring formula comes from bringing in "classes" of new hires from open houses.

ABACUSNEXT

YEAR FOUNDED:
1983

HEADQUARTERS:
San Diego, CA

2016 REVENUE:
$45.5 Million

3-YEAR GROWTH RATE:
571%

EMPLOYEES:
350+

INC. 5000 RANK:
795

RECENT ACQUISITIONS:
May 2017
Office Tools
February 2017
Cloudnine Realtime
Results Software
May 2016
Gavel & Gown Software

INSIDE A MASS HIRING DAY

Sisti has a tested process for promoting these hiring events since AbacusNext started hosting them four years ago and it doesn't require a massive advertising budget. Posts on LinkedIn, job boards, and Facebook usually do the trick. The company also relies on employee referrals to share the open house within their networks. Lezama estimates about one-third of candidates at mass hiring events are from referrals. The company has hosted as many as three events in one month, but about six per year is typical. Once candidates show up to the AbacusNext offices for a mass hiring event, the process is as methodical as shipping code. Lezama says this methodology starts with a mentality that is the opposite of typical hiring practices. AbacusNext assumes 100 percent of candidates are 100 percent qualified with 100 percent of the skills the company wants. She compares it to a college admissions process — Stanford assumes all applicants have 4.0 GPAs because otherwise students wouldn't even try to apply.

The day starts with homegrown questionnaires and customized surveys. Candidates aren't given much instruction — just like they aren't given much detail in the event invitation — as a way to further test soft skills. The tools used for this portion of the screening also test hard skills, but the company places more emphasis on soft skills. "We're filtering for people who are able to think on their feet, who are able to articulate properly, who are able to improvise, and who are able to represent themselves. If they're not able to do that, we don't want to hire them," says Lezama. After soft skills tests are administered, she gives an overview about the company. Her presentation includes information on decision making processes, management styles, operating hours, and individual performance measures.

Candidates are encouraged to leave at any point if the fit isn't right. At past events, some have left when they found out some departments start at 6 a.m. to accommodate East Coast clients. Some have left when they found out the company conducts seven-year background checks and credit reports. And that's the intention of the open house, to get candidates to self-select. Lezama tells candidates, "I will be very much a part of the process, Diana will be very much a part of the process, but primarily, you will be the decision makers as to whether or not you want to hire yourself."

The day concludes with one-on-one interviews conducted by Lezama. Candidates are given time slots based on a lottery system (for example, Lezama might start with February birthdays, and everyone will get in a queue based on that). Those at the end of the queue are given the option to leave a preferred callback time, but candidates rarely leave. While candidates wait, they are given tours of the office, and food and drinks, and the company's game room with foosball, shuffleboard, an arcade machine, and a pinball machine is available to pass the time. When candidates are in the interview, the speed dating style is intense. Each candidate gets 5 minutes. Sisti clocks it, and there isn't time for small talk. Just like the first part of the open house, candidates are given very little instruction. They can ask any questions or provide any information about themselves in their 5 minutes. Lezama will ask about candidates' financial goals, and what their floor is, and will tell them immediately if those numbers align with the company's salary range for the position. As a rule, AbacusNext has a zero-negotiation policy at the offer stage.

After the personal interviews, the homework is simple: Lezama asks candidates to get back to her and, "Tell me what your personal pursuit of purpose is and how that aligns with the pursuit of our corporate goals. Get back to us with why you believe you would be a contributor." After a candidate brings that information back to the table, the rest of the process is still very fast.

The candidate will come back for a brief skills test. At that point the manager doesn't have to worry about cultural fit or soft skills, because the open house has already validated that. "The technical skills we leave to the very end, because that's not difficult for us to find," says Lezama. "What's difficult for us to find is the right breed of people that incorporate well with our fast-paced corporate culture." It doesn't take longer to fill certain types of positions compared to others. The company has hired as many as 10 software engineers in a single class, which is impressive considering Glassdoor.com's data shows it takes an average of 40.8 days to hire developers.

While candidates are completing takeaway assignments and being screened for hard skills, Sisti and her team partner with third parties to speed up background and reference checks. She does review resumes and verify employment histories. AbacusNext's hiring system is still thorough and it's still selective; it's just conducted in an accelerated manner to keep pace with the company's triple-digit growth.

RAPID-GROWTH, HIGH-PERFORMANCE ORGANIZATION MENTALITY

AbacusNext isn't the only software company to offer a game room or unlimited vacation. The energy Lezama brings to the mass hiring events isn't meant to fool candidates. In fact, part of the self-selection process is to give candidates a crystal clear understanding of how demanding the pace of work is at the company. "The 'work smarter, not harder' cliché doesn't apply here," says Lezama. "You are going to have to work smarter, and you're going to have to work harder every day as well, because we're under a lot of pressure to perform and there's accountability on a daily basis."

The office is organized by pods within departments, each with team members who have different responsibilities. The pods are responsible for covering the floor from 6 a.m. until 6 p.m., and tech support works from 5 a.m. until 10 p.m. (along with 24/7 remote support services). Pods have the autonomy to decide how to cover those hours. Some people choose to work 6 a.m. until 3 p.m. Some pods rotate the 6 a.m. shift. This flexibility to distribute work among teams is part of the business model Lezama firmly believes in, called RGHPO, short for "Rapid-Growth, High-Performance Organization." This is based on the belief that if you can train people to think fast on their feet, they'll be able to observe, act, and decide in a much quicker cycle than contemporary businesses, which accelerates growth.

This RGHPO mentality is why the company hires and fires fast. That doesn't mean turnover is high; it just means candidates who self-select in are also expected to self-select out if they can't keep up. "The highest churn rate is in our sales department. But that's not because of our methodology; that's because sales is sales is sales. People get burned out of sales," Lezama admits. Throughout the rest of the company, AbacusNext has to rehire about five out of every 50 employees. Compared to the Society For Human Resource Management's *2016 Human Capital Benchmarking* report, that means AbacusNext is handily outperforming the 23 percent turnover average among tech companies. "Our open house events really helped us understand how important the people factor is in this hiring process," says Lezama. "Instead of making candidates feel like we're holding them in contempt and filtering them to look only for their flaws, it's the other way around." S

By A. Sorensen

GIACOMO "PELDI" GUILIZZONI
Founder, Balsamiq

How a solo entrepreneur grew his software startup more than 4,000 percent in less than 10 years, thanks to a globally distributed workforce

Embracing & Optimizing A Remote Work Mentality

ABBY SORENSEN Executive Editor @AbbySorensen_

When Giacomo “Peldi” Guilizzoni founded Balsamiq in March 2008, he technically was working out of an office (his bedroom) in Italy. The former senior engineer at Adobe amassed more than 1,300 paying customers and $150,000 in revenue within six months and was operating at a healthy 80 plus percent margin as a solo entrepreneur. He turned heads in the software world when he opened Balsamiq’s books on his blog, including listing actual revenue and expenses. When employee number two came on board in March 2009, they were both still working out of Guilizzoni’s bedroom. That was really the only time the company had 100 percent of its employees working from an “office.” Employee number three was hired in May 2009, and she was based in San Francisco, a 9-hour time difference. Just like that, Balsamiq had support covered across the globe, a necessity since it already had customers in 56 countries. By the start of 2010, Balsamiq’s revenue had grown to more than $1.6 million, and employee number four — who was based in France — meant half of the company’s workforce was remote.

