software executive magazine

OCTOBER / NOVEMBER 2017

DAVID DUNCAN
VP of Sales & Operations
Epos Now

Playbook For Growing A Software Sales Team From 0-50

p. 14

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CONTENTS

Welcome to

Software Executive

OCTOBER / NOVEMBER 2017 VOL. 1 NO. 2

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Early on, you're constrained by leadership. You need to be spending less time doing things yourself, and more time recruiting amazing people who give you more leadership input, so you can do more things.

The whole company needs to be working together at the same pace to hit growth goals. You can't just have sales growing 10 percent and the software team not turning out a product to keep up with the market demand.

We're a SaaS company, and true to that model, the service is repeatable — generally, 85 percent of the code that drives an engagement is repurposed.

When faced with a large software development project, don't put more people on it and believe that doing so will bring faster results.

Be proactive in approaching partners that you believe offer the best fit, and do not engage with every partner that happens to find you or has a one-off deal.

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CO-OWNER & PRESIDENT, CERIUS INTERIM EXECUTIVE SOLUTIONS

If you're thinking about promoting your best engineer to VP of Engineering or handing your top sales rep a VP of sales title, stop and read Kristen McAlister's article first. While it might seem like a noble idea to promote from within, she explains why stellar employees can fall short as managers. She outlines steps you can take to support newly minted managers so everything in the office can continue running smoothly. McAlister knows a thing or two about management – she spends her day job finding executives for transitional situations, high-growth opportunities, and turnarounds.

AUSTIN MERRITT CO-FOUNDER & GENERAL MANAGER, SOFTWARE ADVICE

It doesn't matter whether you love or hate online review websites. Your potential customers are going to look at your software's online reviews regardless of your opinion of these platforms. In fact, they are probably going to head there long before they drop a lead or pick up the phone to call your sales team. On page 38, Austin Merritt shares insider research on what software buyers really think of reviews, and he outlines steps you can take to boost your standing in the online review world. Hint: 75 percent of buyers check online reviews before purchasing software, so at the very least you should tear out this article and hand it to someone on your marketing team.

STEVE SEHY PRINCIPAL, CAAS FOR SAAS

Workday became one of the first software companies to adopt the new revenue recognition standard (ASC 606) in February 2017. Good for Workday. Chances are most *Software Executive* readers don't have a small army of financial experts like the $1.5 billion dollar plus company Workday does. That's why we asked Steve Sehy, a fractional CFO who provides CFO consulting services to SaaS companies that are planning to raise capital, to help make sense of this revenue recognition transition. Turn to page 9 and make sure you're checking Sehy's 10 tips off your to-do list before the end of the year.

KEVIN KOGLER PRESIDENT & FOUNDER, MICROBIZ

MicroBiz first started working with resellers in the 1990s. The company relaunched its reseller program in 2013. Along the way, this software company learned its fair share of do's and don't's when it comes to growing indirect sales channels. Editorial advisory board member Kevin Kogler shares his war stories and helps other software companies understand program tiers, partner support infrastructure, identifying and recruiting resellers, and more.

Why Do Software Companies Struggle With Hiring?

ABBY SORENSEN Executive Editor

Lately I've been spending a lot of time looking at job postings. No recruiters, not for me (getting *Software Executive* off the ground the past few months has been pretty fun, thanks). I've been sifting through Indeed.com, the "careers" pages on software companies' websites, and my LinkedIn feed to help me wrap my head around why hiring keeps coming up over and over again when I ask software executives about their top business challenges.

When I typed "software engineer" into the Indeed.com search bar in late August, the results showed 202,540 open positions. Amazon was responsible for 5,164 of these listings, and Microsoft was a distant second at 1,782. Let that sink in for a moment – those two companies alone are hiring nearly 7,000 developers.

My home state of Pennsylvania had 6,191 software engineering jobs listed on Indeed. The latest enrollment figures I could find for Penn State's computer engineering and computer science programs showed a total of 128 degrees in those majors were awarded in the 2014-2015 academic year. That means it would take more than 48 years of graduating classes for Penn State students to fill the open software engineering positions in its own state (and more than 54 years to fill openings at just Amazon and Microsoft). No wonder coding boot camps and other nontraditional developer training programs have popped up as alternatives to a four-year degree.

The picture isn't much prettier for software sales positions – Indeed.com only had 83,924 openings for that keyword search. I didn't even bother searching for "software customer support" or the myriad of other operational roles required to run a software company. Hiring isn't hard just because it takes time, or because cultural fit is important, or because my millennial generation is so demanding. It's because software and tech companies don't have enough fish in the talent sea. There's nothing our editorial can do to solve that talent gap today, but what we can do is provide our readers with some advice about how to hire and manage people at software companies. Here's what we have lined up in this issue:

- Editorial advisory board members discuss hiring members of their executive teams (see p. 8)
- Our cover story outlines the playbook one VP of Sales used to hire 50 sales reps in 18 months (see p. 14)
- Another feature tells the founding story of a software company that scaled from 0 to 500+ employees in less than three years (see p. 24)
- The "By The Numbers" page is about metrics related to software account executives, including stats on turnover, compensation, and quotas so you can see how you stack up (see p. 10)

For more on this topic, head to www.softwareexecutivemag.com and check out our web-exclusive article, "3 Pitfalls To Avoid When Hiring Software Engineers."

Finally, if you want to learn more about the tech labor market talent shortage, come join us in Philadelphia on Oct. 12 for our ISV Insights conference. One of the panel discussions will feature an external recruiter who specializes in tech, an internal recruiter for a fast-growing venture-backed software company, and an outsourcing expert. The event agenda will also cover raising capital, M&A trends, building indirect sales channels, pricing strategies, and customer retention. Plus we'll wrap up the day with an open bar, and you'll need a stiff drink when I remind you again that Amazon and Microsoft alone are hunting for nearly 7,000 software engineers. On a serious note, if you're a software executive who wants to spend the day at our conference learning how to improve your business, you can register for free at www.isvinsightsevents.com. If you can't join us in Philadelphia, stay tuned for our 2018 event dates. S

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

EAB

Editorial Advisory Board

Hiring is hard. Hiring a member of your executive team is even harder because the stakes are higher. We asked our editorial advisory board to share their opinions on what to look for when bringing on a new executive.

Q What are the top two things you look for when hiring a member of your executive team?

A IN MY TENURE AS CEO, some of my executive team hiring decisions have worked out splendidly and are still with me today, while others went the way of the dodo. When I am looking at characteristics of a person that I want to add to my executive team, two items consistently float to the top of that list. When I have hired in spite of those top two things, it has proven to be very costly. What are they? Attitude and a proven track record. Number one is attitude. Attitude is a complex trait with many sides: strong leadership, confidence in their skills and in themselves, ability to stand in and up to the fire, a can-do spirit willing to solve problems, and a constant yearning to move forward, continuously improving. Skills can be taught but attitude cannot, which is why it is at the top of my list. Number two is a proven track record. This is very simple and very straightforward — have they successfully demonstrated in the past what I need them to do for me now? For me, if either of those two things are not overwhelmingly evident in the person sitting across for me, they don't stand a chance. By the way, it also helps if I sense that they are smarter than me – particularly in their area of expertise!

TOM BRONSON is the President & CEO of Granbury Solutions, which he helped grow from 20 employees in 2010 to over 200 employees today with more than 10,000 customers. He is also the former CEO of DiamondTouch, a pizzeria POS software company.

A RELEVANT EXPERIENCE IS THE OBVIOUS ANSWER, but it's the minutia of one's experience that truly matters. Every software company is nuanced in its place in the industry, and when hiring an executive you need to ensure that their experience fits your company's unique position. It's important to ensure that the person's experience is transferable. The second factor, and the most important in my opinion, is organizational fit, specifically amongst the rest of the executive team. Executive teams need to be highly functional with the right mix of differing opinions, mutual respect, the ability to make difficult decisions, and then the ability to execute. I believe that a high-functioning executive team can be the difference between a very successful company that can adapt and change with the needs of the market and one that simply limps along, reacting too late and ultimately watching from the sidelines.

DAN CHANDRE is the SVP of Strategic Partnerships at Booker Software. The cloud-based business management software for spas and salons is in 11,100 locations in 70 countries and processed $2.6 billion in transactions in 2015.

A THERE ARE TWO QUALITIES I CONSIDER ESSENTIAL in anyone I would hire for an executive position. The first is that the person MUST have a positive outlook and sense of humor. I'm not talking about a comedian or entertainer. I want someone who can set a goal and attain it in a positive fashion and who enjoys what they do and the people they work with. I'm looking for positive, happy people who are a joy to work with. The second qualifier is a proven track record in the area they are being hired in or a closely related area. Length of time in a role isn't the same as a proven track record. Someone can work in a field for 20 years with one failure after another, while another can show up, figure it out quickly, and get results time and time again.

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.

10 Steps To Take ASAP For The New Revenue Recognition Standards

STEVE SEHY CPA, MBA Fractional CFO

Hopefully you've heard you will need to address the new standards (also called ASC606 or ASU2014-09) when preparing your GAAP financials. As a nonpublic company, you will need to follow the new GAAP standards starting January 1, 2019. This list of steps to take by 12/31/17 should help you put together a plan for how to do this.

1 ASSEMBLE YOUR TEAM

While your CFO or a consultant may lead the project, other parts of the organization will be needed, such as sales, finance, accounting, accounts receivable, legal, and management.

2 IDENTIFY HOW YOU WILL TREAT EACH OF YOUR TYPES OF REVENUE

This means determining all of your performance obligations and how you will recognize the revenue for each – including how you will group them. Review all of your sources of revenue including software licenses, software subscriptions, setup fees, installation service fees, training fees, support fees, upgrade fees, and custom development fees. Note: If you sell software with annual agreements, the agreements you sign on January 1, 2018 will impact your 2019 financials.

3 IDENTIFY HOW YOU WILL TREAT CUSTOMER ACQUISITION COSTS

This is most likely commissions but may also include material customer setup costs. You must now capitalize either all of these expenses or just those that provide benefits over one year. These costs will be amortized over the expected period of benefit, which could be the length of the contract or another period determined by management.

4 DETERMINE HOW YOU WILL ALLOCATE THE PRICE IN DEALS WITH MULTIPLE PERFORMANCE OBLIGATIONS

When multiple items are sold together but need to be treated differently for revenue recognition, the transaction amount needs to be allocated to the various items. This is NOT determined based on how the customer was invoiced. The basic standard for this is to allocate using the stand-alone selling price or the estimated stand-alone selling price.

5 REVIEW YOUR STANDARD CONTRACTS AND TERMS OF SERVICE

Make sure the contracts and other documents are consistent with how you want to treat the various types of revenue.

6 IMPLEMENT A PROCESS OF PREAPPROVAL OR REVIEW OF ANY CUSTOMER REQUESTED CONTRACT MODIFICATIONS FOR NEW AND EXISTING DEALS

Since a single line agreement change can change the accounting, the finance function should either be in a position to veto the change or note the change so that the accounting will match the final agreement.

7 CONTACT YOUR AUDITOR, DUE DILIGENCE REVIEWER, OR A CONSULTANT, AND CONFIRM YOUR DOCUMENTED CONCLUSIONS FOR THE STEPS ABOVE

The new standards include more judgement than previous GAAP so you need your auditor to agree to your conclusions. This includes determining whether any of the required changes can be ignored due to materiality. Or, have your CFO make the determination and prepare their case for the auditors.

8 DETERMINE HOW YOU WILL TRANSITION TO THE NEW STANDARD

You can select either the full retrospective or modified retrospective method. Each has different issues regarding how to track transactions in 2018.

9 PREPARE A STATEMENT FOR INVESTORS, POTENTIAL INVESTORS, OR BANKERS

Ideally this should be something such as, "We have reviewed the impact of the new revenue recognition rules for their impact on our financials. Based on our review, from January 1, 2019 our [type of revenue] revenue will be affected and the change will accelerate/delay the recognition of this revenue. Currently this revenue is only xx percent of our total revenue." These people will not want to hear "We don't know" when they ask this question.

10 IDENTIFY WHETHER YOUR CURRENT ACCOUNTING SYSTEMS WILL SUPPORT YOUR CHANGES WHEN NEEDED

Based on your answers to the questions above, you may find that your current systems for creating your GAAP financials will work fine. If not, you will need to find a system that has the needed capabilities either by January 1, 2018 or January 1, 2019.

SaaS Account Executive Metrics Report

SOURCE: The Bridge Group

The Bridge Group has been tracking account executive metrics since 2007, focusing on inside sales and SaaS companies. For 2017, 384 B2B SaaS companies contributed to the report. Of these participants, 89 percent were located in North America. Participants' median revenues were $27 million; median annual contract value was $25,000, and the median average sales cycle was 60 days. To download the complimentary full report and to access additional research, visit www.bridgegroupinc.com/inside-sales-resources.

2.4 Average YEARS OF TENURE for SaaS AEs

$110k+ MEDIAN AE On-Target Earnings (OTE)

$62k AVERAGE AE Base Salery

$477 Average amount spent PER AE PER MONTH on acceleration technologies.

Average AE INVOLUNTARY TURNOVER rate **30%**

$770k Average annual AE QUOTA

$850k Average annual AE quota excluding SaaS companies BELOW $10M in revenues

5.3x Average AE quota OTE MULTIPLIER

7.2 Average NUMBER OF AEs REPORTING to a single manager

49% of managers ranked PRODUCTIVITY & PERFORMANCE as one of their top two challenges in managing AEs

30% of managers ranked RECRUITING & HIRING as one of their top two challenges in managing AEs

MARKO KOVAC
Co-Founder & CEO

Vital Statistics

42
Employees

Headquarters
Boston, MA

Year Founded
2010

Finances

Total Capital Raised
$3.77 M

Revenue Growth Rate
100%
(3 Consecutive Years)

Latest Updates

July 2017:
Repsly announced a $1.6 million seed round led by LaunchPad Venture Group

Repsly

Moving its headquarters to the U.S. and operating with a scrappy startup mentality before seeking outside funding have positioned this SaaS provider to continue its triple-digit growth.

