software executive magazine

FEBRUARY / MARCH 2018

BUTCH LANGLOIS
Country Manager
North America
Vend

Partnering Software Success:

Getting Past Press Release Mode p. 14

A BusinessSolutions PUBLICATION

Datacap's industry standard integrated payments solutions empower any Point of Sale, regardless of architecture, with the payments flexibility to accommodate any merchant. By writing to one simple interface, Point of Sale developers can keep pace with evolving trends and payment industry standards, so they can spend development dollars on POS innovation rather than payments.

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The conversion rates on face-to-face relationships are significantly higher. We could have 100 people in the office dialing to get in front of customers, and we would still never get to every opportunity.

We literally stopped and said, 'If we launch all of these sites at once, support could be an issue.' If after we go live, every single one of them is calling us for support, that would be overwhelming to us. So how do we frontload some of that activity?

There's broad agreement that DevOps will only be effective if at least as much attention is paid to people as to technology.

It's still early days for AI today. In 2013, it was very early days. If we didn't build our solution and our sales effort around a vertical that we knew well and had a history in, we'd face a severely steep climb recruiting the development and sales staff we needed to move forward.

You might be surprised that your team might actually *want* to help with the drudgery. Your team wouldn't expect to code up new features but delegate the bug-fixing to you.

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CONTENTS

Welcome to

Software Executive

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JASON COHEN FOUNDER & CTO, WP ENGINE

Things got heavy during Jason Cohen's keynote at the Business of Software Conference in September 2017. It takes guts for a successful entrepreneur to stand up in front of his peers and admit burnout. Cohen has turned things around at his current venture, WP Engine, which recently surpassed $100 million ARR and raised $250 million from Silver Lake. Cohen isn't afraid to ask himself hard questions about his purpose as a business leader. His Leadership Lessons column on page 42 provides an instructive framework that any executive can use to evaluate meaningful, fulfilling, and important work.

CHUCK FOLEY SVP, TALON STORAGE

On page 30, Chuck Foley has a message for growing software companies: Either figure out how to leverage partnerships or stay small. There isn't an alternative. Foley would know. He's currently an SVP at a rapidly growing storage software company, in addition to a long history serving on tech boards. His career in VP and C-level roles spans both private and public companies. *Software Executive* takes pride in being a peer-driven publication, and Foley is just the kind of peer we want to deliver a wake-up call to software companies who have taken much pride of authorship to build a network of partnerships.

MARK SOKOL VP, CORPORATE & SOLUTIONS MARKETING, CONNECTWISE

Looking to cut corporate health insurance costs in 2018? Start by asking if you are afflicted with what Mark Sokol calls "We Can Sell This To Anyone" syndrome. He's spent the past 20+ years scaling teams and products at tech companies across both vertical and horizontal markets. He provides a rousing call to action for software companies to become laser-focused on a smaller customer base. Sounds backwards, right? Turn to page 38 to learn how he scaled down to scale up (and to see what book could change your trajectory).

JOSEPH SALTIEL PARTNER, DINSMORE & SHOHL, LLP

We wouldn't be wasting pages talking about patents if our readers all worked at hardware companies. Patents are table stakes for hardware. But if software is your game, patent laws are hard to navigate because Congress hasn't passed any specifically pertaining to software. If you want to protect your IP, flip to page 12 and see why Joe Saltiel is your guy. He's a partner with the Intellectual Property Department at Dinsmore & Shohl, LLP, a national law firm with offices in 22 cities coast to coast. And he's not just a lawyer – Saltiel earned his master's in electrical engineering and computer science prior to law school.

Status Quo Can't Control Your Software Business

ABBY SORENSEN Executive Editor

There are probably questions about your software business that your team would best answer with the statement, "Because that's how we've always done it." Maybe there is a redundant step in your onboarding process. Maybe your developers keep addressing the same bug over and over and over again. Maybe you are avoiding outside funding when you should be flooring the gas pedal toward growth.

If you have any "because that's how we've always done it" issues, you're not alone. My side hustle as an assistant college golf coach used to entail long, fruitless hours of preparing to call recruits, only to end up leaving a voicemail nine out of 10 times. Why did it take so long to realize 18-year-olds just don't pick up? Because that's how we'd always recruited, by relying heavily on phone time. It took some soul searching to be comfortable with a recruiting strategy built almost entirely around texting and emailing. Process and strategy changes aren't easy, and these changes often don't feel right at first.