Today, Guilizzoni can walk to Balsamiq’s office in less than 5 minutes, but he rarely goes in. Instead, his software company has embraced a remote work mentality that has allowed it to scale to 29 employees and upwards of $6.5 million in annual revenue. Balsamiq develops wireframes — a graphical tool for sketching out user interfaces for websites and web, desktop, and mobile applications. The company is entirely self-funded and has worked with more than 500,000 clients. Balsamiq’s success is as much about growth charts as it is about Guilizzoni’s willingness to find the best talent possible regardless of location. Simply put, Balsamiq wouldn’t have grown more than 4,000 percent since December 2008 if Guilizzoni had insisted all employees work from a central office in Bologna, Italy. The company’s success story has been written by remote employees scattered across nine different time zones in five different countries.

Guilizzoni doesn’t need to be told remote work is an effective way to run a company. But software companies that have not embraced remote work need to take a long, hard look at these statistics. According to GlobalWorkplaceAnalytics.com, remote work has grown by 115 percent since 2005, nearly 10 times faster than the rest of the workforce. Between 80 and 90 percent of U.S. workers say they would like to telework at least part-time. A 2017 Gallup poll suggests about half of all tech companies offer remote work options to at least some employees. And let’s not forget about millennials — an

AfterCollege Career Insight survey revealed that 68 percent of these job seekers said a remote work option would "greatly increase" their interest in a company. The data is clear: Companies (especially tech companies) can no longer stay competitive if they ignore the demand for remote work options. If your software company doesn't embrace a remote workforce, that means you'll have to accept an increasingly shrinking talent pool, relocation costs for when you do bring on a talented new hire, and increasing office space overhead.

This doesn't mean companies with flexibility and a remote-friendly mentality don't have challenges. Balsamiq's story has its fair share of growing pains (head over to the company's blog to read about why its vacation policy, one of the very few policies spelled out for employees, evolved from "Take some!" to "Take at least 20 days off a year" because its U.S. team was working too much, and other candid anecdotes about growing a software company).

At the 2017 Business of Software conference, Guilizzoni helped lead a workshop to teach software companies how to operate more efficiently with remote employees. Workshop participants cited struggles with communication, culture, collaboration, time zones, scaling, and tax/accounting regulations (he admits that last challenge is a separate article that should be tackled by a professional, so we'll skip that here). His tips on keeping his remote employees engaged and productive can apply to any software company, regardless of what time zone its workforce logs in from every day. "You have to work hard at this," Guilizzoni says. "It takes more than you think to solve these remote work problems. It's worth it, it's sustainable, and none of it is expensive."

HIRING REMOTE WORKERS

Balsamiq has hired employees in San Francisco, Sacramento, Chicago, Italy, France, Germany, and the Netherlands. Just because the company can hire anyone to work remotely doesn't mean every candidate is the right fit for a remote role. "It's been long enough that you can ask for remote work experience. We can't afford to teach you how to do remote work," says Guilizzoni. "We ask them 'What sucks about working remotely?' and we can tell right away if they know how to handle working remotely." It's a red flag if a candidate can't articulate the struggles that go along with working remotely — things like distractions, loneliness, feeling disconnected from the team, and the reality that it can be harder than it looks to maintain a work-life balance. "Some people just want to work from home; they don't necessarily want to work for you," he says. "They might think they want to work from home, but what they don't realize is that it's harder and it's often very lonely." For those employees who don't like the isolation of a home office, Balsamiq offers each employee up to $250 per month to put toward a coworking space. And when the company has hired junior employees or employees with no prior remote work experience they all start in the office. Then they gradually work their way up to working remotely. But as a rule, no new employees get the chance to work remotely unless they've done it before or have proven they can handle it.

> "You have to work hard at this. It takes more than you think to solve these remote work problems. It's worth it, it's sustainable, and none of it is expensive.

A true remote culture isn't possible unless the hiring process itself is also tailored to having a distributed workforce. After all, it's not feasible to fly candidates from the Bay Area all the way to Italy for one-on-one interviews. Balsamiq created a detailed form that takes about 30 minutes to complete (and this up-front time investment alone knocks out candidates). The form doesn't ask for a candidate's age, gender, LinkedIn URL, CV, or even a photo. Once the company has enough submissions, the best applicants are asked for a CV and are invited to a 30-minute Google Hangout interview.

MAKE YOUR GOLDEN HOUR PRODUCTIVE

Embracing remote work doesn't mean giving in to a 100 percent flexible schedule for employees. If your employees are scattered across the globe but have a common hour(s) during, or close to, normal business hours, that time needs to be maximized. For Balsamiq, that means employees in San Francisco are expected to be logged on early between 8 a.m. and 9 a.m., and employees in central Europe are expected to work late from 5 p.m. to 6 p.m. so they can overlap. The company has only a short block of this overlap, so those hours are precious. Guilizzoni insists Balsamiq tries to avoid using that time for regular meetings. Although it might be tempting, it's just too expensive to waste time in meetings with a distributed workforce. "My goal is to reduce the purpose of this hour, but no matter how hard we try, some things are just better in a synchronous meeting," he says.

Development is one of those things for Balsamiq that just works better in a shared time zone. At first it made sense to have a developer in the U.S. for coverage in case something went down. The company has tried to hire developers elsewhere, and the experiment failed twice — one developer lasted a year, and the other did not get an extension on the initial three-month trial contract. Keep in mind this is a company with historically very low turnover (employees two, three, and four are still with the company after nearly 10 years). Today, every Balsamiq developer is in the same European time zone.

OPTIMIZING COMMUNICATION & FACE TIME

Every software company struggles with communication to some extent, a reality that is complicated with a distributed workforce. To add another wrinkle, Balsamiq is a 100 percent flat organization, so Guilizzoni doesn't have the luxury of relying on managers to help coordinate communication efforts across teams. He says, "When you shift from office to remote, you have to try to optimize for asynchronous communication. It's slower, but it has to work. You will have people who are asleep or not working when you want to make decisions."

Even though Balsamiq does technically have an office in Italy, it is rarely used. On average, there might be only two or three employees in the office each day, but everyone is expected to use Google Hangouts for meetings. If the meeting has two people in the office and one remote person, everyone still uses Google Hangouts so that each person has an individual window and no one feels singled out. Some employees choose to keep Google Hangouts or Skype open, or they will partner with someone on an open channel just to be able to hear a coworker on the other end.

Guilizzoni knows, "People don't care if you have an office; they care about not being left out of important conversations." Those important conversations at Balsamiq all take place in Slack (previously in HipChat). There are Slack channels called "clubs" for things like health and improving writing skills, and these are labeled "c_" to help keep them organized. The team channels start with "t_" and include both a front of the house channel that anyone can join as well as a private channel that only core team members can access. There's a reason Balsamiq pays for English classes for non-native speakers. It's because the majority of the company's remote work relies on written communication, so it's crucial for remote workers to have strong writing skills, not just verbal skills.