ABBY SORENSEN Executive Editor
@AbbySorensen_

When Marko Kovac was approached by L'Oreal in 2008 to quote a solution for last mile distribution challenges in Central Europe, his proposal came in at roughly 30 times the allocated budget. That could have been the end of what is now Repsly, an SaaS platform for field sales teams in the food, beverage, and retail markets with a 100 percent growth rate for three consecutive years. Back in 2008, Kovac was living in Croatia, his birthplace, and was running his own consultancy. He realized there was a demand for cloud-based distribution software. Kovac convinced L'Oreal to let him build and own the solution with the promise it would be his first customer. The first version of the software was live within a few months.

The product wasn't exactly on a rocket ship in the first few years. Kovac was still selling the software under the umbrella of his consulting business until 2010, when Repsly was officially founded. Before that, the product was spreading slowly to brands across Europe, mostly through referrals. The original business plan didn't even include a direct sales model. The early team of five employees knew they needed an online solution, a more appealing user interface, and a simplified trial onboarding process. All of these were rolled out at the end of 2011, and by early 2012 Repsly started to gain global traction. By then, Kovac knew the company had to look to the U.S. for growth. Funding in Central Europe is scare, and he wanted to learn from other like-minded entrepreneurs and investors. This move to the U.S. in 2012 paid off. Repsly, headquartered in Boston, now has 42 employees and announced a $1.6 million seed investment in July 2017. Repsly's software is currently sold in 70 plus countries and is used by 900 plus companies.

"In Croatia and Central Europe, our access to funding was close to none. We were forced to bootstrap, and that forced us to do things differently — to think about our bottom line, about cash, about income from customers. I would give that advice to any company. Even if you raise money, from day one you should be focused on cash coming from customers. That's the healthiest cash there is," says Kovac.

Repsly didn't need to raise money to keep the lights on thanks to its scrappy startup mentality. Kovac estimates he spent hundreds of hours with his co-founder between 2008 and 2010 sitting next to their customers, the field reps who were using the product, and trying to understand their pain. Today, every new hire at Repsly has to spend time in the field with customers. "Sales, support, and customer service people are in touch with customers daily. That is a given," says Kovac. "But at most software companies, developers are looking only at screens and code itself. The product becomes better once developers spend some time with end users, so they really understand what it feels like to use the product. In our case, we are not building software for other developers. We are building software for people who are doing their job in the field, so we need to spend time in the field to understand our product."

By 2014, Repsly's product was working well, but it needed an injection of cash to accelerate and avoid the risk of competition catching up. "The idea was not to get just any money from any investor. We wanted to raise smart money," says Kovac. He wanted to ensure any money raised would also come with connections and potential introductions to future customers. For example, Repsly's first round of capital in 2014 came from a somewhat nontraditional partner in First Beverage Group, a venture capital firm that invests in beverage brands. Since Repsly targets the beverage industry, this partnership helped improve its brand standing in that vertical.

Repsly is already cash flow positive, and it will be using its latest round of funding to grow its executive team. Kovac explains, "We measure everything, almost to the point of knowing when our prospects and site visitors and customers breathe in and breathe out. It helps us understand where we have friction." Identifying that friction helped Repsly map out a hiring sequence for VPs of engineering, marketing, customer success, and finance. Kovac is confident the experience these executives bring will help the company continue growing by triple digits. S

Software Support Financial Fundamentals

Understanding margins, funding, and financial models of support.

THOMAS J. SWEENY

Support has evolved from a tactical necessity to a strategic imperative for software companies. Support accounts for more than half of revenue for many companies with average margin performance of 67.8 percent and far higher for companies that have well-developed support programs and policies. To achieve these returns, companies spend between 2.5 and 15 percent of total revenue to fund support operations. This by itself is a reasonable return on the investment in support, yet it represents only a fraction of the full potential impact of a well-defined support strategy.

For many companies, 80 percent or more of revenue comes from existing customers in the form of new or repeat purchases and renewal of subscriptions (XaaS and renewed support and maintenance agreements). The value of a customer relationship is not measured solely on the initial product sale but the lifetime value of the relationship over many years. Support also plays a critical role in sustaining the customer relationship by continually engaging customers in a meaningful way long after the initial product sale.

Support is the key to sustained financial performance of the entire business. Support not only provides a healthy revenue source, but it also is key to continued success and customer loyalty. Managing, measuring, and optimizing support is a strategic imperative that software companies must embrace to achieve optimal business performance. While many software companies have well-established and vibrant support initiatives, there are several questions to ask if you are in the process of developing or transforming support. Should support be provided for free or sold as a fee-based program? Is it better to manage support as a profit and loss center or cost center? What is the appropriate funding for support? How does support drive revenue? What is the expected margin for support?

SHOULD YOU CHARGE FOR SUPPORT?

If you want to make money from support, you need to charge for it, and most software companies do. The majority (88.9 percent) of software companies offer some form of fee-based support. Not all support programs are the same. Some are extensive with many choices for the customers to select, while others are limited in scope. Fee-based support options are not always presented to the customer as a choice. In some cases, the support fee may be bundled with the product price, included as part of a subscription, or included as a compulsory first-year requirement. Very few companies offer free support.

The starting point for this discussion is that support should be sold. A well-defined support offering is far too valuable for both customers and the company offering it. For customers, support is a means to access the expertise they need to help apply the product to its fullest potential. For the vendor, good support is too costly to give away, and the financial benefits of the ongoing annuity are too attractive not to pursue. You should sell support unless: (1) Your product or service is so simple there is no reason a customer would need assistance; (2) Your market is so competitive that introducing fee-based support would create a significant competitive disadvantage; or (3) Your product is used at a time or in a way that there is no practical way to deliver support.

PROFIT AND LOSS OR COST CENTER?

Most software companies manage their support business as a cost center (59.2 percent), and the rest manage support as a profit and loss (P&L) center. There is no right or wrong answer about which model is better if support is held accountable to appropriate financial targets. With that said, most support organizations are managed as cost centers, and only under specific circumstances does support need to be managed as a P&L.

MANAGING SUPPORT AS A PROFIT AND LOSS

- Support runs largely as a separate and autonomous business.
- Support has the means to market, sell, deliver, and renew service programs.
- The value from support programs extends well beyond basic break-fix services and includes many value-added options.
- Support has negotiated financial and service level relationships with adjacent departments to minimize service level disruption (e.g., development is held accountable for escalations and bug fixes, and support pays its share of updates and upgrades sold as part of its offerings).

MANAGING SUPPORT AS A COST CENTER

- Support is part of, and accountable to, a higher-level profit and loss center (e.g., aligned to a specific product line).
- Support is highly dependent upon funding and resources from other departments.
- Support programs are included as part of a subscription or product offering, and support is funded through an allocation from product or subscription sales.
- Support does not have the means to market, sell, or renew programs.

SUPPORT FUNDING LEVELS

Support funding levels range dramatically based on many factors, including the size of the company, the type of product being sold, and the growth rate of the company or specific product line being supported. The right level of funding is best determined by measuring the return the company receives from its investment in support. The return may be measured by satisfaction levels, service level performance, or financial terms such as revenue contribution or profit.

ARE YOU OVERFUNDED OR UNDERFUNDED?

Yes, overfunding happens. Are you experiencing hypergrowth? Are your services highly profitable? Are you keeping customers very happy, and, as a result, are they buying more and renewing subscriptions? All is well, but watch your margins. If you are overfunded and still under-delivering, then it is time to figure out where spending is going and why you are not getting a better return. It may be time to update tools, skills, and/or practices (possibly some staff "realignment").

When it comes to underfunding, industry statistics alone will not be enough to convince executives or the board to spend more on support. You need to make the case that incremental spending will have a positive impact on the business. If you promise higher levels of satisfaction, be prepared to forecast how increased satisfaction will enhance overall company financials (improve renewals, stem attrition, etc.). Regardless of how higher levels of funding will be used, be prepared to justify the return from this investment.

SUPPORT MARGINS

Software publishers outperform hardware and systems vendors with average support and maintenance margins of 67.8 percent and 55.9 percent respectively. Support and maintenance margins typically outperform professional services and training margins, which fall within the 20 to 40 percent range. A key factor contributing to support margin performance is the fact that support and maintenance is sold as an annual service, and many of the benefits provided are relatively low cost and/or not exploited by the customer. When support programs are seldom used, they cost less to deliver, and this bodes well for margin performance. In this case, margin performance may be high, but support renewal rates will likely suffer. The challenge is to balance margin performance with a level of service that customers feel is valuable. It is often better to assure multiyear renewals than earn a few extra points of margin by delivering high-value services.

WHAT IS YOUR IDEAL TARGET MARGIN?

Optimal margin performance is ultimately a function of support's efficiency and customers' sensitivities. Efficient support organizations can deliver services at lower costs and thus yield higher margins. The market also has a say in what is reasonable. You cannot charge a lot for a service and not provide an acceptable level of service.

Support has evolved from a tactical necessity to a strategic imperative for software companies. Whether you invest 2 percent or 10 percent of total revenue to fund support operations, you should expect an excellent direct financial return, as well as indirect benefits from sustained customer engagement. S

THOMAS J. SWEENY, principal and founder of ServiceXRG, leads research initiatives and publishes extensively about service industry trends and best practices. He helps companies develop and execute service strategies that strengthen customer relationships and optimize financial performance. Prior to founding ServiceXRG in 2004, he held positions at IBM/Lotus, Gartner, and the Service and Support Professionals Association now known as TSIA.

By A. Sorensen

When David Duncan graduated with a law degree in England in 2011, he probably never imagined himself doing push-ups on the sales floor of the software office he was running in Orlando, Florida six years later. The push-ups were a fair trade – Duncan offered one push-up for every outbound call made that day, which added up to more than 600 (disclaimer: Duncan is an amateur MMA fighter, too; *Software Executive* doesn't condone average sales managers doing hundreds of sales incentive push-ups without consulting a physician). For someone who never imagined a career in sales to begin with, Duncan's story is impressive. He is now the VP of sales and operations at Epos Now, a cloud software company that he has helped grow more than 150 percent for each of the past six consecutive years.

Duncan has come a long way since CEO Jacyn Heavens hired him as Epos Now's first employee. Back then, his only sales experience was some door-to-door selling to make extra cash while he was still in school. When he started at Epos Now, "It wasn't even a real job. It was a bit of money every week just to help out," he says. "They were looking for an initial guy to answer the phones, maybe pack up a few systems, and sell a few customers." He thinks he remembers making about $200 per week in those early days (or about $155 British pounds if we're being technical). "It wasn't like I was there for the money," he admits. "It was definitely for the journey."

And what a journey it's been. Epos Now was founded in 2011 and already has more than 30,000 customers in more than 100 countries. Overseas, the company has a lot of traction. It has been named to the *Sunday Times* Hiscox Tech Track 100 list for two consecutive years, which tracks the fastest-growing privately held companies in the U.K. The Epos headquarters in Norwich, about 100 miles northeast of London, employs more than 200 people. This growth has been organic – to this day Epos has not taken on any outside funding.

When Epos set its sights on international expansion, Heavens tapped Duncan to lead the way. The company started noticing satellite offices of U.S.-based competitors popping up in the U.K. in 2014. Epos needed to take it to their turf and capture some market share in the U.S., or it would risk having competitors operate at a loss in the U.K. and essentially put Epos out of business. Heavens and Duncan booked a flight, explored four U.S. cities, and then Duncan stayed back to find office space in Orlando.