Here's another "because that's how we've always done it" example. About a decade ago, our sister publication *Channel Executive Magazine* (then named *Business Solutions Magazine*) started to bring software companies into the fold of its IT channel-focused editorial. To us, the term "software developer" didn't make sense because we weren't building an audience of developers at end-user enterprises. Instead, the term "ISV" (independent software vendor) stuck because it is regularly used in the point of sale and payment ecosystem deeply engrained in that publication. That's why we launched a sister website with the acronym front and center in its name (www.ISVinsights.com) along with an event (ISV Insights, formerly named ISV IQ Live!) to complement the *Software Executive* brand.

"ISV" made perfect sense, and it allowed us to clearly differentiate between the channel vendors, solutions providers, integrators, and resellers behind our flagship publication. As we were launching our new products, we never stopped to ask ourselves, "Does the term 'ISV' best describe the audience we want to reach?" We never asked the question because we had always used "ISV" as shorthand for "software companies," and as such, we assumed our readers did, too. In late 2017, I reached out to a handful of editorial board members, readers, consultants, and analysts in my software network. I wanted to know if they identified with the term "ISV." Responses included comments like, "I've only heard it used two times in my 20+ years in the software business" and, "While large, established vendors may use the term ISV, I never hear that term here in the San Francisco Bay area. You are a software developer or a SaaS provider."

We learned ISV is only used by very specific segments of the software world — it's not a term universally understood to mean "software company." What's the moral of this story? It's worthwhile to pause and question why your business does things the way you do. I'm glad we went through this exercise, because now our products and publications will be better positioned to reach more readers. Our editorial mission isn't changing, and ISVs are still going to be part of the community of software companies we are building. Think of it as a fresh coat of paint on a car where everything is still the same under the hood. Starting soon, you'll see marketing for our newly named event, Software Executive Forum (save the date for our events — August 28 in New York City and October 30 in San Francisco).

Please drop me a line at abby.sorensen@softwareexecutivemag.com if you have an opinion on the usage or meaning of ISV, or if you have a compelling story about how your software business questioned the status quo and made a meaningful change because of it (especially if it's a story worth sharing in a future issue).

Q How has your customer onboarding process evolved in the past five years? What is the secret ingredient to customer onboarding success?

A THE CUSTOMER ONBOARDING PROCESS has evolved to be more sophisticated in the presales process to involve solution architects and more knowledge of the customer's business and key use cases prior to the contract being signed. Even if solution architects are not involved in the late stage presales process, technically proficient sales engineers can create a smoother and more efficient transition to the professional services team, who may also include some developers depending if there is need for some code changes or integration support. We can also make sure there is some continuity with customers if the solution architect is the same, or at least part of a common team. Regardless, the secret ingredient is to avoid losing the trust and knowledge from the customer generated in the presales process and have to train the services team from scratch. We want a transition to implementation that is seamless to the customer that includes people who understand what their use cases, objectives, and desired business value are. Customers dislike onboarding processes that don't take into account what has already been shared or where a vendor isn't prepared to onboard the customer.

MARNE MARTIN
is the CEO of ServicePower, a field service management software company, where she has led the growth and launch of new technology and successful go-private. She has successfully completed an IPO, a privatization, and a number of privately held trade, private equity, and venture capital-backed deals resulting in attractive exits.

A PROBABLY THE MOST SIGNIFICANT CHANGE IN THE CUSTOMER ONBOARDING PROCESS at Granbury over the last five years is the customer's growing requests for simple, do-it-yourself implementation. While we've certainly made great strides in that regard, there also remains that subset of new customers that prefer, and are willing to pay for, full-service, professional implementation. Regardless of which of these categories new customers fall into, it is imperative to set clear expectations from the very beginning of the project. Be sure to communicate who is responsible for each step of the implementation, and then hold the customer (and yourself) accountable for completing those tasks on time. Throughout the process – the secret ingredient is over-communication.

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 WE'VE STREAMLINED THE ONBOARDING PROCESS FOR OUR CUSTOMERS while simultaneously adding functionality and value. Our customer success area has grown in numbers over this period of time, as has the level of service we offer. By constantly improving service, our pleasantly persistent customer success managers are incentivized to get customers onboarded quickly. In our industry, much of the onboarding activity is categorized as a managed service. Our competitors charge for these, but we include over half of these services in the product purchase, making it a simple and economical decision for our customers. The secret ingredient is to make your product truly easy to use and have an incentivized customer success team in place to provide a high level of service, making customers happy they purchased and use the product.