Slack, Google Hangouts, and Zoom meetings might make effective communication tools for remote teams, but those tools can't entirely make up for lost in-person face time. That's why Balsamiq hosts an annual company-wide retreat to help employees feel connected. These used to be full-blown work retreats, where the team would save its toughest challenges for those few days. Guilizzoni admits that was a mistake, and now the retreats are entirely focused on culture and team building. Individual teams have also tried mini-retreats, and each employee has an annual budget for travel to visit colleagues. This travel budget varies based on location. For example, employees in Italy have a low budget used for lunches. Employees in San Francisco or Chicago have larger budgets designed to allow them to travel to see other employees based in the U.S.

BALSAMIQ'S REMOTE TOOLS

The tools you use to keep your remote workforce connected and engaged are no less important than your developer's tech stack or the sales enablement tools you use to grow your revenue. In addition to its homegrown project management tool, here are the tools Balsamiq can't live without:

- Slack
- Atlassian Confluence (one space is a handbook, one space is for day-to-day work)
- PivotalTracker
- Zoom (for all-hands meetings)
- Google Hangouts (for individual or small group meetings)
- Know Your Company
- HelpScout
- DropBox

CREATING AN ENGAGING REMOTE CULTURE

When Guilizzoni talks about creating the right culture at Balsamiq, what he's really doing is trying to recreate an in-office environment for his remote team. The intended outcome is to create the kinds of camaraderie, side conversations, and running jokes in Slack or Google Hangouts that would normally take place in an office. These aren't necessarily playbooks for creating remote cultures, though; companies need to find personalized ways to make personal connections with remote employees in order to build strong cultures. Examples of how Balsamiq actively builds its culture include:

- *FRIDAY FUN TIMES*
  Every Friday, four randomly selected Balsamiq employees are put in a Google Hangout for a half hour during the golden hour. There is no agenda — the purpose is to chat, not to work. One employee sends an invitation that is scheduled a few months in advance to ensure that everyone selected can participate. Guilizzoni got this idea from Michael Pryor of Trello (another largely remote company that sold to Atlassian for $425 million in January 2017).

- *ALL-HANDS MEETINGS*
  Balsamiq's monthly all-hands meetings are optimized to foster personal connections. Before the meeting, employees are encouraged to share personal updates on the Personal Updates Wiki page, which new employees are also directed to as soon as they are onboarded. This page allows employees to update each other on the past month of their lives. It usually gets comments for a few hours after the meeting; then the page is mostly inactive until the next month's meeting. During the meeting, employees volunteer to give personal lightning talks — 20 slides that auto advance after 20 seconds — that are supposed to be designed in less than 10 minutes and can be about any topic (Guilizzoni recently gave a light-hearted lightning talk with just photos of his house). The last 5 minutes of the all-hands meeting is reserved for "pets and baby time." Everyone's mic is open, and everyone talks. It's complete chaos with kids, pets, and even puppets on screens, and it's designed to be just that.

- *CLUBS & SLACK CHANNELS*
  Balsamiq club channels are optional and are open to all employees. The media club meets once per month for 20 minutes to discuss a particular movie or TV show. There's a media channel in Slack where people post what music they are listening to and can select a company song of the day. The health club is popular, too (Balsamiq gives employees up to 5 hours per week during work time to exercise and encourages group exercise classes to help employees feel more connected to the outside world). These groups are typically championed by one employee.

- *KNOW YOUR COMPANY TOOL*
  Guilizzoni swears by this quick, efficient software tool designed for remote teams. It emails three types of questions to all employees each week. On Mondays, employees are asked, "What are you working on this week?" and "How heavy is your workload?" Results are collected and distributed to the entire team on Tuesdays. On Wednesdays, a company-related question is sent out, such as, "Do you think our culture is strong?" or "Do you think the company is the right size?" The compiled answers are sent on Thursdays. On Fridays, the team gets a non-work related question like, "What is the best vacation you've ever taken?" There is a one-time $100 setup fee per employee. Answering the questions is optional, and employees who do answer can choose whether the response will be sent to the entire team or just to Guilizzoni.

> "People don't care if you have an office; they care about not being left out of important conversations."

A REMOTE CULTURE STARTS AT THE TOP

Guilizzoni's house is less than a 5-minute walk from Balsamiq's office. And he likes that office. He found a cheap warehouse to buy, and he told the architect, "Build me the most beautiful office that nobody is going to go to." The office space replicates the work stations employees get for their home offices. Even though Guilizzoni likes the new office design, he realized he was sending a bad message to the team by being there. At first, he tried working from a closet in the office and making other in-office employees use Slack to communicate with him. Then he realized those same employees could still catch him for lunch. Now he's 100 percent remote from his home. Founders, CEOs, and other executives who manage a distributed team but go in to the office regularly will incentivize employees to work in the office to get a larger share of voice. "Remote work is a hard leap, but you have to take it," Guilizzoni says. "You can't just have the remote formula; you have to live it and believe it. Trust that people will rise to the expectation." S

To Hire Or NOT To Hire In Silicon Valley?

Talent does exist outside of the 101 Corridor – and software companies who find it are reaping the benefits.

JENNIFER DOSKOW Edge Connection Sales Recruiting

Should we hire in Silicon Valley? That is the question I'm asked almost daily as my startup software clients face frustration with hiring and retaining their sales talent. If you don't live in or around Silicon Valley, you probably envision a technology mecca where everyone drives a Tesla to work and plays ping-pong while sipping a microbrew with their high-top, hoodie-wearing executive leaders.

Sure, this might be accurate for some of the Bay Area techies, but take a closer look and Silicon Valley talent is spending one to two hours in traffic each way of their commute, and many millennials are living with their parents because one bedroom apartments in San Francisco rent for $3,398 a month on average. Recent college graduates in entry-level sales positions make between $50-60k base salaries and hardly have enough money left over after they pay their rent and transportation costs (let alone have a car with a parking spot that costs almost as much as rent).

I recently wrote a blog post about the shift in Silicon Valley culture that went viral on LinkedIn, and it has really opened up dialogue about what the human capital of the valley *really* wants in a company. In summary, people over the age of 30 are more interested in work-life balance than work-hard-play-harder team cultures where getting wasted with your boss is a normal occurrence. These people are interested in being treated like grown-ups who are trusted to get their work done to the highest level whether they are in the office with the rest of the company or working from home. These people aren't swooning over the free catered lunches, full bars in their offices, or wild parties at the end of a successful quarter. Instead, they're excited to use cutting-edge technology and tools to get their work done efficiently and save a lot of time, energy, and frustration they've been wasting on their bumper-to-bumper commute. If you are a millennial, perhaps you're thinking to yourself, "Who is this crotchety, old fashioned, out-of-touch recruiter, and why is she trying to squash the fun work-hard, play-hard culture?" The fact is, I used to be just like you working in San Francisco and the Peninsula with all of the energy in the world, but I got older, just like my peers, and very few of us wanted to endure this lifestyle long-term.