Finding an office is easy. Hiring 50 sales reps within a year, quickly scaling U.S. operations, and achieving a 150 percent growth rate in a new market takes some skill. Duncan shares a step-by-step playbook for sales success that any software company can learn from.

step 1:
know when to hire

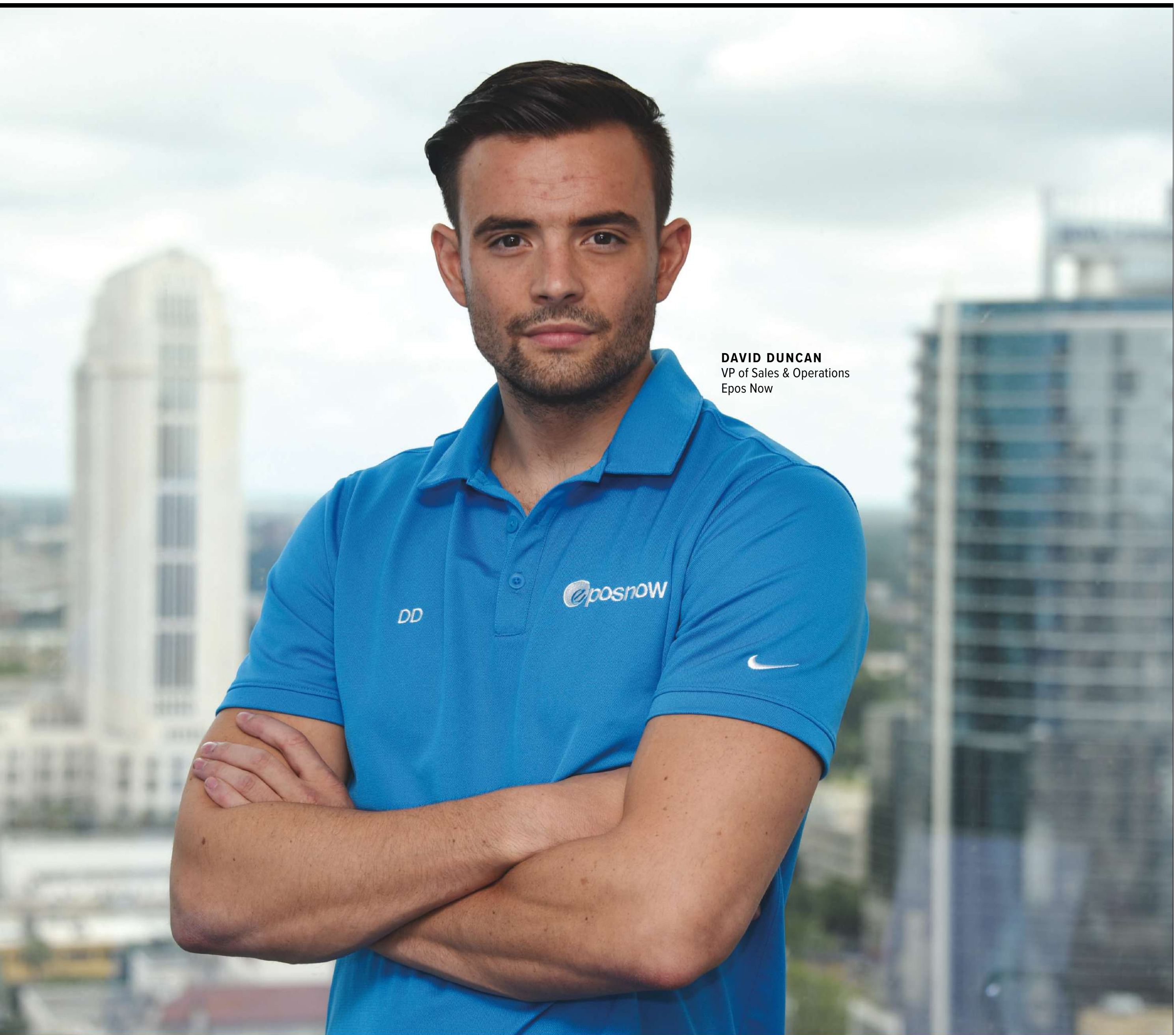
Epos has always had a scrappy startup mentality because of its decision to bootstrap the company from day one. That means profitability metrics are at the forefront of just about every decision the company makes, especially when it comes to adding to its headcount. Actually hiring new sales reps is relatively easy, but knowing when to hire them can make or break a growing company. Duncan describes two simple math equations that dictate the pace of hiring for sales reps.

The first is calculating lead volume. Epos knows a rep needs "X" leads per month to hit target. In order to scale to 50 reps, that means 50 times the number of leads represented by "X" must be generated each month. Epos decided early on to develop software that could be sold across multiple verticals, which helps boost its ability to generate leads. "You have to make sure you've got the demand so reps can have a job and not be sitting around twiddling their thumbs all day," Duncan explains. Whether your software company is an inbound or outbound environment, it's essential to know your funnel's capacity and how many leads each rep needs to close enough business.

The second calculation involves minimum revenue per head, margins, discount thresholds, and the total cost per rep. For example, Epos knows it costs about $11,000 per month in overhead per sales rep. Based on its software margins and discount rate, reps need to generate about $20,000 per month to help the company continue to grow. "Once you have those metrics, it allows you to scale a lot more effectively than what some companies do, which is get VC funding and say 'OK, we have $10 million, so just add three more sales teams,' without really understanding the math behind it."

step 2:
how to hire & whom to hire

Stop reading now if you don't know the math behind your total cost per rep and what revenue they need to bring in for your company to be profitable. Assuming you do know this, the next step Duncan recommends is finding a recruiter. An external recruiter with a low flat rate around 10 percent per rep is worth the expense to get your first four or five sales hires in place. Once those



DAVID DUNCAN
VP of Sales & Operations
Epos Now

playbook for growing a software sales team from 0-50

How a software company expanded to the U.S. and grew 1,700% in 18 months

ABBY SORENSEN Executive Editor @AbbySorensen_

an inside look at Epos Now's sales enablement tech stack

- *CRM:* Salesforce
- *KPI Platform:* LevelEleven
- *Cloud Contact Center:* New Voice Media
- *Email Automation:* Mixmax
- *HR Plugin:* XCD HR

"Some companies spend loads of money on sales enablement technology, and we don't. It all goes back to that cost per rep. If you're spending $1,000 per month on licenses for the rep, and buying leads, and parking spaces, and wages, and commission, and shared manager salary, it adds up."

initial reps are proving the model and validating that your metrics are correct, then it's time for an internal recruiter. Duncan admits he waited too long to bring on an internal recruiter – he brought on a recruiter after 18 months and probably could have done this six months after opening the U.S. office.

Once a good pipeline of candidates has been established, Duncan prefers personality and attitude over sales experience when it comes to building his sales team. Of course, some experience selling over the phone helps, and it's a plus if Duncan can find a rep with real-world experience working in any of the industries the software is sold in (retail, restaurants, bars, etc.). "I look for people who have worked in bars, who have used point of sale, who understand our customers' challenges. They can relate to speaking to the man on the street. Our typical customer is a normal bar or restaurant owner; it's not C-level suite executives."

Epos sales reps typically go through a five-stage hiring process. Its internal HR team does an initial phone screening, which is followed by an in-person interview with HR; then a sales manager will do the third interview, then the candidate will spend a half hour with the current sales team, and then Duncan steps in for the final phase. The whole process typically takes only three to four days. The final stage is where Duncan can really flesh out a candidate's personality and attitude – he requires a candidate to give a 10-minute presentation to a room of four or five people. Duncan purposely doesn't give any direction and gives only a 24-hour notice between the team interview and the final presentation.

"People who just come in and go, 'Oh yeah, here's my dog,' you already can see that they're lacking the sales process structure because any person with good sales acumen would present a start, middle, and conclusion. It wouldn't just be a descriptive presentation," Duncan says. "How do you know a candidate is not just going to come in and be an extrovert and sell themselves in the interview? Put them on the spot, give them a day to prepare for it, and see what cues you can pick up from those 10 minutes." One presentation that stuck with Duncan was a car sales manager who was in his early 20s. He spent his 10 minutes training the Epos team how to sell cars. Duncan was impressed by his maturity and his ability to sell him on a specific topic.

step 3:
build a coaching culture

The car salesman Duncan mentions is a good example of the Epos sales team – he's young. The average age of an Epos employee hovers somewhere around the mid-20s. This certainly makes it easier to hire reps, not to mention the upside of cost savings. "None of my reps here are veterans. The best reps here have one year of sales experience. They come in with a blank slate, and we give them good training and a lot of coaching," says Duncan. "It only works to hire inexperienced reps if you have a coaching culture."

This coaching culture starts and ends with KPIs. Duncan tracks metrics like calls, conversations, demos booked, demos completed, revenue pipeline, and new business opportunities. Each rep has a weekly tracker, and every Monday means being accountable for the previous week's KPIs.

Here's what a typical week looks like for an Epos sales

> "You have to make sure you've got the demand so reps can have a job and not be sitting around twiddling their thumbs all day."
>
> **DAVID DUNCAN**
> VP OF SALES & OPERATIONS, EPOS NOW

rep. On Monday, each rep reviews last week's KPIs. On Tuesday, each rep does a pipeline review, and managers make sure notes and next steps on opportunities are updated in Salesforce. From Wednesday through Friday, reps can expect about two total hours of individual coaching. This might mean reviewing a call and scheduling a training session to improve specifics from that call. The emphasis on consistency for reps is possible because the entire sales team is in-house. But even sales teams without the luxury of an inside call center environment can put structures in place to make sure reps are being held accountable.

Looking at this weekly structure could give the impression that Epos has a very rigid, non-personal sales environment. That couldn't be farther from the truth (remember those 600 push-ups Duncan cranked out as an incentive for his team?). Each sales rep has his or her own PDP, a personal development plan. During these one-on-one meetings, "It's not just, 'Let's go through some numbers and hopefully you'll do better this week.' Instead, we say, 'Let's reverse-engineer your PDP, using activity KPIs, and make sure you're on track for your personal goals as well,'" he says. This could mean reaching the next compensation bracket, buying a house, or moving into management. Conversations about PDPs take place between managers and reps at least once per month, and managers are expected to understand a rep's immediate six- and 12-month goals. Epos knows many of its millennial reps care about more than money, and these PDPs help its young sales force stay engaged and motivated.

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step 4: incentivizing & compensating

Duncan starts every month like it's a company kickoff event. He reads the Epos mission statement, reviews strategy and financial statements, recaps the performance of the sales and support team, and passes out awards for the top three sales reps. "You have to celebrate success and hold people accountable for each sale," he says. "That's the fine balance. If you have one or the other, it doesn't work. You could have a laugh, walk around and be everyone's friend, but then you're not going to grow 10 percent a month."

Celebrating success means weekly incentives, monthly nights out with the entire team, and flat screen TVs that display sales rankings and play a rep's choice of music video when a sale comes in. If you scroll through Duncan's LinkedIn posts in a given month, you'll likely see Ping-Pong tables, a few dogs roaming the office, or a putting contest. "There always has to be excitement and a buzz. When you walk into our sales floor, it's buzzing. It's not quiet. There's something going on," says Duncan. He's debating whether or not to offer an incentive whereby reps can throw a pie at his face if they hit their monthly targets.

Generating that buzz can be accomplished many ways, and if an incentive doesn't hit home, it's easy to try something else. Learning the right compensation models for sales reps is usually a lot more complex, and it's much harder to adjust. "We have the structure to keep reps that want to earn $150,000 per year, all the way down to an average rep who is happy earning $45,000 per year," he says. "We had to tweak the commission structure in the U.S., because it was harder to win business. We made it a bit easier, a bit lower, but we haven't really altered the structure from day one."

Duncan warns against starting reps at different base salaries – it just creates dissention among the team. All reps start with a base salary equivalent to the average market rate in Orlando (which, remember, is much more affordable than markets like Boston or San Francisco). Epos offers reps two ways to increase their earning potential. Commission tiers can increase from 1.5 to 4.5 percent, and every $10,000 in monthly sales releases a different percentage. Reps can also increase their base salaries by hitting quarterly goals, and these goals unlock three levels of base salaries. Even though Epos is a SaaS company, reps are paid on the annualized revenue.

Epos is a young company, but this compensation model has already proven to be effective. Several reps in the U.K. office have already been at the company for more than four years. "For people who want to know, 'Where can I be in five years?' there is plenty of social proof of people who have joined with absolutely no experience and who have carved their own path through the company without any kind of handouts or favoritism. It's all performance-based." Duncan is proof of this himself – he went from making around $200 per week with no set job description six years ago to running operations for an entire country.

step 5: understand your product road map

Being a young, agile, organically funded, fast-growing software company certainly has its advantages. It also means the Epos sales team has to be patient and wait for technology features that longer-established competitors already have. For example, Epos just recently rolled out a weighing scale integration that allows reps to sell into the grocery vertical. If a rep loses a sale because the software lacks features the customer needs, that is recorded, and the management team communicates that data to the development team. Some features just take time to develop, and Duncan makes it a point to talk about the software road map at every monthly kickoff meeting.

"I'm not talking about going into every single feature and showing how much development time is required and who's working on it. I'm talking about a one-page overview that outlines 'Here are the 10 features we're working on at the moment, and this is when they're going to come out,'" Duncan says. Talking about the product road map is essential for building a culture of transparency and retaining sales reps. Duncan explains how a rep's six- and 12-month personal financial goals should be aligned with the software road map. For example, if a rep wants to double her earnings in the next six months, but the product road map won't allow new vertical penetration or a significant boost in leads for another 18 months, then it's clear that rep isn't going to be the right fit. "You want to make sure that you're not hiding anything, especially in a startup. When you don't have all of the features of some of your larger competitors, the worst thing you could do is not be transparent."

Sharing the software road map with the sales team isn't only about transparency; it's also a way for Epos to hold the development team accountable. Developers feel the same kind of pressure to hit deadlines that reps feel to hit monthly sales goals. "Imagine your sales team missed its number. You wouldn't say, 'Oh well, that doesn't matter.' You can't have that same lack of accountability when it comes to the software team just because development isn't revenue generative," says Duncan. "The whole company needs to be working together at the same pace to hit growth goals. You can't just have sales growing 10 percent and the software team not turning out a product to keep up with the market demand."

For now, Duncan sees plenty of demand for his sales team. He still has 3,000 square feet to fill in the Orlando office. He's had Epos up and running for fewer than two years in the U.S., and his next goal is to overtake the sales generated by the U.K. office. S

KPIs every software sales manager should track

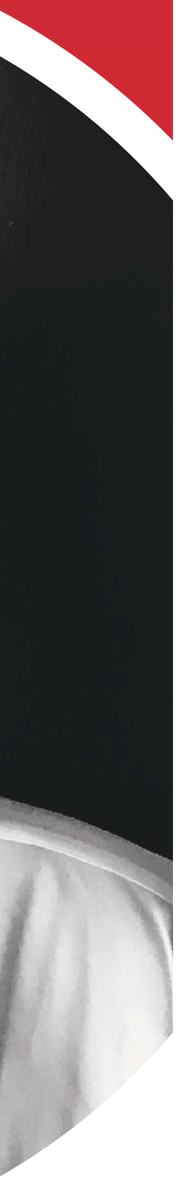
- Outbound calls
- Conversations
- Demo turnout rate (ratio of demos booked to demos completed)
- Percentage of opportunities that have a proposal sent
- Leads per rep
- New business opportunities generated

"It goes deeper than just the superficial metrics. You need to understand if you can coach from the metrics you're measuring or not. If it's just results-based, then you can't do anything."