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.

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

Software Executive is happy to welcome Patrick Campbell and Mark Sokol to our editorial advisory board!

7 Testing Mistakes Software Companies Unknowingly Make

ERIC MIDDLETON CEO, 1Rivet

As IT consultants, we're often asked to help test software we build or configure, or to act as a neutral third party evaluating software or configurations developed by others. Here are seven of the most common mistakes we see software executives make and tips for avoiding those pitfalls.

1 SAYING "LET'S SHORTEN TESTING" WHEN A PROJECT IS FALLING BEHIND.

Any time a project schedule is delayed, testing is the first thing people want to shorten to stay on track and make the launch date. Adding more testers isn't a good choice either because there are always defects, and the developers need time to fix them before the testers can re-execute.

Testing needs to be thorough. If you want to find and fix all the bugs, allot enough time to do the job right. A variety of variables change when you move or change a project schedule. Be careful deciding how to proceed. Give yourself adequate time to test so your customers and clients get the best possible product or service you can deliver.

2 THE BALANCE BETWEEN YOUR MANUAL AND AUTOMATIC TESTING IS OFF.

Some companies think automation is a silver bullet, eliminating the need for manual testing. But there's a lot you can't automate and plenty more that doesn't make sense to automate because the setup is too complicated or too expensive to maintain. Front-end versus back-end testing should also play into your overall strategy between automation and manual testing. I've seen companies that spend more time maintaining an automation suite than they would doing testing manually. Develop a strategy first, and aim to strike a balance between automatic and manual testing.

3 YOU DON'T TEACH YOUR TESTERS YOUR BUSINESS.

The goal of the testers is to find defects before the business testers find them during user acceptance testing (or once you're in production). If the testers don't know your business, they won't function like a true user, and your test results will be skewed. When your testers know your business, you get more accurate results, uncover more potential problems, and allow your actual business testers to get back to helping run your company versus troubleshooting.

Invest in high-quality testers, teach them your business, and let them execute test scripts as if they are business users. If money is an issue, you can leverage offshore talent as long as you know what you're doing.

4 SAYING "CHEAP" AND "TESTING" IN THE SAME SENTENCE.

It floors me when companies purchase testers based on price and not capabilities. I once had a client move from one testing company to another company to save $1 an hour, even though the first company was better. Hiring cheap testers is like putting cheap tires on your car. The difference between poor tires and good tires could be the difference between having an accident and avoiding one.

> "Hiring testers based on price may save money in the short term, but you run the risk of the software going to production and failing. Repairing the damage to your product's and your company's reputation can cost far more than you saved with the cheap testers."

Testing is the last stop before heading into production. Hiring testers based on price may save money in the short term, but you run the risk of the software going to production and failing. Repairing the damage to your product's and your company's reputation can cost far more than you saved with the cheap testers.

5 THE BALANCE BETWEEN RECORDING TEST CASES AND TRUSTING TESTERS IS OFF.

Recording the keystrokes of your testers, while beneficial, can be time-consuming and expensive, but it's the best way to ensure a test case has passed. After an audit or test failure, it's great to be able to pull up a recording of the tester running the test script and check to see if the tester did the right steps. One caveat: You can end up with hundreds or even thousands of recordings. Create a naming convention everyone understands so you can quickly locate needed recordings.

The alternative is to skip recordings, put your trust solely in your testers, and assume everyone is honest and good.

The middle-of-the-road solution is to categorize the test scripts as "to be recorded" versus "not." That saves time and money while giving you the comfort of knowing your testing was done correctly and was successful.

6 SKIPPING PARALLEL TESTING.

When you're doing a large-scale upgrade or installation, parallel testing uncovers flaws and provides system verification against production. Done properly, parallel testing can be easy and produce results against all your production systems.

Your approach needs to be well-thought-out, setup is critical, and the right tools make an enormous difference. The value of parallel testing led 1Rivet to create 1DataServices, a product that automates parallel testing across newly changed systems and production systems to eliminate the need for validation across both systems.

7 ONLY TAKING THE HAPPY PATH RATHER THAN TRYING TO BREAK THE PRODUCT.

The more users you plan to have, the more likely it is one of them will break your application. The goal of testing is to find problems with your software based on the expected path of your users, as well as any negative paths they might stumble down (otherwise known as negative testing). After you test for what a normal user would do, test for what a normal user should not do.