> **"It's my sincere hope that technology companies start seeing that they are wasting a lot of money focusing solely on hiring sales talent in the Bay Area."**

A survey by *The Mercury News* noted that 46 percent of millennials want to leave the Bay Area in the next few years, and they point to traffic and skyrocketing housing costs as the main reasons. "It turns out that we were wrong about millennial preferences; the stories were wrong that millennials wanted to live in a hyper-urban environment and that it would be OK to raise families in a condo," said Micah Weinberg, president of the Bay Area Council's Economic Institute. "Millennials are putting off family formation, but when they have a family, they want what their parents had: a house on a nice lot pretty close to work."

> **While Silicon Valley entrepreneurs are very smart and innovative, many are blind to modern workplace business needs and are stuck creating working environments that are exactly like every other technology company's in the Valley.**

Our economy is growing, and startups are still popping up throughout the Valley. Technology is also improving and disrupting the way business has been done for generations. With the invention of cloud and SaaS technology, customers are requesting web demos from their sales reps and product specialists instead of martini lunches or PowerPoint presentations in their conference rooms. The question I ask myself and my clients daily is, "Why aren't we capitalizing on this technology to create a win-win culture where companies are fostering successful teams without having everyone cramped on the 101 Corridor?" While Silicon Valley entrepreneurs are very smart and innovative, many are blind to modern workplace business needs and are stuck creating working environments that are exactly like every other technology company's in the Valley. My clients who are hiring A-players who work remotely or in a satellite office in another part of the country are utilizing technology such as Skype, BlueJeans, Google Hangouts, and Zoom regularly. Not only are these companies able to save money on base salaries, but they also don't have the enormous cost of housing all of their salespeople in expensive office space. Salespeople are working in their local time zones and are able to be in customer-facing selling opportunities without coast-to-coast travel.

Recently, an AI software client of mine was struggling to offer competitive salaries to recent college graduates they needed for entry-level lead generation positions. Just about every kid who came in was being offered base salaries 20 percent higher than they budgeted for, and they were losing time and opportunities without having this team in place. This same company had a satellite office in Kansas City, Missouri and before we knew it, we were hiring hardworking, farm-raised, college graduates who were developing leads for the enterprise sales reps in San Mateo. Their base salaries were $24,000 lower, yet their production was the same as their predecessors who were based in San Mateo. The cost of living in Kansas City is 47 percent less than in San Francisco and, although there weren't as many technology companies to recruit from, the quality of hardworking, hungry sales talent was just about the same if not higher than in Silicon Valley. My client hosted quarterly meetings at the Bay Area headquarters where everyone was able to collaborate and foster a great team culture. This system works — this software company was just recognized as one of the top 100 fastest-growing private companies of 2017.

Currently, 90 percent of all of my openings are out of state. I've found a lot of success working with Silicon Valley companies who are hiring A-players without the headache and aggravation that's normal in San Francisco's job market. As of September 2017, San Francisco's unemployment rate was only 2.8 percent, which doesn't make hiring any easier. The up and coming tech markets I've had success recruiting in include Denver (38 percent), Atlanta (45 percent), Boston (18 percent), Austin (49 percent), Chicago (39 percent), Portland (31 percent), Seattle (29 percent), and St. Louis (48 percent) to name a few. Those percentages for each city represent how much cheaper it is to live there compared to the Valley. There are also incredible opportunities to recruit in cities just outside San Francisco in the Sacramento region where I happen to reside/recruit from my home office. It's my sincere hope that technology companies start seeing that they are wasting a lot of money focusing solely on hiring sales talent in the Bay Area. Find the best sales talent you can find and then build around them wherever they live. We have the tools to make the connections, build the culture, and create effective selling processes with the evolution of the incredible technology that is at our fingertips. Take a risk and look outside the box — it's working for many of your competitors. S

JENNIFER DOSKOW has been a recruiter for more than 18 years. She focuses on finding sales, marketing, customer success, and professional service professionals for emerging SaaS and cloud technology companies in the Bay Area and a few select cities around the country. Her passion is finding the best way to do things at every level.

6 Focus Areas For Shaping A SaaS Financial Model

Why KPIs, sales, marketing, revenue churn and build, cash, and headcount need to factor in to your financial model.

WILL CORDES Director of Corporate Development & M&A, Infogix, and Founder, Cordes Consulting

For most executives and business owners, financial models are thought of as robust Microsoft Excel files that typically use historical data and operational variables to provide key information about future business performance. This holds particularly true for Software-as-a-Service (SaaS) and traditional software businesses, where revenue recognition policies add an additional layer of complexity to building out these projections.

While CFOs and financially focused employees are generally driving the creation and maintenance of most financial models within an organization, it is important that functional leaders from across the business are comfortable and familiar with the methodologies and assumptions used to drive these models, given their impact on making critical business decisions. Financial models are necessary for a wide variety of cases, including (but not limited to) budget and forecasting materials, evaluating potential acquisition candidates, monitoring cash flow or debt, and equity capital raising.

To get the most out of your financial models, paying attention to the following six focus areas will go a long way toward maximizing value.

1. REVENUE CHURN

While this is a given for SaaS businesses, churn also plays a significant role for legacy software business models that continue to sell perpetual licenses as they look to build their maintenance revenue base. There are many publicized methodologies for improving revenue churn, including setting organization-wide goals for churn and investing in additional hiring to create or enhance customer success management functions. Incorporating price increases and upselling existing customers are also ways to help mitigate the loss of revenue from churned customers.

2. CASH

Another important area to home in on is your cash balance throughout a model's projection period. Billings can play a critical role in how your company can reinvest in growth. For example, companies that receive annual and multiyear up-front payments at the onset of a new deal are typically able to drive higher retention rates, as these larger payments reduce renewal risk versus a company that bills on a monthly, quarterly, and/or annual basis. Multiyear billings also allow companies to recover their customer acquisition costs (CACs) faster and provide the flexibility to reinvest those recouped costs in other areas of the business. To accurately project cash, you will usually need to incorporate and project all three financial statements into your model.

3. SALES & MARKETING

Sales teams play an important role in driving accurate numbers in the forecast period. Without their feedback, many models resort to relying on historical growth rates to drive revenue and expense growth in future years, which can become a perilous habit to rely on. For SaaS companies, focusing on sales drivers and deals sold on a per rep (or per channel) basis can be critical for any set of projections. In addition to sales, marketing also has a strong impact on model inputs. Depending on how your business acquires customers, understanding unit economics on lead generation and lead conversion is vital to projecting potential marketing program spend in future periods.

can be a bit intimidating for individuals without significant financial experience but is a necessity in order to avoid under- or overstating revenue in a given period. In addition, analyzing renewal performance through churn and upsell metrics is important for determining net revenue retention within the business, which is a significant driver for accurately projecting recurring revenue contributions in a given period from existing customers.

“While CFOs and financially focused employees are generally driving the creation and maintenance of most financial models within an organization, it is important that functional leaders from across the business are comfortable and familiar with the methodologies and assumptions used to drive these models, given their impact on making critical business decisions.”

4. HEADCOUNT

Another common pitfall of most financial models is to use percentage of revenue calculations to drive future hiring plans. While this technique works in certain cases, I recommend incorporating a full headcount build and using this document as a blueprint to add additional roles in outer years. This can be a highly useful document for opening dialogue and gathering feedback around potential hires across each functional area within the business. It is also important to factor in commissions, bonuses, health/medical, and any other benefits categories to fully burden compensation figures in the model. Additionally, merit salary increases and promotions are also worth consideration in later years, given their potential expense impact.