PERSISTENCE PERSONIFIED

MATT PILLAR Chief Editor @MattPillar

Onosys' Rob Taylor keeps beating the odds, coming back, and knocking down giants with his online ordering software.



The past two years have been quite a run for Rob Taylor. Splick.it, the online ordering software company he founded in 2009, acquired Onosys in May 2016. In March of this year, the company added the 310-site restaurant chain Penn Station East Coast Subs to its already impressive client roster, which also includes Outback Steakhouse, Carrabba's Italian Grill, and Boston Pizza. That big win coincided with a comprehensive relaunch of the Onosys brand, a fresh start for a company that's gained a reputation for staying a half-step ahead of the trends.

Fresh starts aren't new to Taylor. He spent the first half of his career in retail brokerage, working sales for then heavyweight E.F. Hutton before landing executive management positions at Paine Webber and Smith Barney. "Moving from sales into management was the first major career revelation for me," says Taylor. "I liken it to playing basketball in junior high and high school. When I was younger, I always played center. By the time I moved up to high school, I wasn't the tallest kid on the team anymore, so they moved me to forward. Same game, but a whole different perspective of the court it's played on," he says.

His brokerage management experience served him well. Taylor earned a reputation as a turnaround specialist, finding success breathing new life and profits into struggling branch offices. In that capacity, he honed a skill that he would draw on years later when founding a B2B hospitality software company of all things: a knack for recruiting talent from competitors in his space.

His ability to pivot would also serve him well. In 1998, a then 38-year-old Taylor nearly died when he fell into an icy river and suffered a heart attack while duck hunting. Though his doctors advised a long hiatus — his heart lost about 25 percent of its pumping power as a result of the attack — Taylor jumped back into the high-stress brokerage industry a mere four weeks later.

Five years later, at 43 years old, Taylor suffered another, albeit milder, heart attack. "It was at that point that I started thinking about doing something else," he says.

Taylor walked away from brokerage and spent a few years independently consulting small businesses and startups, helping them raise capital and get off the ground. Then one day in 2008, he was inspired to launch a startup of his own. "I was waiting in line at the coffee shop that I went to every morning. Every morning I would order the same thing from this coffee shop, and every morning I would wait in line to place that order," he explains. "It occurred to me that this was a situation technology should be able to solve." Not being a technical person, he called up those aforementioned recruiting skills and set to work.

MAINTAINING MOMENTUM AHEAD OF THE WAVE

When a surfer pops up too early on the crest of a wave, it's difficult for them to get over the "lip" and ride the momentum down the face of the wave. More often, jumping on a wave too early results in the wave's imploding beneath the board. That's analogous to tech trends, and it was a certain risk for Splick.it. The year 2008 was early days for the online ordering concept. Consider that the iPhone wasn't invented until 2007, and few of the 70-ish percent of internet users at the time considered their PCs a likely tool for ordering food. It was awfully early to be launching an online ordering app. Of course, in those early months, it might have been generous to call what Taylor was building an "application." "We bought a bunch of used Blackberries and distributed them to a few restaurants in town, so we could text them our orders in advance," recalls Taylor. "Some of our friends in Boulder heard about it and began using it, and that's when we realized the idea had some legs."

To be clear, in 2008, Taylor's "order entry solution" was merely an idea. That didn't stop him from taking the concept to the International Coffee Festival that year. "That show is where we launched our product," says Taylor. "The only problem was that we didn't really have a product." Still, his Blackberry- and SMS-based vaporware won him Best of Show at the event. "That's when we started to get real serious about this space," he says.

SHORING UP EARLY INVESTMENT

Getting serious meant hiring development talent and raising some capital, but in those early days the latter proved challenging. Skepticism from the institutional lending community steered Taylor toward private equity and his own bootstraps. "It's tough when you're treading ground nobody's ever covered before, and people are looking at you cross-eyed," admits Taylor. In 2010, the company managed to close a $450,000 round of VC funding, albeit in the face of adversity. "As recently as 2011, I had the CMO of a pretty good sized restaurant brand ask me why anyone would want to order a sandwich from their mobile phone. We don't hear that anymore, but that's what we were working against in those days. We were evangelizing something that we believed would happen but hadn't happened yet."

Where no die has been cast, Taylor's best advice to software leaders who find themselves in a similar situation is to ride the coattails of success in an adjacent space. "We would clip and disseminate articles that exemplified the success of mobile applications similar to ours. Those that most closely resembled online ordering were loyalty apps," says Taylor. "That was about the time Starbucks really started pushing its mobile loyalty app, so we grabbed onto that and really focused on getting our investors excited and energetic about the big brands that were rolling out mobile loyalty." Taylor and company made a compelling case for the idea that mobile loyalty would lead to mobile ordering, and that mobile ordering was, in fact, an even more central and direct way of connecting with consumers because of the immediate benefits it provides them.

An early win with local favorite restaurant chain Snarf's and the fortuitous timing of the Apple App Store launch (July 2008) gave the fledgling company further traction. "We have a chain of sandwich shops called Snarf's that started in Boulder, and it was our first customer," says Taylor. "We built them a branded mobile order entry app and made it available on the App Store. In some Snarf's stores, customers are doing 20 percent of their daily order volume on our application," says Taylor. As volume grew, the company's ratings on the App Store climbed steadily. Sharing these wins with investors helped the company maintain its financial momentum, even before the market for online ordering had been fully defined.

By 2013, the company had arrived on investors' radar, earning it a second round of VC funding. This time, a $4.66 million commitment put the company in growth-through-spending mode, and it began making what Taylor, in hindsight, admits were some pretty significant mistakes.

RESET MOMENT IN THE C-SUITE

In 2013, with its text-based legacy long behind it and a fresh round of funding, Splick.it was on a run. The company was pairing its API-based platform with a host of front- and back-end restaurant systems, including other software applications, voice ordering solutions, websites, and call centers. A modular toolkit built into the API enabled the company's restaurant customers to customize the user interface to meet their brand and functionality requirements with little to no development effort on the part of team Splick.it. Its customer base numbered in the thousands of sites. Riding the momentum of a market that had finally come around to online ordering, Taylor decided the best way to ratchet up the growth of the company he founded was to step aside, to bring some fresh leadership talent into the C-suite, someone with the tech chops he never had. He hired an upstart with ridiculously rich Silicon Valley experience, a young, bright technical mind who, at the time, had a few years of product management experience under his belt at household names including Microsoft, Mapquest, and Google.

> "THAT SHOW IS WHERE WE LAUNCHED OUR PRODUCT. THE ONLY PROBLEM WAS THAT WE DIDN'T REALLY HAVE A PRODUCT."
>
> **Rob Taylor**
> CEO/Founder/Chairman at Splick.it/Onosys

It didn't take long for Taylor to recognize the error of his choice. Was the new CEO a brilliant technologist? Check. Did he work for some of the most venerable brands in the industry? Check. Was he committed to making Splick.it succeed or die trying? Not so much.

"A lot of entrepreneurs face similar situations, where they start to doubt themselves and begin thinking that there might be someone better suited to grow their company to its full potential," says Taylor. "I'm not a technical CEO by any stretch of the imagination, and there I was running a technology company." That sliver of doubt led to the hired hand, whose modus operandi for growth was to burn through the company's big round of funding, hire up, and spend big on elaborate marketing.

Meanwhile, the market for online ordering, while growing, wasn't taking off like the wildfire the new CEO had expected. When Splick.it's growth trajectory stalled, Taylor says the writing was clearly on the wall. "You can hire brilliant, talented people, but if they don't have the fight in them when times get tough, they're simply not going to succeed," explains Taylor. "Our core team knew that mobile ordering would represent a sea change for the restaurant industry. We also knew that we arrived at the party a bit early, but we were willing and ready to fight through that situation, to keep moving forward."

That fight, says Taylor, is the magic elixir of entrepreneurship. "It's so much more powerful than having technical knowledge, and it's what we needed in the head office. Someone without any quit in them." That someone was decidedly Taylor, who reassumed the role of CEO a mere 24 months after onboarding the hired hand. "You can't hand off your dream to someone who doesn't have the same fundamental belief in that dream."

WARNING SIGNS OF WANING LEADERSHIP

Taylor says misappointed CEOs are a common mistake among startups. "I have plenty of entrepreneur friends who thought that someone else was best suited to take the company to the next level, and that's usually not the case." Neither, he says, does misalignment in the C-suite always manifest itself in overt disagreement. "You know there's a problem before verbal disagreement even arises, because by then, it should be obvious that goals are not aligned." Taylor is quick to point out that the misalignment he references isn't trivial – it's not a healthy debate over marketing strategy or a human resource policy, which are simply aspects of running a business right. In the case of Splick.it, it was a fundamental disagreement on the company's exit vision. "When the CEO takes on a tone that alludes to giving up and cashing out, that's a pretty good indicator that something's wrong," he says. "When things get tough for entrepreneurs, they double down and work harder."

That doesn't necessarily mean spending more, however. Once it was established that Taylor would resume the role of CEO in June 2015, the company pulled back on its growth-mode spending spree. "We brought the business back to cash flow breakeven and then pulled our horns in a little bit and regained control," he says. That correction set the company up for quite the opposite of an early exit – it set the stage for Splick.it's May 2016 acquisition of competitor Onosys, the brand name the company assumes today.

THE ECONOMICS OF TODAY'S ONOSYS

In the year-and-a-half since the acquisition, the 40-employee Onosys has added more than 9,000 new sites to its portfolio. In a market flooded by small "garage band" startups, a handful of large direct competitors, and a growing number of POS software companies dabbling in online ordering add-ons, the company sits a solid number two behind OLO in market share and revenue. To date, the company has targeted what it deems "enterprise" restaurants—those with more than a couple hundred units—almost exclusively. That's a simple product of the economics of the company's development and implementation costs, which are directly correlated with restaurant menu complexity. Some restaurants offer a lot of modifiers and complexity, while others have very simple menus with little variation. These seemingly simple considerations have significant implications on the development of online ordering software. "We really have to make sure we scope projects appropriately," says Taylor. "We're a SaaS company, and true to that model, the service is repeatable—generally, 85 percent of the code that drives an engagement is repurposed. The 15 percent that gets customized for each brand can require some heavy lifting on our part, and that's where we need to be careful about pricing."

It also needs to be careful about forecasting and booking revenue. It's one thing to sell and contract an online order management application, Taylor explains, but it's quite another to get it implemented and generate revenue. "Constantly shifting priorities in the restaurant space can result in go-live delays, which in turn make it difficult for us to make revenue projections," says Taylor. It's therefore incumbent on his sales and implementation teams, he says, to ensure Onosys clients consider their online ordering initiative a priority and stick to their go-live schedules.

With a firm foothold in enterprise-class hospitality, Onosys is turning its attention to a massive opportunity downstream. The company recently launched a secondary channel strategy to reach the lower tiers of the restaurant market. "We're not equipped to onboard single operators and small chains, but we offer a toolkit that allows the resellers who own those relationships with small operators to resell our application." While channel sales represent only a single-digit portion of current Onosys revenue, Taylor sees the 600,000-unit independent restaurant market as a significant opportunity over the next three to five years. "Our channel model is to support the reseller, not the restaurant brands. We believe that if the reseller can implement and service our solution, that market can get real for us quite quickly."

If investment analysts are on their game, it's about to get really real for Taylor and Onosys. Investment firm Cowen predicts the total U.S. food delivery market will expand an incredible 79 percent by 2022, from $43 billion to $76 billion. Considering that current figures peg 43 percent of all delivery orders as originating online, Taylor's tenacity is poised to pay off big.

> "WE BROUGHT THE BUSINESS BACK TO CASH FLOW BREAKEVEN AND THEN PULLED OUR HORNS IN A LITTLE BIT AND REGAINED CONTROL."
>
> **Rob Taylor**
> CEO/Founder/Chairman at Splick.it/Onosys

BUILDING A 500+ EMPLOYEE SOFTWARE COMPANY IN 5 YEARS

HOW TOAST'S ENTREPRENEURIAL SPIRIT HELPED IT GAIN MARKET TRACTION AND SECURE $131 MILLION IN FUNDING

ABBY SORENSEN Executive Editor
@AbbySorensen_

Steve Fredette was a chemistry major at MIT. He didn't envision a career in tech. Today, he's leading a cloud-based restaurant management software company that announced a $101 million round of funding in July 2017. Fredette is the president and co-founder of Toast Inc., which he's helped grow to more than 500 employees since 2012.

"I've always been into tech, and I've always been interested in software. I was coding stuff in middle school, but I then ended up getting into chemistry my senior year in high school. I had always had an interest in software, and it was always a hobby of mine," he explains. This hobby turned into a 25-hour per week job at Endeca during his senior year. The Boston-based software company developed applications for customer experience management, e-commerce search, and business intelligence. His time at Endeca would prove to be pivotal to Toast's founding story. He was so enthralled with his work at the booming software company that he put his classes on the back burner during the spring of his senior year so he could work full time at Endeca (which he could do, considering he already had enough credits to graduate). He says, "I felt like I was learning more working at Endeca for 25 hours a week than I was from all the classes I was taking at MIT."