Can you enter numbers in a field where you should be entering letters? Can you send negative invoices to customers? Can you click "approved" in a workflow before it should be approved? Ensure your company has the right level of negative test cases. That full inventory of test scripts ensures the testing is 100 percent covered.

ERIC MIDDLETON is CEO of 1Rivet, a strategic IT consulting firm specializing in application design and implementation, data visualization and analytics, delivery management and customer experience, IT mergers, acquisitions and integrations, and cloud-based innovations including machine learning, AI, and IOT.

B2B SaaS Pricing & Contracting Data

SOURCE: SaaS Capital

Your software might be able to solve customers' problems better than any other solution, but your code base, sales engine, and marketing prowess are irrelevant unless you get your pricing model right. SaaS Capital's recent survey of more than 700 private SaaS companies provides benchmarks to show how you stack up against your peers and offers insights about how your pricing strategy can impact your overall growth.

65%

of SaaS companies employ **FIXED PRICING.**

35%

of SaaS companies **PRICE DYNAMICALLY** month-to-month.

15%

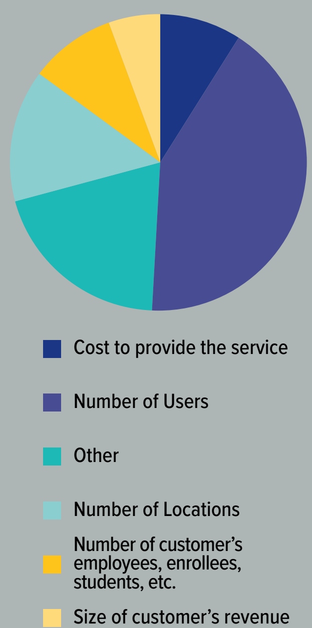
of SaaS companies employing fixed pricing derive it from perceived value or from the cost of delivering the service.

50%+

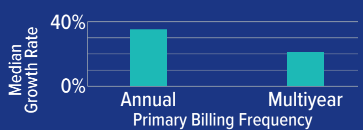
of SaaS companies surveyed **OFFER DISCOUNTS**.

Nearly **50%** of companies utilizing fixed pricing establish pricing based on number of users.

FIXED PRICING DRIVERS



GROWTH RATES BY BILLING FREQUENCY



There is a 15% difference in median growth rates between companies **BILLING ANNUALLY** (about 35%) compared to companies with **MULTIYEAR CONTRACTS** (about 20%).

250ok

This email analytics and deliverability SaaS company proves why striving to be the next unicorn isn't the only path to success.

ABBY SORENSEN Executive Editor
@AbbySorensen_

A word of advice for anyone trying to get Greg Kraios' attention: your intro email had better be a good one. Kraios is the founder and CEO of 250ok, an email analytics and deliverability SaaS platform that announced a $2.6 million Series A in October 2017. "Over the years, we've had various firms reach out and offer us money," Kraios says. "It just got to the point where the emails they sent and the calls they made were so generic and felt so impersonal that I just wouldn't engage at all."

That's why Kraios wasn't actively fundraising when Arthur Ventures first reached out to him. The company had grown organically to more than 20 employees since Kraios founded it in 2011 and already had logos like Marketo and Adobe in its portfolio. But an early-stage investment firm's email caught his eye — it was targeted, personalized, and mentioned a potential in-person meeting with 250ok in Indianapolis, where the company is headquartered. The message did everything 250ok's software is built to do — help companies maximize email marketing performance.

Arthur Ventures was intrigued by the $1 million in training grants and performance-based conditional tax credits 250ok had announced in April 2017 from the Indiana Economic Development Corporation. Its local job creation plan was more than altruistic; it paved the way for a seed round to help increase its head count. Kraios liked the idea of working with a family fund instead of a VC, and he also liked the friendlier terms. "When you're talking to potential investors, you feel you need to tell that unicorn story for them to be interested," Kraios says. "Arthur Ventures didn't want or need me to tell that story. They just wanted to see a solid business doing well. They didn't put pressure on us to prove out a billion-dollar idea."