5. REVENUE BUILD

As previously mentioned, revenue recognition is a crucial concept for any SaaS business. In particular, a significant amount of attention needs to be paid to how recurring revenue is treated in future periods and how other, nonrecurring line items are treated. For example, implementation services for lighter onboarding processes can typically be recognized in the month in which the business is booked, compared to ongoing professional and support services which are recognized in the period in which those services are performed. Utilizing a “revenue waterfall” of annual contract value (ACV) bookings is typically the best way to model forward period recurring revenue. This

6. KEY PERFORMANCE INDICATORS (KPIs)

KPI dashboards are widely used across the SaaS spectrum but are frequently broken out separately from a company’s financial model, making them more a historical scorecard than one that can be projected moving forward. By incorporating your KPI dashboard into your integrated financial model, you utilize historical data that is easier to audit and provide benchmark numbers for, which can then be used to tweak and update drivers for projection periods. Regardless of whether you are using a KPI dashboard to drive discussions within board or management meetings or using it as a general performance monitoring tool, aligning your KPI file in conjunction with your financial model provides a more streamlined forecasting solution.

To summarize, most companies utilize financial models and forecasting tools in some way, shape, or form. Focusing on the competencies listed above will ensure that you are getting the most out of your model. Despite being a finance-driven tool, a well-deployed financial model will incorporate feedback from across your organization. In addition, using scenario analysis and alternative operating cases can be an excellent way to test certain variables within the model and allow a business to monitor potential shifts in business performance based on the results of a certain product line or sub-segment. A strong financial model will help a business project future performance accurately and aid key stakeholders with data-driven analysis to help support critical business decisions.

How Good Engineering Managers Become Great Engineering Leaders

A structured mentoring program can help with recruitment, retention, and development of engineering superstars.

QUANG HOANG Cofounder and CEO, Plato

We've all observed a situation like this: You have a promising engineer on your team who thrives as an individual contributor. But when they get promoted to a "people" manager, they lose confidence, have a hard time making the transition from individual contributor, and struggle to lead the team effectively. It happens in all disciplines, but when it happens in engineering, it can be detrimental to the success of your company.

So why is this so common, and what can you do about it? For engineers, everything needs to be cleanly structured. There's a process; you know which results to expect; things are documented and clear. There's a direct relationship between input and output: you know how much and which type of work it takes to achieve specific results. Want to improve a certain feature or have an inefficiency? You have a scientific, methodical approach to improving it. This is the environment engineers have become accustomed to, and this world is structured and somehow predictable.

STRADDLING TWO WORLDS: THE CHALLENGE OF ENGINEER MANAGERS

When you become a people manager, you cross over into a completely different sphere. In contrast to the structured, predictable world of engineering, people (and their feelings) are messy and unpredictable — and more data won't always help you solve the problem. In order to be a good engineering manager, you must learn to navigate and bridge both worlds — the technical, structured, predictable world of engineering and the unstructured, messy, unpredictable world of people.

Management, as we know, requires an entirely different set of skills. It's not a given that great engineers have the skillset needed to be great managers, but with the right tools, they can learn.

THE PATH TO GREAT ENGINEERING LEADERSHIP

So what is the best path to turn good engineers into great engineering managers? When you want to encourage your employees to learn on the job, there are often these three options:

1. Let them learn by doing (trial and error)
2. Let them learn with others (provide mentors/coaches to help them)
3. Let them learn with resources (books, videos, etc.).

Which one of these approaches is best? The short answer: There is no silver bullet. Most of the time, it's some combination of all three things — and it really depends on the person. The trick is to find the right balance for each of your managers. As a leader, you can help the most by providing structure with mentoring or coaching.

3 REASONS TO OFFER STRUCTURED MENTORSHIP TO ENGINEERING MANAGERS

Introducing a structured mentoring program has the potential to create the biggest impact on engineering managers, but its benefits extend beyond them to their direct reports, the rest of your company, and even to potential candidates who are considering joining your company. Let's take a look at some of the ways a structured mentorship program can have a positive impact on these different groups.

1. A STRUCTURED MENTORSHIP PROGRAM IS GREAT FOR RETENTION.

Most engineers love a challenge, but they also want to feel like what's being asked of them is reasonable. If you place a strong individual contributor into a management position and they suddenly have to adjust to an entirely new way of working, they will undoubtedly need support — and a structured process. Even experienced managers can find themselves in unfamiliar terrain if they're transferred to a new department or if they are now the senior leader managing engineers who used to be their peers.

"Sure, you can buy the Ping Pong tables and the kegerators, but every other software company has the same perks. However, if you publicly commit to the development of your employees through a mentorship program, this is one way of clearly differentiating yourself from your competitors."

Mentoring can ensure retention in two critical ways. First, you'll retain the manager. Showing your managers that you value and support them makes them much more likely to stay with your company. According to Gallup research, 87 percent of millennials rate "professional or career growth and development opportunities" as important to them in a job. This research also shows "opportunities to learn and grow" to be one of the top three factors in retaining millennial talent. Culture Amp also analyzed data from hundreds of companies and found that 52 percent of people chose to leave a company due to the lack of development opportunities.

Second, and probably the most important, when you invest in your managers and give them the skills they need to better lead their team, you're amplifying the impact and retention of your entire workforce. Gallup research has shown a direct correlation between managers' behavior and employee engagement and retention — in fact, one in two people surveyed has left a job specifically to escape a bad manager. When employees feel their managers are open and approachable, help them set performance goals, and focus on their strengths (all management skills that can be refined through mentorship), they are *much* more likely to be engaged in their role.

2. MENTORING LEADS TO MORE ENGAGED AND PRODUCTIVE EMPLOYEES.

In a *Harvard Business Review* article, "Why Top Young Managers Are In A Nonstop Job Hunt," Monika Hamori, Jie Cao, and Burak Koyuncu report that 95 percent of young "high achievers" were actively searching for other job opportunities. These high achievers left their companies after 28 months on average. The researchers conclude, "Dissatisfaction with some employee-development efforts appears to fuel many early exits ... they're not getting much in the way of formal development, such as training, mentoring, and coaching — things they also value highly." So mentorship is a clear way to keep your high-performing employees engaged and prevent them from seeking out the next best thing.

3. TALENT WILL FLOCK TO COMPANIES THAT INVEST IN THEIR DEVELOPMENT.

There's a tight competition for tech talent. And if your company has a well-known consumer or employer brand, you may have a constant influx of applications. But if not, how do you stand apart from your competition? Sure, you can buy the Ping Pong tables and the kegerators, but every other software company has the same perks. However, if you publicly commit to the development of your employees through a mentorship program, this is one way of clearly differentiating yourself from your competitors. Research from SHRM showed that only 39 percent of companies had positively leveraged their professional and career development benefits in recruiting, so there's still a considerable opportunity here.

One thing to note: Engineers have a strong preference for being coached by other engineers. I've observed this firsthand when a Bay Area-based tech company had offered an internal mentorship program whereby people could be paired with mentors from various disciplines. When they launched the program, only 5 percent of engineers opted in (despite the fact that engineers comprised 40 percent of the company). Yet when they offered mentors who came from a strictly engineering background, participation skyrocketed.