EMBRACE AN ENTREPRENEURIAL CULTURE

During his time at Endeca, Fredette met the co-founders of Toast. He also learned how to be innovative and agile, two key elements for any aspiring software entrepreneur. And he wasn't the only one – Fredette estimates about 30 Boston tech startups have been founded by former Endeca employees. He was in the right place at the right time to soak up this culture of entrepreneurship. He describes his time at Endeca as working at "a startup within a startup." Endeca was fewer than six years old when Fredette started working there. He had about five different roles in his seven years at Endeca, each one teaching him different ways to iterate, sell, and market enterprise software.

He was also getting back into the hobby side of software development. Six months before Apple launched the App Store for the first version of the iPhone, Fredette, his twin brother Tim, and eventual Toast co-founder Aman Narang had already started developing iPhone apps. Their first projects were a Flickr app and an e-commerce app for Boston-based Shoebuy.com. They weren't making money from this side project, but they saw an opportunity to expand their app-building aptitude at Endeca. Fredette explains, "We went to the CEO of Endeca [Steve Papa] and said, 'Hey, we want to build apps.' He said, 'Well, that's great, because we have retailers who don't know what to do with mobile, and you guys have built the mobile app for Shoebuy. Why don't you build a product team here?'" Fredette and his product team ran with that directive, and within a few years had generated $10 million in software and services revenue. Why would Fredette want to leave that exciting, secure job to start his own software company?

The short answer is that Endeca was bought by Oracle (for an impressive $1.1 billion). Fredette admits, "The fact was that Oracle is not a company where we could pursue something quite as entrepreneurial as we were with Endeca. It didn't have the same culture." His time at Endeca proved that the e-commerce opportunity was ripe, and that it would be smart to focus on a vertical play. And he liked the mobile world he had been working in at Endeca. Adding up those three factors resulted in an idea to launch a mobile payment solution for restaurants. They identified a pain point with dining experiences (having to wait for a check when you can't find your server and are ready to leave). They built an app that would allow people to pay the check on a phone.

The problem was, this first version of the product wasn't solving a big enough problem. "The app was a magical experience," says Fredette. "The problem was it's not enough of a pain point to get people to actually download the app. I describe it like the tollbooth problem. When you're waiting in the cash line and everybody else is speeding past you in the fast lane you're like, 'Man, I really need to get one of those fast lane passes, because I hate waiting in this cash line.' But you're not going to sign up for a fast pass immediately. It's too hard. You're in the car, and then once you get through the toll booth, the pain goes away. You tell yourself, 'When I get home, I'll sign up,' but then you forget. It's not enough of a pain to do anything about it. It's too dull a pain."

In order to make that mobile payment solution work, the company would have had to invest millions in customer acquisition. So, six months into this startup, Fredette wasn't seeing much traction. "I think anybody doing a startup can be viewed as a little crazy. My wife certainly thought I was crazy. I sat on a couch and worked for six to nine months. Every day she'd come home and go, 'Why don't you get a job? What are you doing all day?'"

The Toast co-founders were still determined to develop software for restaurants, but they didn't think they could build a good solution that would integrate with antiquated, expensive legacy systems. The answer was to start over and build a modern, cost-effective, cloud-based point of sale software for restaurants. "As soon as we started talking to restaurants about solving that problem, we had huge amounts of interest," Fredette says. "It was like a switch turning on, because we had been trying to go door to door selling mobile payments to restaurants, and now we go to the same sort of restaurants and the response was just overwhelmingly more positive."

How did Toast end up with a 40,000-square-foot office in the trendy Fenway district of Boston in fewer than five years? It took seeking out expert advice, being willing to constantly iterate with fundraising and hiring, and developing a long-term understanding of its vertical market.

HIRE FOR GAPS

Toast's three co-founders were in their early 30s when the company started taking off. They had an entrepreneurial spirit and a knack for product development, but it takes a lot more than that to run a business. Once Toast got to about 70 employees in February 2015, the co-founders hired a CEO. Chris Comparato, another former Endeca employee, was the perfect fit. He had a strong background in services, support, training, account management, and customer success.

"If you think about the way that the company is structured, it's based on the strengths of the leadership team today," Fredette explains. "I'm running product and engineering. Aman is running product sales and marketing. All of the customer success reports into Chris, as well as HR and the people side of the things. Legal, account management, and finance report to our CFO. Then our CTO, our third cofounder, Jonathan Grimm, runs the technical side – the architecture and engineering aspects. We complement each other nicely." Toast has a "no ego" edict when it comes to hiring. It's that lack of ego that helped the co-founders realize they needed to hire members of the executive team to fill in their skills gaps in the first place.

There's a good lesson here for any software company. If your background is in engineering, find executives to fill out the business management side of the company and vice versa. It helped that the co-founders had strong relationships at Endeca, and they knew Comparato would be the right fit as CEO. "We talk a lot about the cost of leadership bandwidth," says Fredette. "Early on, you're constrained by leadership. You need to be spending less time doing things yourself and more time recruiting amazing people who give you more leadership input, so you can do more things." The point is, the co-founders didn't have unrealistic expectations of growing the company entirely by themselves. They found other people who could help, and they relied on those people to help them repeat the success they had achieved at their past companies.

NEVER STOP ITERATING

The Toast co-founders know how to pivot a product. The company probably wouldn't exist today if it had stubbornly stuck with a mobile payments platform

STEVE FREDETTE
President & Cofounder
Toast, Inc.

TOAST INC.

FOUNDERS:
Steve Fredette, Aman Narang, Jonathan Grimm

YEAR FOUNDED:
2012

HEADQUARTERS:
Boston, MA

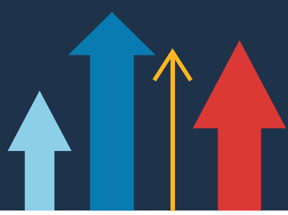
EMPLOYEES:
500+

PROJECTED EMPLOYEES (18 MONTHS):
1,000

TOTAL FUNDING RAISED:
$131 million in 3 rounds

ACCOLADES:
Named to the Forbes Cloud 100 list in 2016 and 2017

2016 Mass TLC Award for Innovative Mobile Technology of the Year



instead of shifting to an integrated solution. The company also shifted its approach to fundraising and hiring.

After the co-founders bootstrapped the company to get it off the ground, Toast needed more cash to grow its idea of developing cutting-edge POS software. Initial reactions from investors were lukewarm. Toast couldn't immediately say how its software was different in a crowded market, but what it did have was traction, an upward sloping growth curve, and the financial help of former Endeca CEO (and current Toast board member) Steve Papa. Remember, Papa was the one who gave the Toast co-founders the green light to pursue their passion for building mobile apps, which they turned into a $10 million revenue stream. Papa took care of the early financing, which was fortunate because Fredette admits the co-founders were never great at pitching investors. His advice to the young co-founders was, "I'm taking care of funding right now, so you can focus on building the company. Focus on building amazing products, serving your customers really well, and hiring a good team. Just focus on that."

By the time Toast closed its Series B round, the team had refined its pitch and had a much better understanding of the metrics investors wanted to see. The $30 million round was led by Bessemer Venture Partners (investors in Skype, Box, and LinkedIn). Toast's $101 million Series C was led by Lead Edge Capital (investors in Uber and Marketo) and Generation Investment Management (investors in DocuSign). That's pretty good company for a team of founders who didn't consider pitching investors one of their strong suits. Fredette says the series C round was more refined because, "We know more about the market, we know more about the competition, we know more about our own execution engine. We've got a better onboarding team, we've got a better screening team, we've got a better hiring team, and we've got a better hiring profile."

or it's voluntary, you have to use every one of those to get better and to refine the profile." Because Toast was created by a team with strong engineering backgrounds, that department's hiring process was well-structured. Therefore, the company spent more time building its ideal employee profile for various management layers, such as district managers and regional VPs.

UNDERSTAND YOUR MARKET DIRECTION

Toast had to learn its growth metrics inside and out, in order to pitch investors, and had to keep iterating its hiring profiles in order to rapidly scale. Fredette takes the same hands-on approach to understanding Toast's vertical market. The co-founders didn't come from the restaurant industry. Sure, they liked eating at restaurants, and they knew restaurants had real pain when it came to technology, but they never claimed to be hospitality industry masterminds. So when Fredette sat down to write his 10-year plan for Toast, he made it a point to study up on the history of his industry.

Fredette sounds like a seasoned historian when he talks about his market. He can tell you about how modern-day restaurants were products of the French Revolution, the rise of fast casual dining, the food truck movement, and the push toward fresh, sustainable local foods. These aren't topics you'd expect to read about in a software company's business plan. Fredette sees it as essential to Toast's mission: "I think our job in the technology industry is to make our customers' jobs easier, simpler, faster, and better. We have an important role in allowing our customers to bring better food to people at a lower price, because we can make a restaurant operate more efficiently. It gives them more time to focus on the food. That, in our own way, will be helping to improve the quality of food that we all eat."

> "I THINK ANYBODY DOING A STARTUP CAN BE VIEWED AS A LITTLE CRAZY. MY WIFE CERTAINLY THOUGHT I WAS CRAZY. I SAT ON A COUCH AND WORKED FOR SIX TO NINE MONTHS. EVERY DAY SHE'D COME HOME AND GO, 'WHY DON'T YOU GET A JOB? WHAT ARE YOU DOING ALL DAY?'"
>
> **STEVE FREDETTE**
> President & Co-Founder, Toast, Inc.

Speaking of Toast's hiring profile, that has changed, too. Toast's employee count grew about 200 percent between the close of its Series B in January 2016 and the close of its Series C in July 2017. In between, the company learned from hiring mistakes. "If you make a bad hire, or if a hire leaves, whether it's a performance issue

Paying close attention to trends in the restaurant space makes Fredette even more excited about the opportunity he and his co-founders first discovered five years ago. Toast plans to double its headcount again in the next 18 months, which would put it at more than 1,000 employees. Not bad for a chemistry major.

What Do They Want? Engaging Capital Providers

Capital providers give software companies an inside look at the fundraising process.

KEN HUBBARD CEO, CapStack West

The business-capital market is more complex today than it has ever been. I know those of you who are raising or about to raise funds know exactly what I'm talking about. Whether you're a startup, a mid-market, or a Fortune CEO, the right capital providers are a challenge to identify, engage, and close. It also takes more time to identify the right match in a financial partner. And that means your burn increases and your C-suite executives will divert more focus from operations and growth to fundraising documents, meetings, and due diligence.

IN THIS ARTICLE

SCOTT LOPEZ
Managing Director – Investment Banking at Primary Capital

DENNIS MURCHISON
Manager of MT Holdings, a Murchison SFO

BILL CARPOU
CEO of OCTANe

BRIAN ANDERSON
Managing Partner at Harper Partners

BETH CORSON
Managing Partner of Boardwalk Advisors

The engagement process starts with identifying a short list of potential capital providers, which can take weeks with all the debt and equity players available to you both on- and offline. And when you find the right providers, do they have dry powder (available capital)? Is your vertical in their sweet spot or have they moved to another industry? Are they closing other opportunities, putting timing in question? Are they investing as a lead, will they follow an angel round, or do they invest in your specific round? What is their exit philosophy? What excites them about the software industry and why do they invest in software? The list of questions goes on and on.

We recommend building a list of key questions to ask capital providers when you start the engagement process. To shine some light on these challenges we went straight to the capital providers (both debt and equity) throughout the ecosystem of business capital. We asked them what they're keen on in the software industry, how to engage them, and how they invest. We hope these answers will help accelerate your fundraising.

SOFTWARE EXECUTIVE: What segments within the software industry are intriguing to capital providers?

LOPEZ: AI warrants significant attention and respect. Entire industries are at risk. For example, a local marketing firm just licensed an AI platform that will track consumer buying preferences and learn in "nearly real time" which messaging will get the most sales conversions for a new product. Marketing agencies may no longer have to do split testing, focus groups, or pilot programs to gauge interest. I only see the effects of AI accelerating.

CARPOU: We see a lot of potential deals in AR/VR, AI, and cybersecurity. The most interesting companies have shown a path to monetize this technology and have a targeted base of B2B and B2C customers.

ANDERSON: As an alternative lender, we're fascinated by blockchain as it is the most intriguing frontier software. It has the potential to reinvent all financial markets in a more efficient, cost-effective, and secure manner unlike anything we've ever seen before.

HUBBARD: If you are raising funds and your software does not fall in these categories, you need to provide investors with a compelling reason for engagement. Whether you drive home the revenue model, a clever market penetration process, a sizable opportunity, a unique innovation, or long-term staying power, every investor has different expectations for each segment of their portfolio. Find these key drivers and position them for the capital provider.

The next step in the process of identifying the right capital partners pertains to the introduction. How do you connect? A warm introduction is always preferable.

SOFTEX: What do investors want to see?

HUBBARD: Many capital providers like an executive summary. Don't sell; inform the reader. If you are sending a deck, be sure it is self-giving and includes full notes sections on every page so the capital provider can easily determine if there is a match. You don't want them to make a snap judgment based on limited information. Most decks are built to be given verbally, which can cause a disconnect when sent without narration. Don't risk it.

CARPOU: We require the company to have already raised some capital from friends, family, or angels. The company must also have a solid business plan, identified team, and proof of concept on the product/service.

CORSON: We like to see a slide deck, minimum revenue of $2 million annually, breakeven within three years, and strong executive team bios.

HUBBARD: Most capital providers prefer a third-party valuation, and you should as well. Seasoned investors find most CEOs ill-prepared to discuss valuation. And that frustrates them right from the outset.

SOFTEX: What are your thoughts on valuations today?

MURCHISON: I think current company valuations are inflated and based on unsubstantiated projections. I prefer to use real numbers or substantiated projections.

CORSON: I feel that all new tech companies seem to provide the same valuation multiples based on acquisitions by Google and Apple. These are just not realistic.