Kraios wasn't trying to build a unicorn when he left a management role at ExactTarget to start a consulting practice. He admits he doesn't have the patience to be an engineer, so he teamed up with another former ExactTarget employee to architect the alpha version (a version he already had a paying customer for). "I didn't know how to raise money, and I didn't know about operating agreements," Kraios admits. "I just knew executives and how to shop the idea around." It helped that one of these executives was Chris Baggott, cofounder of ExactTarget. Kraios left the company on more than favorable terms, so much so that Baggott wrote the first check to back 250ok. Having a heavyweight be the first money in created the kind of domino effect that helped the company double revenue annually since 2013 and quickly become cash-flow positive.

Part of this growth was sparked by the company's focus on owning as much data as possible without having to rely solely on third parties. That's what inspired Kraios to create a division called MailboxPark in January 2017. This software platform is complementary to 250ok's core offerings — it enhances domain name sales by utilizing and monetizing existing email traffic. Kraios knows creating new products like this helps keep his team engaged, too. He says, "It's always more fun for engineers to build new things than it is to maintain a code base or fix bugs or scale an existing platform. Really good engineers aren't motivated by maintaining; they are builders and creators."

Continuing to build 250ok is how Kraios is paying it forward in the budding Indianapolis tech ecosystem that groomed his entrepreneurial spirit and helped him secure early funding. He's part of why Forbes puts Indianapolis at a surprising fifth on its 2017 list of cities creating the most tech jobs, right behind the usual suspects like San Francisco, Charlotte, Austin, and San Jose. "There are a lot of meaningful tech businesses outside of Silicon Valley, and the more that survive, the better. The unicorn stories are fantastic, and we're all a bit hopeful that our idea will go on a ride like that, but instead my goal is to give people achievable goals and make other entrepreneurs realize they don't need a ton of startup capital and continued investment to run a successful company." S

GREG KRAIOS
Founder & CEO

Vital Statistics

23
Employees

Headquarters
Indianapolis

Year Founded
2011

Finances

Total Capital Raised
$3 M
($400,000 seed, $2.6 million Series A)

Notable Customers

Marketo

Adobe

SendGrid

Latest Updates

October 2017:
Announced a $2.6 million Series A led by Arthur Ventures

Should You Get A Software Patent?

Software companies need to weigh whether or not it's a smart investment to spend up to $50,000, plus the potential cost of litigation, for a patent that might not be enforceable in court.

JOSEPH SALTIEL Partner, Dinsmore & Shohl LLP

Software has transformed our society, and like with any innovation, software companies have been zealous trying to protect their IP by seeking patents. Since 2012, the United States Patent and Trademark Office (USPTO) issued an average of 300,000 patents per year, and a majority of the issued patents are software-related. And while tech giants like Google, Microsoft, and Apple are among the companies with the most issued patents each year, many smaller software companies have also sought patent protection.

The current U.S. patent laws, however, were passed in 1952, well before the onslaught of software into our daily lives. Thus, courts have been forced to fit software as best they can into the pre-existing regulatory scheme, resulting in a mishmash of rules applied inconsistently. A perfect storm of technical innovations and an expansive view of software patents in the 1990s eventually led to a dramatic increase in software patent applications. The number of annual patent applications being filed grew from approximately 200,000 in 1994 to almost 630,000 in 2015, with a significant amount of them involving software. However, until Congress provides a patent regulatory scheme that specifically addresses software, developers are left to decide if obtaining patents is the right move.

FACTORS TO CONSIDER WHEN DECIDING TO SEEK A SOFTWARE PATENT

With the current antisoftware patent climate in the courts, companies might question whether software patents are worth the investment. Software patent costs fluctuate, but it is not inconceivable to pay up to $25,000 for filing a patent application, which includes attorney fees, prior art search fees, and USPTO fees. A developer could also easily spend up to another $25,000 for prosecuting the patent before the USPTO and additional USPTO fees such as maintenance fees. Is it worth investing up to $50,000, not to mention the cost for any litigation, for a patent that might not be enforceable in court?

That answer will vary, but it will likely depend on the specific software at issue. Using software patents to block others from using software to perform typical or known functions will likely result in an unpatentable invention. For example, while the courts have not per se excluded business method patents, few have survived a patentability challenge in the current environment. Likewise, software patents that merely exploit the inherent functionality of hardware are likely not worth patenting. For example, an app that uses a mobile phone's camera flash as a flashlight (or strobe light) would likely not be patentable even if no one had previously used a phone's flash that way, because that function, i.e., transmitting light, is inherent with the phone's flash hardware capability. Also, software patents that are purely function and would pre-empt all known (and unknown) ways of performing that function are not likely to be patentable. Lastly, developers should consider that merely being the first one to write software to perform a particular task does not necessarily make that concept patentable.