We can't expect engineers to automatically be skilled at managing people, but we can provide them with the tools that will help them learn this skill in a way that's natural and comfortable for them. By offering mentorship with experienced engineers who have solved similar problems in comparable situations, you're not just helping the manager in question but also the rest of their team, your product, and your company as a whole. Isn't it worth giving it a shot?

Pricing Mistakes At Every Stage Of Software Growth

From free betas to discounting to confusing complexity, your software company needs to avoid these pricing mistakes regardless of what growth stage you're in.

CHRIS MELE Co-founder & Managing Partner, Software Pricing Partners

We didn't know anything about pricing in the late 1990s when I was running a software business because, like many founders, we spent the majority of our time and money on the product's capabilities. The challenge with early software products is that your customers ever use only 70 percent of your product and learn to deal (at least short term) with the gaps.

The real pickle no one ever tells you about is that each time you acquire a new customer, that customer uses a different 70 percent of your product, with additional gaps you didn't know about. This creates an enormous backlog of product features that needs to be addressed before the product/market fit stabilizes. And this, in turn, forces software companies to focus heavily on developing crucial product capabilities. Looking back, it's no wonder pricing was relegated out of the discussion entirely in our early years — and then, as with many items on the back burner, it never made its way to the forefront again.

I think a lot of software companies operate in this way. As we re-architected our on-premises solutions for the cloud in 2006, we really tried hard to understand this phenomenon. Why did it take us so long to address pricing? Why were we so consumed on product that we inadvertently spent so little time on constructing how we would acquire and retain customers more profitably — arguably the single most important thing we should have been focused on? We began a multiyear journey to wire the pricing discipline into our business model. It was painful and time-consuming. We made mistakes and learned how to recover quickly. But in the end, we succeeded in addressing the single most important, and often missing, element inside our business model: monetizing our intellectual property with discipline, science, rigor, and good judgment.

PRICING MISTAKES: STARTUPS & EMERGING SOFTWARE COMPANIES

One of the biggest mistakes for young software companies is unpaid betas. If we could get all of the startup founders in the world together in one room, we would tell them to try to avoid unpaid betas. If you're launching a new product and need a small handful of early adopters to help round out the product, or a small handful of success stories in a new market vertical that is challenging to penetrate, that may be reasonable. But as you progress into the beta stage, adopting a strategy of unpaid betas for too long is dangerous. If a software company begins the relationship assigning a value of zero to its software in any way, it becomes incredibly difficult to charge for it later. This approach can easily morph into a free beta or free pilot strategy on an ongoing basis even in markets where a sizable number of customers has already been acquired.

Young companies often rationalize away their leverage in charging for their software under the guise that the buyer is investing their time as well. But the reality is that if there is no money on the line, no skin in the game, the odds are higher that your free software will rarely be used, if ever, during the beta. Worse yet, startups will be cranking their developers in an all-hands-on-deck approach to close feature gaps in the hopes of a potential buyer one day, only to become disappointed. It is absolutely critical that startups spend their time as quickly as possible with paying customers. A buyer participating in an unpaid beta is not a customer.

PRICING MISTAKES: ENTERPRISE SOFTWARE COMPANIES

One of the biggest mistakes for mature software companies is having too much pricing complexity. Engineering rules the roost and has overly complicated how to license, package, and charge for its software. This is further complicated with old acquisitions of on-premises software companies and more recent acquisitions of cloud software companies. The result is often a global sales team in which there is so much friction in the sales process that not only are the salespeople confused, but their customers and prospects are confused, too. And we know confused buyers never buy.

In addition, there are usually large, systemic issues with market fairness: Two customers bought the same thing and paid two different prices. Once customers uncover that they were charged differently for the same set of products and services (which inevitably they do), the software company's brand can take an enormous trust hit, especially in today's world of social media where there really are no secrets.

PRICING MISTAKES: GROWTH-STAGE SOFTWARE COMPANIES

Growth-stage software companies can burn through large numbers of customers without adequately capturing the value they deliver. No market has an endless number of customers. It is crucial that growth-stage companies get paid full value for their software during this stage. Otherwise, they run the risk of having tons of customers and uncovering too late that they left too much money on the table. This can be the difference between having an option of going public or not. If you fail to capture the value you deliver along the way, you really kneecap the enterprise value you can achieve in the long run.

DISCOUNTING MISTAKES

Most software companies leave far too much flexibility in the hands of salespeople when it comes to discounting. There is nothing wrong with structured incentives. But discretionary discounting, beyond scheduled company discounts, for example, will always get the software company in trouble. In poker, they refer to leaks in your game: places where your strategy isn't tight enough and can be exploited in the form of your losing money. For software companies, salespeople's (including the deal desk's) flexibility on discretionary discounts is one of the largest leaks in the game of pricing.

If you've ever sold software, you know that discounts are a fact of life. Structuring incentives into your monetization approach is a critical success factor. If you fail to do this, larger companies and aggregators most likely will avoid doing business with you. Today's buyers are much more educated. They understand how costs scale in the cloud. They understand gross profit margins for software companies are often in the 80+ percent range. If they're buying a lot of your software, they're going to expect that your pricing approach addresses this. If your answer is "We don't discount," that's fine. But you have to be OK with the consequence of that decision, which is likely very few sales to larger companies.

EVALUATING & ADJUSTING PRICING

Any software pricing project that doesn't help grow revenue and profitability is a complete waste of management's time. Bottom line: Salespeople should be able to sell more and do so faster. How often should software companies evaluate and adjust their feature set? Every time a new feature is developed, there is a potential of greater value-add to the customer and therefore a potential to increase prices.

When prices are adjusted outside of standard, yearly price increases, this shouldn't affect existing customers. Instead, licensing, packaging, and pricing should come into play to attract new customers and get older customers to either increase their usage of the software or buy additional capabilities being offered. It would be a terrible mistake to tell a customer that, despite selling them on one value equation a year ago, their pricing has now changed significantly because you have a different perspective on the value you deliver. Their perspective hasn't changed in this example, and any customer who has their head on straight will simply defect to the competition or some alternative. Remember, people buy on emotion and rationalize with logic. If customers feel treated unfairly in any way, their emotional response can make them take their business elsewhere, even if it logically isn't the best option for them.

When it comes to pricing, if you're a startup, don't overthink it. If you're a growth software company, you're probably already late to the game if this is the first time you're reading about this. If you're an enterprise software company, there's no time like now to begin cleaning up the mess!

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Fulfilling The Software Value Proposition

Product innovation alone won't fully engage and retain customers.

THOMAS J. SWEENY Principal and Founder, ServiceXRG

To all of you software veterans: Do you remember when software was sold and delivered on physical media; licensing was handled through license keys, dongles, and copy protection; and (almost) everything was owned in perpetuity? You sold a service contract and renewed it year after year. If the customer didn't call, all the better — it was like printing money. Was it really simpler back then? Perhaps, simpler, perhaps not — we can debate.