HUBBARD: Many capital providers in the CapStack community spoke to the lack of flexibility by the C-suite to take advice from veterans within their industry. Others commented on due diligence not matching the initial presentation data, slow response times from executives when answering questions, and lack of depth as to the real capital needs of the company by using a range of investment instead of putting a stake in the ground and sticking to it. More money does not mean you can grow faster, it just means you will spend more money.

SOFTEX: What causes you to shy away from an opportunity?

CORSON: Executives can be so focused on increasing the features and benefits of their software that they forget to work on obtaining sufficient revenue streams to sustain their operations. They worry too much about R&D and not enough about having a good business sense.

MURCHISON: Unrealistic expectations and no revenue model will deter us from moving to next steps.

ANDERSON: If a CEO can't articulate with conviction how the company is going to win, that's an automatic no.

HUBBARD: Setting expectations requires research into the market, a real understanding of business growth, the actual value of momentum (and the underlying data to substantiate the monetary impact), and training of channel partners (if applicable). If you feel investors are fighting your projections, engage them. Don't defend your numbers. Learn from them, prepare for the next meeting, and fine-tune your Q&A. It may even help you get a second meeting with the naysayers. When I started my first company in 1988, the overall market for my product was finite. Attaining a $100M run rate wasn't going to happen without serious market penetration. Today, the global market's sheer size means there can be 10 or 20 $100M companies in the same niche. So don't get defensive about your unique value proposition. Instead, revel in the fact that competitors have jumped into the niche and are educating the market for you.

5 Software Laws For Smooth Product Development

How to ensure your project will stay on schedule and within budget.

LARRY PUTNAM, JR. Co-CEO & **DON BECKETT** Principal Consultant, Quantitative Software Management

Business leaders want to be at the top of their game when it comes to software development. After all, making the wrong moves during the development process can cost time and money – and result in bug-ridden, defect-plagued applications. This is not something that corporate executives typically worry about, even though it can directly impact their companies' bottom lines and reputations. Executives are often removed from the daily ins-and-outs of software development and execution by necessity. They envision a company's whole trajectory, including long-term projects and goals that will lead to profitability. They simply don't have time to be a part of daily development meetings.

Even so, executives should take steps to ensure that they are firmly in the loop with software development projects, especially in the critical planning phases prior to project kickoff. One way to do so is to ensure that software development teams are mindful of five core software development laws. Following these laws makes it more likely that high-quality products will be built on schedule and within budget.

LAW 1: EVERY SOFTWARE PROJECT HAS A MINIMUM DEVELOPMENT TIME.

Unrealistic schedules cause projects to fail. Fred Brooks first identified this law back in 1975 in his book, *The Mythical Man-Month*. Though software has changed drastically, the law remains apt. Developers who set schedules that are too aggressive are doomed to come up short. No amount of wishing, bargaining, or rationalizing will change the fact that deliverables will be late if adequate time is not built into the schedule.

Fortunately, organizations can use metrics derived from past projects to forecast how long a new software build is likely to take. This requires some foresight, as businesses need to measure, collect, and analyze certain build data to take full advantage of the power of metrics during forecasting. It's never too early to start collecting data on a project, and the more data executives and team leaders have, the easier it will be to create an accurate schedule for the next software development project or cycle.

LAW 2: SCHEDULE AND COST DO NOT TRADE OFF EVENLY.

While unrealistic schedules cause projects to fail, there is no single schedule that will guarantee project success. Projects can be executed under a range of schedules and budgets. Generally, executives can expect that the more aggressive the schedule the higher the cost and, ironically, the poorer the quality of the product.

Initially, such a generalization would not seem to make sense. But consider that even as project managers seek to tighten schedules, they often add people to a project. In an ideal world, the additional staff would come on board already up to speed and ready to work. Unfortunately, that is rarely the case when bringing new staff onto a project in progress. Existing staff have to take time away from their tasks to help train new staff.

Adding staff can negatively affect quality as well. As staff are added to a project, more communication paths are created, which creates miscommunication. Communication disconnects become a challenge during the QA phase of a project when more people are testing products parts, fixing them, and then retesting. If a project already has an unrealistic deadline and staff are added (at increased cost) to get to the finish line, QA is one of the last parts of development and might be "trimmed" from the budget. That may bring a project closer to cost but actually can end up costing more over time because of the need to fix unforeseen errors later on.

LAW 3: PROJECTS GROW.

Despite the best efforts of development teams, projects inevitably grow. According to QSM's own research, on average, scope increases 15 percent; schedules, 8 percent; and cost/effort, 16 percent. Executives should keep these percentages in mind when building initial project schedules and budgets.

Everyone has the best intentions at the outset of a project. Teams are optimistic, and budgets and schedules reflect that optimism. When project parameters are set, most executives are looking — as they should — at the high-level, abstract view. This view will be more accurate when informed with data from past performances, but it is, at best, an estimate.

Once actual work begins, a project's scope increases. Estimates become real numbers as work is actually performed. Unforeseen but necessary parts of a build are added but they aren't accounted for in the schedule or budget, leading to problems later on. The solution is simple: Try to contain scope creep but realize that despite everyone's best intentions, it is inevitable. Build extra time and cost into the project from the outset.

LAW 4: SMALL TEAMS ARE BETTER.

When faced with a large software development project, don't put more people on it and believe that doing so will bring faster results (see Law #2). Small teams are often more capable of delivering better quality products in the same amount of time as large teams, and small teams cost less. Small teams also communicate more efficiently. They take less time to come to resolution when faced with decisions. In agile workflows, people are used to working in small teams. Members often know each other's roles and can move fluidly through an entire project's development, further reducing cost.

LAW 5: ALLOW SUFFICIENT TIME AND EFFORT FOR ANALYSIS AND DESIGN.

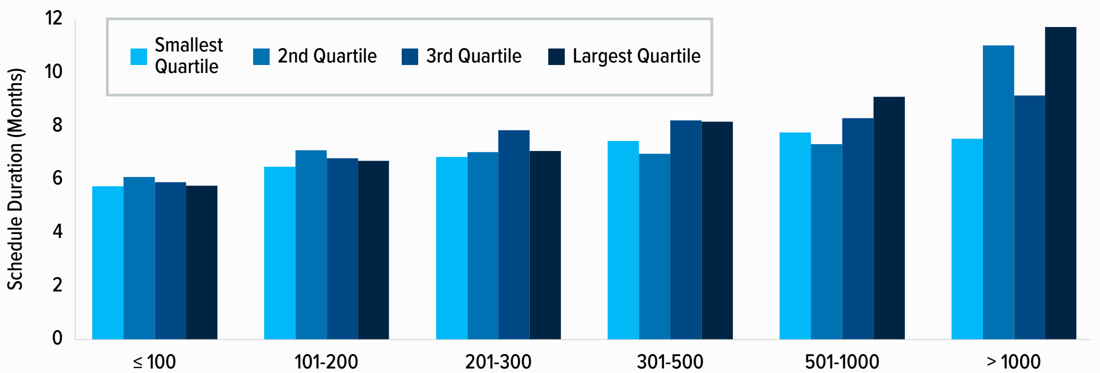
At the beginning of any new project, the books and schedule are clean, and the staff is fresh. Everyone is ready to get started on what is sure to be the most efficient, best-quality piece of software the company has ever delivered. The inclination, especially when faced with an aggressive production schedule, is to dive right in and start coding. That is a mistake.

In fact, on average, executives and teams that spend more time and effort on analysis and design end up spending less overall. They also complete projects sooner, have fewer product defects, and are more productive as teams. The old adage "Measure twice, cut once" proves true. Take sufficient time before coding begins to design and analyze the products being built. How much time is sufficient depends on the team and the project. Consider spending roughly 20 percent of any given project in analysis and design for maximum payoff.

This 5th law — allowing sufficient time for design and analysis — will help lead to software development success, but executives cannot rely on it, or any one of the laws, alone. Having all the time in the world for analysis won't help a project if that project is subjected to an aggressive schedule with no time built in for growth.

Executives who are mindful of these five laws will have a much easier time with product builds, and those who neglect these laws could face a bumpy road toward project completion. With appropriate-sized teams, schedules built with inevitable growth in mind, and strategies to better manage scope creep, teams that heed the laws will be prepared when high-level plans from analysis and design change as they are executed. The highest functioning teams will keep data at every step in the development process so as to better inform their estimates for the next software build. At this point the five laws will come into play again, creating a virtuous — not vicious — cycle of software development. S

MEDIAN SCHEDULE MONTHS BY STAFFING QUARTILE



The above graphic is based on a study of over 2,200 completed software projects. In it, the vertical bars represent the median schedule for the smallest to largest staffing quartiles for various sized projects. Note that larger teams do not succeed in reducing schedule even though they normally represent an effort to accomplish exactly that.

What's Driving SaaS Emergence In The Channel?

Inside CompTIA's latest research examining the burgeoning channel ecosystem building around the SaaS community.

CAROLYN APRIL Senior Director, Industry Analysis, CompTIA

CompTIA's recent research study, "Software as a Service: Opportunities & Challenges," collected data from 400 U.S.-based IT channel firms. The survey helped identify who these SaaS partners are, what drew them to this niche, what drivers led SaaS vendors to build an indirect channel, and what compensation models and partner program elements SaaS vendors have in place.

It's no secret that the IT industry has been steadily evolving from a hardware-centric to a software-centric world. Myriad reasons account for this development, but reality is that software is defining the future – especially in the cloud.

Perhaps the most notable software activity today is happening in the area of cloud-based Software-as-a-Service (SaaS) applications. Gartner is forecasting the global cloud applications services market to grow 20.1 percent in 2017 to reach $46.3 billion. The analyst further asserts that more than half of new 2017 application adoptions by North American enterprise-size organizations will be comprised of SaaS and/or other forms of cloud-based solutions. For its part, IDC predicts that SaaS will remain the dominant cloud solutions type, "capturing nearly two-thirds of all public cloud spending in 2017 and roughly 60 percent in 2020."

Many constituencies are finding opportunity in SaaS. Thousands of small to large ISVs are cropping up to deliver application-specific solutions on a subscription basis to their customers. And many of them are working with nontraditional, go-to-market sources such as digital marketing agencies. Still others are tapping the resources of traditional channel firms, which are adding SaaS to their portfolios in large numbers. Consider the following findings from my recent CompTIA study, *Software as a Service: Opportunities & Challenges*: Of all channel firms selling cloud solutions today, 74 percent say SaaS is part of the mix. And of that 74 percent, a quarter say their businesses started as a "born in the cloud" SaaS startup versus a traditional channel firm that added a new practice.

In the vendor space, a company such as Salesforce reaches millions of customers with its CRM software, while simultaneously playing host to thousands of SaaS ISVs in its AppExchange business applications marketplace. And then there is Microsoft, which today touts a total of 100 million monthly active commercial users of its cloud-based productivity suite, Office 365, which has been a major play for its thousands of channel partners. Mind you, that 100 million figure pertains to active users only. There are also countless numbers of Office 365 seats that have been sold but sit dormant to date. Getting these inactive users to start tapping into their Office 365 applications is an obvious opportunity for channel partners and other third parties who can upsell and cross-sell additional capabilities and services involving lucrative integration and customization services.

From a pure channel perspective, SaaS is ripe with opportunities: recurring revenue, inroads to vertical industry business, faster time to deployment, and more. That said, there are also plenty of challenges for traditional channel firms, mostly pertaining to the business and economic models of SaaS. Translation: How do we make money?

What are other challenging factors? Many ISVs in the SaaS space are unfamiliar with the traditional indirect channel, which means they may lack a formal partner program and indirect sales strategy or are in the nascent phases of developing one. Partner compensation models are still in the tinkering stages. These things take time.

WHY SAAS IN THE CHANNEL?

But SaaS is here to stay in the channel and the model is clearly becoming one of the more popular cloud-based options in the industry.

What exactly constitutes SaaS? In its broadest definition, SaaS is a software distribution model in which a third-party provider hosts applications and makes them available to customers over the internet. We are talking about applications from software giants such as Microsoft or Google and also an ecosystem of small ISVs that have developed solutions often highly specific to a particular industry. These smaller ISVs might be hosting the applications in their own cloud-based data center or with one of the major public cloud providers such as Amazon.

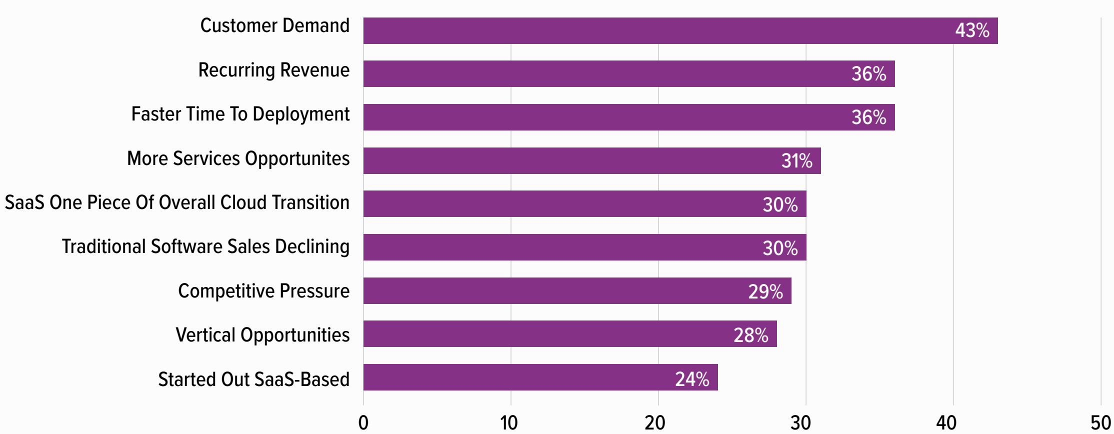
The benefits of the SaaS model are many, according to both its users and purveyors. The perks include flexible payment methods, such as pay-as-you-go, easy scalability, automatic software updating for things like patch management and application upgrades, and accessibility from any user device. Many of these upsides are driving today's spike in customer demand. In turn, that demand – among other reasons – is pushing channel firms into the SaaS world.

Indeed, 43 percent of respondents to the CompTIA study cite customer demand as the primary driver behind their decision to add SaaS to their portfolios. Increased demand is due in part to the fact that corporate end users from all lines of business have grown more and more familiar with SaaS solutions. They have discovered that, unlike packaged software the IT department deploys, their favorite cloud-based CRM or collaboration tools can be self-provisioned at the quick click of a button from the internet. The self-service phenomenon does provide a challenge for the channel. But it's one that can be mitigated and, in fact, taken advantage of in many cases. Just because a customer can or does type in a credit card number to buy a SaaS application on their own does not mean that they understand how to scale, integrate, customize, and secure said solutions. That's where the channel can – and should – come in.

Among the other drivers behind the channel's decision to offer SaaS is the continued desire to generate recurring revenue, which is also a prime catalyst behind the transition from traditional reselling to managed services. For some traditional solutions providers, SaaS adoption has been the means to becoming an MSP; for those already in the MSP business, SaaS serves as one of the most popular new additions to an existing services catalog.

One of the SaaS model's other chief attractions is how it is delivered, often quickly and dynamically. Thirty-six percent of channel firms cited faster time to deployment as a main reason they are now offering SaaS to their customers. Customers want speed and efficiency associated with any type of purchase they make, whether that's software or a new car. For the channel, the promise of smooth onboarding of technology tools into a business is often music to a customer's ears. S

TOP DEMAND DRIVERS PROPELLING CHANNEL PARTNERS INTO THE SAAS MARKET



SOURCE: CompTIA

7 Lessons Learned From Building A Reseller Program

Advice from a software founder who took the channel fork in the road

KEVIN KOGLER

Like many startups, my company, MicroBiz, initially subscribed to the "build it and they will come" theory when developing our product. After launching our new product and gaining traction with early adopters organically, we came to a crossroad. We could either go direct and invest our marketing dollars in SEO and online advertising or invest in growing and strengthening our reseller channel. The direct strategy would enable us to keep 100 percent of the revenue, but that came with potentially lower growth.

We ultimately decided to build out a partner network, but we learned many lessons the hard way, as creating successful partner programs isn't easy. It takes lots of time, effort, and strategic planning. Here are some of the steps that I wish we would have done a better job with when developing our reseller program. Hopefully, the following suggestions will help you develop your channel strategy with fewer hard lessons.

STEP ONE: UNDERSTAND YOUR CUSTOMER'S BUYING JOURNEY

The tendency is to jump right into talking to partners, but the first step of building your partner program should be to completely understand the customer's buying journey — from an end-user prospect first learning about your product to a customer making the purchase decision.

Be sure you can answer questions such as:

- How and where do users initially learn about your product?
- How do they evaluate and test your product?
- What key features or benefits are most important to the customer?
- Where do prospects go with questions?
- What is the return on investment?
- How is the purchase made, and who does the set-up and training?
- Are there other third-party technologies or integrations that are critical in the purchase decision?

You need to train and support a network of partners selling your product, so you must understand every step of the sales journey from the customer's perspective.

STEP TWO: CREATE A CLEAR VALUE PROPOSITION FOR THE PARTNER

Signing up good partners is a competitive process, as you often must replace an incumbent product. A good partner program (1) provides adequate compensation for the partner, (2) provides sufficient economics to the developer to enhance the product and support the reseller, and (3) results in a competitive end-user price in the market. Be sure not to ignore any one of these levers.

> **"You need to train and support a network of partners selling your product, so you must understand every step of the sales journey from the customer's perspective."**

In approaching prospective partners, you will need to clearly articulate what they will get out of your partner program. How easy is your product to sell and deploy? How can your product be clearly differentiated against competitors? What type of sales volume should they expect? What resources will be available? How and how much will they get paid?

"Your partner program will run much more efficiently if you make it very clear up front who is responsible for what."

Unless you have a totally unique product, your competitors' partner programs are a great resource to help build your value proposition. What types of partners do they have, and what other relationships do these partners have? How is the program organized? How are they being compensated?

Try picking up the phone and asking these partners what they like and dislike about your competitors' programs. You ultimately will be competing for partners, so this intel will help you design a better program.

STEP THREE: DEFINE RESPONSIBILITIES FOR YOU AND YOUR PARTNERS

Your partner program will run much more efficiently if you make it very clear up front who is responsible for what. The goal is to define roles clearly so everyone is on the same page and understands what they are required to do (or not do) during the sales process.

In defining all of the activities, make sure to be specific enough so each activity can be assigned to either you or your partner. Also, be sure to define expectations. What do you expect from partners, and what can they expect from you?

For example, here a few things partners may expect from you:

- Prequalified leads
- Support during pre- and postsales process
- First- or second-level support
- Comarketing materials
- Training and education programs
- Economic support for certain trade show and industry events
- Geographic territory
- Support of out-of-the-box integrations

And here are a few things that you may expect from your partners:

- Follow-up on leads in timely manner
- Market expertise and introductions
- Commitment to train and certify employees on your product
- First- or second-level support
- Attendance at trade shows and industry events

STEP FOUR: DESIGN A PROGRAM WITH DIFFERENT TIERS FOR DIFFERENT TYPES OF PARTNERS

Not every partner is the same. Some will want to control every aspect of the sale and customer relationship, while others will want to pass along a lead and move on to other opportunities. Make sure you understand the goals and capabilities of different types of partners. Do they want to do the installation and/or provide support or just pass along a prospect? Who will train the salespeople? How much marketing will the reseller do? Who will handle billing and collection?

At a very high level, there are three major types of reseller channel partnership options:

1. **Selling through your partner**. In this situation, you are provided with leads by the partner that you must close, or the partner sells your product through a third-party storefront or marketplace. While the partner exposes your product to a prospect or user, you are completely responsible for the sale. Example: Apple App Store.
2. **Selling with your partner.** Here, you and your partner jointly sell your products. This could be as an upsell or to meet a specific need in a service offering. Example: an MSP selling an IT security service as part of a larger solutions offering.
3. **Your partner sells for you.** In this case, your partner actively promotes and sells your product. This type of partner uses its own resources to promote, sell, implement, and support your offering. This scenario is the most complex because you must ensure that your partner has proper incentives and resources to market and sell your product. Example: a reseller selling white label software under its own brand.

Most reseller programs define different partner levels. These levels typically consider the resources, commitment, and needs of the partners — and attempt to incentivize them appropriately. In general, the greater the commitment from the partner, the more status and benefits that partner will expect.

STEP FIVE: INVEST IN A PARTNER SUPPORT INFRASTRUCTURE

You cannot expect a partner to be successful without providing the necessary tools and infrastructure. This infrastructure includes the systems, processes, and resources that you deliver to partners to help them sell and support your product. These resources include:

- **Education platforms** — This can be simple, such as providing a training and user manual. Or it can be as complex as a custom online portal containing a searchable knowledge base, training videos, and white papers. Education platforms also can include classes, user conferences, and partner certifications.
- **Developer resources** — For integration partners, it is important to have full access to technical resources, such as APIs, technical documentation, and higher-level support/chat.
- **Marketing resources** — Marketing design files (logos, fonts, etc.) and specifications to enable proper marketing of the product.
- **Dedicated partner representative** — Larger accounts often benefit from a dedicated account representative to manage the relationship.
- **Second- and third-level support** — Depending on the partner, they may want direct access to higher-level support resources to work on end-user projects or more complex issues.
- **Lead generation and tracking** — An online portal allows partners to register leads and track progress.

STEP SIX: IDENTIFY RELEVANT PARTNERS, AND DEVELOP A PLAN ON HOW TO LAND THEM

Each new partner relationship requires an investment of time and money. Just like your strategy to target certain customers, you should also have a clear idea about who your ideal or target partners are.

It is important that you define up front the attributes of your ideal channel partner. Be sure you know the answers to questions such as:

- How many partners do you need to cover your market?
- What are the key characteristics of partners required to effectively sell your product?
- Which types of partners complement the strengths/weaknesses of your business?
- Are there niche markets that certain partners could help penetrate?
- How likely are your partner's customers to purchase?
- Are you looking for local partners you can work closely with or national partners with more scale but less control?

Once you have established criteria for partners, research and identify companies that fit your criteria and establish a connection. If you are a newer business, you may need to start with companies that will take a chance with newer products. Take the time to invest in personal relationships. If your partner is selling your product, develop a rapport with its sales team. By doing this, they are more likely to suggest your product.

Be prepared for this dating process to take time. Be proactive in approaching partners that you believe offer the best fit, and do not engage with every partner that happens to find you or has a one-off deal.

> **"Be proactive in approaching partners that you believe offer the best fit, and do not engage with every partner that happens to find you or has a one-off deal."**

STEP SEVEN: ALIGN YOUR ORGANIZATION WITH YOUR PARTNERS TO DRIVE GROWTH

The purpose of this article is to get you thinking about the steps necessary to create a proper process and infrastructure for your partnership program. But do not forget about creating the correct internal culture and incentives within your company. Create a culture that aligns success internally in your company with the success of your partners. Training should be focused on helping your partners succeed. Your employee evaluations and compensation should also consider the success of your partners.

Channel partners can boost sales, decrease time to market, and provide access to competitive markets. However, building a channel program can be challenging and costly. Hopefully, this article provided some structure and suggestions to make this a bit easier and less costly than we experienced. S

KEVIN KOGLER is the founder and president of MicroBiz, a cloud-based POS and inventory management software with more than 25,000 small and midsized retail partners worldwide. MicroBiz created its reseller program in the 1990s, and relaunched it in 2013.

Online Reviews: 4 Steps To Leverage The Power Of The Crowd

AUSTIN MERRITT

It's common knowledge that consumers are increasingly turning to online review sites such as Yelp! and Amazon before making purchasing decisions. As IT becomes increasingly consumerized, B2B software buyers are mimicking consumers' behavior.

Historically, software marketers owned the whole "story" of a software product: From white papers to references to website copy, these marketers controlled the messaging. But through online reviews, software users have become part of the narrative.

To explore the power of software reviews, Software Advice conducted an online survey of 386 B2B software buyers. We set out to determine who consults reviews, when they consult them, and why they are important for software buyers and vendors alike. Here are our key findings:

1. 75 percent of buyers consulted online reviews before making purchasing decisions about business software.
2. Buyers who consulted online reviews during the software selection process were ultimately more satisfied with their purchases.
3. Software products that received a mix of positive and negative online reviews were perceived by buyers as being more trustworthy.

Combining this research and our experience working with over 1,000 B2B software vendors across many industries, we distilled four best practices that software vendors should ascribe to when considering their online reviews.

1. MAKE SURE YOU HAVE REVIEWS

Even if you operate in a niche market, or serve only very large enterprises, most buyers will want to read reviews of your product. In our survey, 68 percent of respondents said reviews were "extremely" or "very valuable."

VALUE OF REVIEWS WHEN PURCHASING SOFTWARE

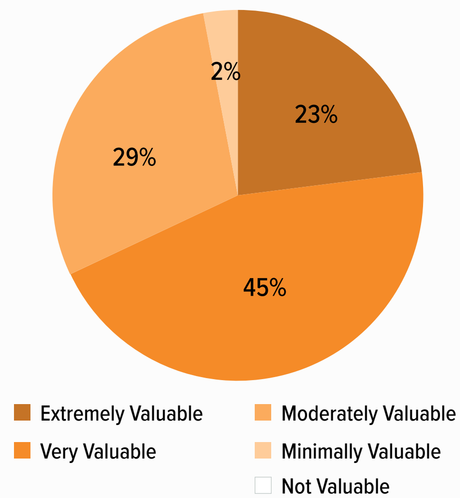


Figure 1

On our website, products with reviews receive on average 5.7 times more traffic than products without reviews. This makes sense when you think about the consumer world: Users are far more likely to read about a restaurant on Yelp! with 100 reviews versus a restaurant with none. Marketers need to ensure their products have reviews if they want buyers to consider them online (Figure 1 shows the value of reviews).

RECENCY OF REVIEWS NECESSARY TO AFFECT PURCHASE DECISION

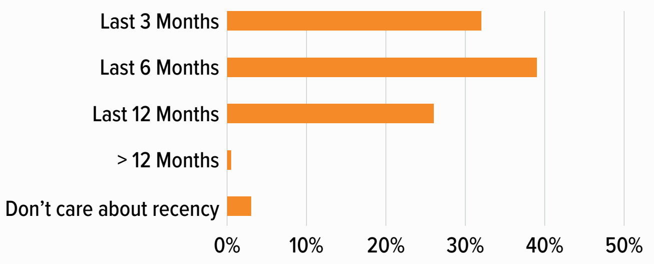


Figure 2

2. MAKE SURE YOUR REVIEWS ARE RECENT

Buyers don't want to just read reviews – they want to read *recent* reviews, especially those written in the last 12 months. Our research indicates that software buyers won't even consider reviews that are older than that. You can see in Figure 2 how buyers responded when asked how recently reviews need to be written to be relevant.

Software changes rapidly and buyers know it. Issues that customers experienced years ago could have been addressed by the vendor. Prospective buyers may have even more confidence in the vendor if those issues have been addressed. As a result, software vendors need to ensure their marketing departments make online reviews an ongoing effort. Marketers can't think about them once and then stop.