There is no debate, however, that today's software industry is different. Distribution, licensing, the velocity of innovation, and the diminished barriers to market entry make the software industry feel different. For everything that is different I contend that the software industry is exactly the same at its core. We still sell applications (and subscriptions) to fulfill the expectation that customers can use and apply software to address real business challenges. The basic software value proposition persists. As an industry, how do we ensure that we can continue to meet the needs and expectations of our customers?

THE VELOCITY OF INNOVATION

The software industry perpetuates a model that delivers a constant stream of product updates and new versions every 12 to 18 months, and in some cases far more frequently. While updates and new releases are critical for fixes, security updates, and enhanced performance and reliability, customers cannot always keep pace and absorb updates and releases.

We have come to expect a rapid pace of technological innovation, but is this pace sustainable or even necessary to meet customers' needs? The time, effort, and investment customers make to get applications to a mature and stable state is significant. While customers want to keep their applications up to date, they may not have the means or desire to upgrade at the same rate as new versions are released. Sometimes we move so fast to create the next great product that we lose focus on how customers are using and applying our current products.

Does the pace of innovation produce greater customer benefits? It is essential for software publishers to consider how much innovation their customers can absorb and recognize when there are diminishing returns from the adoption of new versions. We need to consider the basic value proposition that defines the relationship with our customers and examine what services and policies are in the best interests of all.

> **"It is not sufficient to assume that the features and functions of the application are enough to deliver the software value proposition."**

ADOPTION AND SUCCESS

It is important to observe how products offered as-a-Service challenge the traditional software value proposition by emphasizing the adoption, use, and success of the application and not just the licensing and attachment of support and maintenance. This is not to suggest that before SaaS the industry did not care about making customers successful with their products. The difference between a perpetual license sale and a subscription, however, is that the subscription must be sold then resold each time the subscription renews. The ability to

> **"Customers do not necessarily need more features. If your product has the fundamental capabilities, then the most important differentiator you can offer is the ability to help customers quickly and efficiently use your products. ..."**

sustain a subscription relationship demands that customers realize a return from their software investment or at least feel that they are on the path to do so.

It is not sufficient to assume that the features and functions of the application are enough to deliver the software value proposition. For a software publisher to succeed, the customer must be successful. Driving adoption and success is the most reliable method to ensure that customers can realize the full value of an application – perpetually licensed or offered as-a-Service. This is not something that innovative software products alone can accomplish. Complete fulfilment of the software value proposition is a service opportunity.

MARKET LEADERSHIP THROUGH SERVICE

Software industry leadership has long been evaluated on capabilities and price. These are important attributes and are essential to product differentiation. In the current chapter of the software industry, however, there must be an awareness that the utility of the application is paramount. A feature-rich product may be essential for some, but most customers use only a fraction of the available features.

Customers do not necessarily need more features. If your product has the fundamental capabilities, then the most important differentiator you can offer is the ability to help customers quickly and efficiently use your products to drive their business forward through services. The ability to apply a product effectively has always been foundational to the software value proposition. This is not unique to software offered through a subscription. This is critical to on-premises, perpetually licensed applications as well as SaaS-based offerings.

As you consider what it will take to grow market share or increase license sales, think about what your customers really need. Do they need more features? Do they need enhanced security and performance? Or do they need the help and expertise to apply more effectively what they already have to their current and future business challenges? Perhaps the next great feature you introduce to the market may be a service.

THE SERVICE MINDSET

Adopt a service mindset for how you engage and retain customers. Whether you sell your software as a subscription or as perpetual licenses, think about the initial sale as the starting point for a long-term, profitable relationship. Customers who can apply your application to drive tangible benefits to their business are most likely to continue to buy more products, renew maintenance agreements, renew subscriptions, and recommend you to others. The full revenue potential from a customer depends upon the longevity of the relationship. With a service mindset, product features are just the starting point but are never enough to fully deliver the software value proposition. Consider the following:

- Provide a software application that has the fundamental features that your customers need – ask them, study their needs, learn how they measure their business' success.
- Make certain that new customers understand how they can apply your applications to their specific needs.
- Work with your customers to define a short, medium, and long-term success plan or journey map for the successful use of your products.
- Provide the services to help develop customers' skills so that they can use products proficiently.
- Don't wait for customers to contact you when there is a problem.
- Stay actively engaged with customers to make certain that they continue to realize benefits from your products.

PRODUCT INNOVATION VS. APPLICATION

Over the past several decades, the software industry has evolved in so many positive ways. As we enter the era of as-a-Service, we all need to embrace a service mindset. Regardless of the licensing model, the key to sustained financial success in the software industry is through long term customer relationships. Product innovation will take us only so far in engaging and retaining customers. To fulfill the software value proposition we need to provide services to help customers apply our products to succeed in their business. S

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Why Channel Partners Can Lead To B2B Software Success

A digital first approach to partner management is the foundation of channel success.

JAMES HODGKINSON CEO & Founder, Webinfinity

The channel seems like an old-school term for what is such an exciting new-world opportunity. As we sit here today, about 70 percent of all revenue created by technology companies is generated by (or fulfilled through) a partner of some kind. That equates to around $3 trillion annually! But somehow the potential of scaling through partners is often overlooked or seen as the domain of "old-school" tech companies.

We tend to think of giant tech manufacturers and distributors as companies who have traditionally leveraged indirect models to deal with physical problems like shipping, fulfillment, and bulk discounts for hardware inventory. When the cloud and SaaS came along, everything began to change. The conventional channel roles and responsibilities have evolved at a breakneck pace. There is a much bigger call for solution/deal-centric selling. All kinds of agile new cloud-first companies are appearing in the market. There are even cloud-only distributors reframing the way we help partners do business. I read recently that MIT is seeing an increasing reference to channel partners in startup business plans.

I'm seeing this trend every day: ambitious tech companies are realizing that channel partners are the key to fast growth and frictionless scale. Why? Think about what is needed for high-growth success in B2B tech:

- Packaged products that can be easily deployed and supported without significant training or service overhead
- Sales methodologies which are repeatable and scalable based on the parameters of the deal
- Access to multiple verticals and geographies through trusted referrers
- Sales and service offerings which are global in standard but local in "feel," which includes elements like local language support and business-specific consultancy
- High-margin software with low fixed overhead.

Given the above, it is hard to see any real path to true scale without partners. If you get your template right, it is realistic to create an army of invested and trusted organizations that will bake your offering into their business model. This can provide incredible reach to customers and markets that would never even get on the internal plan if you tried to scale purely through direct sales. It can be game-changing for your organization and can lead to value creation beyond precedent.

That said, being ready to scale is critical to success. If your organization is not there yet, or if it does not have a product or a process that can be easily replicated, then blowing up the model through partners could prove disastrous. Proving out direct sales and the fact that you can successfully sell and support your product is likely the first proof of any future success through a channel.

But let's say your company is ready to go. The need for your solution is established, you have started to see traction, and you now have delivery and support processes that are repeatable and teachable. The next big problem is partner acquisition and engagement. How do you target, nourish, and engage prospects so they want to partner with you? Once they have expressed interest, how can you make sure they are supported to easily start selling on your behalf? Just like your customers, if you create a bad experience for partners when they first touch your program, they are not coming back. There is a lot of other software they can sell.