3. GO ON THE OFFENSIVE AND RECRUIT YOUR OWN REVIEWS

The most efficient way for software vendors to receive reviews is to solicit them from their own clients. Many vendors are understandably apprehensive about asking their clients to do work on their behalf, but our research shows that buyers really don't mind. When we asked if they would be bothered, nearly half of the buyers in our study said they wouldn't be bothered at all if asked to write a review (see Figure 3 for more data on this).

We've experienced success with this technique here at Software Advice. In one recent instance, we ran a campaign with a construction software vendor in which everyone who submitted a review for a specific product was entered in a drawing to win an iPad. The result? We got 161 new reviews for that product—90 percent of which were 3.5 stars or higher (out of 5 stars). In reviewing our research findings, it's not surprising that most of the reviews in this case were positive. Vendors are actually more likely to hear from buyers after they've had a positive experience. In our survey, nearly half of all buyers said they would be likely to submit a review after a positive experience. But only one quarter of buyers felt likely after a negative experience. The 9 percent of buyers who said they would be "extremely bothered" are probably grumpy anyways, and we believe it's worth it to risk bothering them to increase your exposure on the web.

Negative reviews are naturally difficult for any software vendor to face. But they are essential, which leads to our final best practice.

4. HAVE A HEALTHY MIX OF POSITIVE AND NEGATIVE REVIEWS

Many software vendors believe that having negative reviews will lead to lost opportunities. In fact, our research shows that negative reviews will help buyers believe in the authenticity of your reviews *and in the trustworthiness of your company.*

To discover this insight, we asked buyers what type of review profile would make them trust the authenticity of a product's reviews and trust the software company itself. See Figures 4 and 5 on the next page for details.

It's interesting to note that having all positive reviews is only marginally more helpful than having no reviews at all. This finding has been corroborated by Northwestern University's Spiegel Research Center. Their recent study found that an average rating of 4.2 to 4.5 stars maximizes the purchase probability of a product. Buyers know that no product is truly perfect, and ratings close to 5.0 are likely to be perceived as too good to be true.

BUYERS RESPONSE TO VENDORS REQUESTING REVIEWS

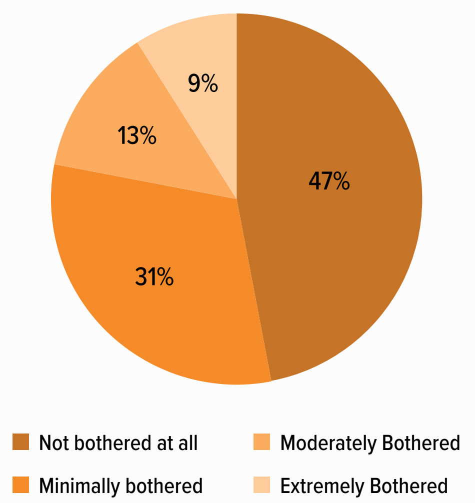


Figure 3

PERCEIVED AUTHENTICITY OF REVIEWS

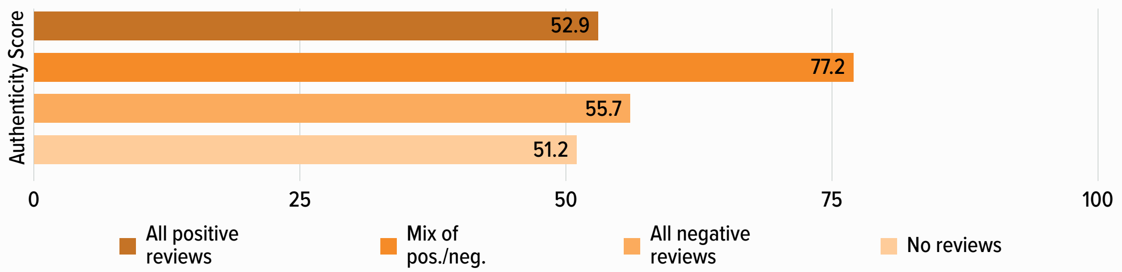


Figure 4

PERCEIVED TRUSTWORTHINESS OF REVIEWS

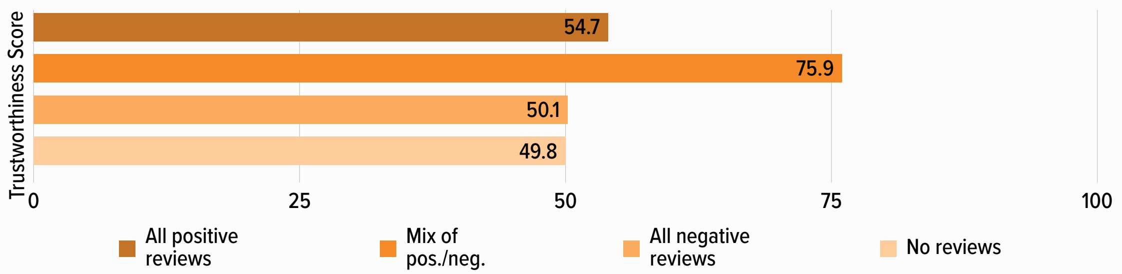


Figure 4

Software vendors should also recognize that their customers are speaking in their negative reviews. Marketers may glean valuable insights into their product development, customer support, or product usability from unhappy customers. This is valuable feedback that software companies should hear to improve their businesses.

REASONS FOR DISREGARDING A NEGATIVE REVIEW

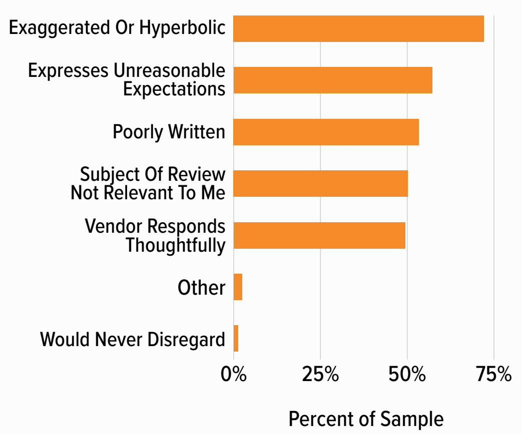


Figure 5

Finally, if your product receives a negative review, your marketing team should respond publicly and professionally. This is a great opportunity to show prospective customers that you care about their feedback. Furthermore, half of buyers said they would disregard a negative review if it were accompanied by a thoughtful response from the vendor. We asked buyers for other reasons why they would disregard a negative review. Figure 5 explains what what they told us.

While counterintuitive, vendors should embrace negative reviews as an essential tool in marketing their software effectively online.

Over the last few years, online reviews have become an essential part of buyers' software research. Software vendors now have a tremendous opportunity to give customers an important seat at the table in marketing their products. If vendors follow these four best practices, they will ensure that their customers become important allies in the software marketing process.

AUSTIN MERRITT is the co-founder and General Manager of Software Advice, a Gartner company. Software Advice helps buyers research B2B software with over 200,000 reviews of 8,000 software products on its website. Austin earned a BSE in mechanical and aerospace engineering from Princeton University.

PRAFUL SAKLANI
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Pramata digitizes and operationalizes commercial relationships so large enterprises such as CenturyLink, Comcast Business, HPE, and NCR can maximize and grow revenue, reduce risk, and drive business efficiencies. Headquartered in Brisbane, CA, Pramata also has offices in Kansas City, MO, and Bangalore, India.

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Pramata

WHAT CHANGES IN CUSTOMER DEMANDS AND EXPECTATIONS HAVE YOU SEEN OVER THE PAST ONE TO TWO YEARS?

With the consumerization of technology, customers now expect enterprise-grade solutions that are as easy to use as Facebook and bring value. Sophisticated large enterprise customers are looking to buy products and services that provide value over time and can grow with their organizations. They want a virtual business partner that brings not only a high-performance offering but also a stellar customer service team that makes a difference to their business and bottom line. Large enterprises are more discerning than ever, and that's why when they find a technology and a company that can service that technology over time, they don't hesitate to expand their investment across their entire enterprise.

WHAT ABOUT YOUR COMPANY IS KEEPING YOU UP AT NIGHT?

I think about intelligently managing growth and scaling in the context of preserving our stellar reputation so that our 100th customer has the same level of success as our second customer. This requires a dogged focus and attention to all aspects of the business so that we continue to provide exceptional operations, engineering, customer success, sales, and marketing in a way that makes sense for our new and old customers alike.

WHAT IS THE TOP METRIC YOU USE TO MEASURE SUCCESS?

Pramata is all about uncovering hidden, but critical, customer relationship data that is buried in contracts and locked in siloed business systems that span sales, finance, and legal departments. When we uncover this critical data, companies can quickly realize revenue opportunities and reduce compliance risks. Therefore, the key metric for measuring success is the quantifiable value our enterprise customers create with Pramata. For example, how many upsell or cross-sell opportunities does our platform uncover?

WHAT IS THE BEST ADVICE YOU'VE RECEIVED ABOUT RAISING CAPITAL?

We've self-funded Pramata and raised capital for expansion only. The reality is that money, whether it's from your own pocket or from a venture capitalist, will not shortcut you to success – it's simply fuel for execution. It's too easy in Silicon Valley to go after endless rounds of financing and leverage yourself to the point that you need a valuation to get to success. Executing efficiently while building a strong business that has a verifiable value proposition for your customers gives you the freedom to grow and expand as you build real value for all stakeholders.

IN WHAT WAYS ARE MILLENNIALS IMPACTING THE SOFTWARE INDUSTRY?

The great news is that millennials were raised during the consumerization of IT. They expect technology to be collaborative, social, and responsive—like Facebook, Instagram, and Snapchat. They expect work to be fun, yet also meaningful. They bring a new dimension to our product, as well as to the Pramata culture and family.

WHAT WOULD YOU BE DOING IF YOU WEREN'T A SOFTWARE EXECUTIVE?

My passions are building teams and organizations that are solving problems never before solved. I'd most likely be working in the social philanthropic or wellness (yoga and meditation) area to help people improve their lives.

WHAT IS THE BEST BUSINESS BOOK ON YOUR SHELF?

Crossing The Chasm by Geoffrey Moore. It's really the bible for Silicon Valley startups.

Why Great Employees Rarely Make Great Managers

KRISTEN McALISTER

KRISTEN McALISTER has spent the last 10 years teaching companies how to leverage executives for transitional situations such as high growth and turnarounds. She is a national speaker and is published on topics ranging from operations and productivity to talent management and the contingent workforce. She is the co-author of the book *How I Fired My Boss and Made More Money*.

"I have always excelled at everything I do. My report cards were full of A's and every boss has loved me. I was a stellar employee. So why did I struggle as a first-time manager?"

This scenario repeats itself in technology companies around the world. People are hired, they turn out to be great employees, the company grows, and they are promoted to managerial positions. Unfortunately, hopes for those individuals as managers fade as performance falls far below expectations, particularly when compared to their performance in their prior roles. Why is this?

GREAT EMPLOYEES OFTEN DON'T NEED SUPPORT

When employees are great at their job, they need very little support. They fall into the top 10 percent of the 10/70/20 rule. Ten percent of employees need very little supervision and will excel with very little guidance. Seventy percent of employees need some support and supervision to improve and grow. Twenty percent of employees are not suited for their positions for one reason or another and, regardless of how much support they are provided, likely will not move up to the 70 percent group.

When an employee has been in the top 10 percent group, it is not instinctual to support or supervise others. Managers, however, spend at least half of their time performing these functions. Following up, verifying, holding people accountable, and having difficult conversations are all skills new managers have never had to do before. It's likely they have never experienced them personally because there was never a need for it.

Provide new managers with guidelines, such as a daily checklist of tasks they should be doing each day or week. For example, ask new managers to spot check an employee's work from the day prior. Or ask new managers to learn something new about an employee. Sit with the new manager once a week initially, and get feedback on what did and did not work. This also sets the example for how new managers can help those they are supervising.

GREAT EMPLOYEES OFTEN LEARN THROUGH INSTINCT

When people are managing employees, there is often an element of teaching, particularly in the world of software, where skillsets continually need to shift. Often, great employees are great at what they do because they learn through instinct. They pick up on skills quickly and can work rapidly with few mistakes. Now add the challenge of trying to teach something that you have never been trained on because it comes easily to you. Teaching is not easy to begin with.

New managers will need teaching guidelines. Start with any single piece of work documentation that doesn't exist or needs to be updated. Have the manager create or update it. Writing it down will force them to think through every step and how best to communicate the process to someone else. From there, have the manager train the employee, and make sure the manager and employee reconvene to talk through any mistakes, issues, or sticking points. Giving new managers a training process provides step-by-step context for something they likely have not been through before.

GREAT EMPLOYEES WON'T ALWAYS HAVE THE SAME PERSONALITY AS PREVIOUS MANAGERS

Not everyone is created equal. This can be a tough lesson for those who fall into the top 10 percent group. Understanding that not everyone thinks the same way as you do is often not intuitive. Great, self-starter employees may prefer little supervision and to just be kept updated on what pertains to them. They are then promoted and become responsible for 15 technicians, who each think differently and value different types of communication.

This is one of the top reasons why it is so difficult to replace a manager who hired most of their employees. We gravitate strongly toward individuals who value the same things we do or interact in a similar way to ourselves. New managers have a steep learning curve as they get to know each employee's personality. To help address this, start with having the new manager ask each employee what three things they value most at work. It can be anything from personal space, to being kept informed, to learning. Encourage new managers to keep it simple.

The reasons we think employees should be promoted to management are the same reasons they may struggle in management. All is not lost, though. Awareness of the challenges that come with promotion is a start.

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