GREAT TECHNOLOGY IS THE KEY TO CHANNEL SUCCESS

Think about how marketing has changed through the utilization of platforms like HubSpot. Or how e-commerce is now a category for a type of company, not just a piece of technology.

Giving your partner the right experience (from the first click of interest they demonstrate to the first deal they close) is now a critical component of your success. And this means a lot more than providing a partner web portal and deal registration button. The channel companies of the future will understand that effective partner engagement is more like world class account based marketing (ABM), just with many more variables. You need to focus your program's content, tools, and offerings to the precise needs of your channel community. This focus needs to be in the context of each specific user, the stage they are at in their partner journey, and what they are trying to achieve at any given moment (not to mention their physical location and the language they speak).

All too often, I've heard growing tech companies saying "We are not sophisticated enough for that yet" or "We just need a basic website for our partners." This tells me two things:

1. They are not really serious about partners and
2. They are very unlikely to scale their channel anytime soon.

THE POWER OF YOUR PEOPLE

Whatever the term you like to use, expertise in "growth hacking" or some equivalent has unquestionably helped companies skyrocket on shoestring marketing budgets. By providing smart employees with technology to systematically manage processes like content publishing, social syndication, and lead nurturing at scale, many organizations have reaped huge benefits in leveraging new world techniques and technologies to fuel their growth.

The same principles can easily be applied to ambitious channel-focused organizations. With the right mix of team and technology, the few can truly serve the needs of the many. Channel marketing becomes a science — the ability to correlate messaging, offers, and solution-selling content with the precise profile of each and every member of your channel community. Channel sales become a connected conversation between your partner account managers and the organizations they support. Processes can be seamless, reducing friction for the partner and making them feel special every time they engage with your company.

And the really cool part? The opportunities at scale are incredible. Get the model right, and, much like the growth hacking example, you could have a team of five people supporting the individualized needs of 5,000 or more external contributors, all of whom have the ability to move the needle on your revenue or customer satisfaction.

GETTING IT RIGHT FROM DAY ONE

In my long experience working with high-tech companies, I've torn my hair out at the mess that is often created as companies scale through partners without any thought to the underlying strategic and technical foundations on which their channel stands. Part of this problem was a lack of maturity in the technology solutions marketplace, leading companies to buying legacy modular partner relationship management (PRM) applications or custom implement CRM platforms like Salesforce to try to solve the partner engagement problem. Reverse engineering the mistakes of the past can be a painful and expensive process and is somewhat akin to fixing an airplane at 30,000 feet.

For startups and high-growth companies there is a huge competitive advantage in starting the right way and scaling in that image. In the last few months, we've had the pleasure of working with great software companies, all of whom really get the value of digital first partner engagement. These companies are pursuing a results-driven approach to helping drive their channel success based on hard KPIs that can be measured against strategic objectives. They are embracing next-generation digital technology to help them drive these results, and because of this they have significant advantages as their programs begin to scale. I would go so far as to say their approach will be game-changing in terms of their opportunities to drive partner-led growth.

So whatever your current channel life stage, if high growth through partners is on your agenda, now is the time to consider embracing a digital first channel approach. Getting this right might just be the key component of your success.

JAMES HODGKINSON is the CEO and founder of Webinfinity, the SaaS-based channel experience company he founded after being a channel solutions provider. He is a career entrepreneur and thought leader in technology and channel markets. He has focused on the challenge of partner experience for more than 15 years.

Burnout:

The *Subtle Shift* You Can't Afford To Ignore

DR. SHERRY WALLING

DR. SHERRY WALLING is a licensed psychologist and the founder of ZenFounder, LLC. She has a Ph.D. in clinical psychology and two master's degrees. Her life's work is to help high-performing professionals maximize their potential while maintaining personal sanity, life satisfaction, and a sense of fulfillment. She consults regularly with executives regarding burnout, anxiety, productivity, existential angst, relationships, major transitions, and personal balance. She co-hosts the weekly ZenFounder podcast, which focuses on mental health and entrepreneurship.

Over the past 10 years, burnout has been the featured topic in hundreds of articles in tech magazines and blogs. It might be a trendy term, but it isn't a phenomenon that any executive can afford to ignore.

Burnout is common. And it is serious. Burnout is not simply the result of long hours or hard tasks.

It is not depression. It is not weakness or whining. And it is not something that just happens to other people. Burnout can happen to your team. And to you.

WHAT IS BURNOUT?

Now a formally diagnosable syndrome in the ICD-10 (International Classification of Diseases, tenth edition), "burnout, a state of vital exhaustion," was popularized by Dr. Christina Maslach, a professor of psychology at UC Berkeley. Burnout is a state of chronic stress that leads to:

- physical and emotional exhaustion
- cynicism and detachment toward clients, colleagues, and other people
- feelings of personal ineffectiveness and lack of accomplishment (regardless of actual success).

Burnout is no longer caring about your work, no longer having energy or drive, and no longer believing that your effort matters. It is existential weariness.

Burnout is toxic to productivity, creativity, complex problem solving, interpersonal relationships, and motivation. Research on the neuroscience behind burnout has shown that burnout has the power to change the function, structure, and chemistry of the brain. For example, functional MRI scans of folks in burnout demonstrated enlarged amygdalae, the part of the brain that regulates negative emotions like fear and anxiety. There is also evidence for eroded connections between the amygdalae and the anterior cingulate cortex, which helps regulate emotional distress. Burnout causes a neurologic downward spiral that leads to people feeling a heightened level of negative emotions and having difficulty calming down or talking themselves through those feelings. It is a hard cycle to break and can lead to impaired productivity, memory, and attention.

In a separate set of studies, a team of researchers tracked health screenings of 8,838 employees for an average of 3.4 years. They found that people who demonstrated high levels of burnout had a 79 percent higher risk of being diagnosed with heart disease.

SO, WHAT CAN I DO ABOUT IT?

Unfortunately, for most, burnout creeps up slowly and is easy to miss. Many executives don't realize they are dealing with burnout until their performance is compromised or their relationships are beginning to fracture.

Burnout is partially driven by long hours and an unrealistic workload, but that's not the full story. The other significant predictors of burnout are:

- insufficient support from other people,
- a lack of clear or meaningful goals,
- few observable successes, and
- limited control over key variables that shape work (like schedule or timing of deadlines).

Burnout happens when the workload is heavy and devoid of the sustaining positive experience of clearly accomplished goals, acknowledged successes, and meaningful connections to other people (be it teammates or customers). Understanding the causes of burnout is key to preventing it. It is helpful to break large projects into small steps with clear win moments along the way. It is important to keep work relationships supportive and healthy.

The central component of both prevention and recovery is staying connected to the life-giving parts of work – the things that you find most meaningful and are central to why you've chosen this work. This may mean hiring out tasks that take you away from the core of what you love. It may mean mixing up your job description to include a little bit more interaction with customers or a role in site architecture – not because you're needed in those tasks, but because these tasks sustain you.

It is possible to recover from burnout. Time off is helpful but not enough. The true way to recover from burnout is meaningful work. No one is able to spend a lot of time doing something they don't care about — time on the hamster wheel makes anyone, but especially an executive, feel depressed and burnt out. Keep your values and passions close at hand. You'll be more productive and better off in the long run if you do.