Instead of trying to corner a market, software developers considering patent protection should focus on their own software. If the software provides a novel solution to a known problem, it is likely patentable. Specifically, courts have found that software patents providing an invention rooted in computer technology to overcome a problem specifically arising in the realm of computer technology are likely patentable. Thus, the more specific the software patent in application and its solution, the more likely it will be patentable. The problem, however, is if the software patent is too narrow, it might be easy to design around. Hence, the question becomes, "Is the software solution a real technological innovation that can be described broadly enough to prevent easy circumvention, but narrowly enough to survive a patentability challenge?"

COMPARING COPYRIGHTS, TRADE SECRETS, AND PATENTS

In addition to patent protection, there are other ways to protect software. For example, developers could try to protect their software via a copyright. A copyright protects original works of authorship, including computer software. Copyrights only protect the specific code written. Hence, other developers might still be able to use the general idea to develop their own software performing the same or a similar function. Another avenue of protection is a trade secret. Unlike patents and copyrights, trade secrets do not expire and give businesses an economic advantage over competitors who do not know or use them. Importantly, in 2016, the U.S. passed a new law providing federal protection for trade secrets. Previously, trade secret law varied from state to state. This new law provides uniformity with respect to trade secrets and easier access to federal courts that enforce them. To fully exploit trade secret protections, developers will need to ensure they have taken certain measures to protect the trade secret, such as use of nondisclosure agreements and/or noncompete clauses in contracts.

Patents, trade secrets, and copyrights all have value in protecting software. Patents differ from trade secrets and copyrights because patents provide a greater opportunity to monetize software. With a patent, a developer can license its patent to others in order to generate royalties. Developers can also exclude competitors from making, using, selling, or importing its patented invention, which should generate more revenue by increasing the developer's market share. Moreover, patents can be used defensively. If a developer has a patent on its own software, that means it is unlikely that someone else has a patent covering the same technology. Furthermore, if a competitor tries to sue a developer for patent infringement, the developer may be able to use its own patents in a counterclaim against the competitor. Because software patents can be more valuable than either a copyright or trade secret, certain types of software patents are worth the investment.

THE FUTURE OF SOFTWARE PATENTS

Because Congress has not addressed how software should be treated by the patent laws, the courts have been forced to address software patentability by applying outdated laws. The courts have further complicated the application of patent laws to software by modifying their position over the years, going from a restrictive view to a broad view, and then becoming more restrictive again. Further still, some courts have been inconsistent in their treatment of software patents. Trying to reconcile all of the different court rulings guidance is a difficult task and does not provide developers with a predictable method for determining when software is patentable.

Instead of trying to squeeze software into existing laws, Congress should do what the Supreme Court suggested nearly 50 years ago and expressly enumerate software as its own category of patentable subject matter. In doing so, Congress can also provide specific rules for software patents. For example, Congress could:

- Expressly forbid functional claiming unless it is limited to an algorithm disclosed in the patent specification
- Require the novelty of software to be more than an inherent or obvious feature of known hardware
- Require the point of novelty of any software patent to be a required element of the patent claims

While these principles can be found in various court rulings, codifying them in the patent statutes will help bring clarity and uniformity in their application. Until these changes are made, software developers are left with the quandary of whether to make the investment in a patent or use some alternative means to protect their software. S

JOSEPH SALTIEL is a partner in the Intellectual Property Department at Dinsmore & Shohl LLP. He is an experienced patent litigator who counsels clients on intellectual property matters including licensing, freedom to operate, IP enforcement, opinions of counsel, and patent and trademark procurement. He holds degrees in computer science and electrical engineering.

BUTCH LANGLOIS
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PARTNERING SUCCESS:

GETTING PAST PRESS RELEASE MODE

ABBY SORENSEN Executive Editor @AbbySorensen_

This global software company's growth hinges on North American partnerships built around metrics, incentives, and engagement – not by collecting as many new partner announcements as possible.

Butch Langlois is a CPA by training. He's not your stereotypical bean counter though. Spend five minutes listening to him talk about scaling tech companies, and you'll quickly realize he's not an introverted numbers nerd. He's currently running North American operations at Vend, the point of sale software used in more than 20,000 stores around the world. Before Vend, he was the CFO for the Internet Division at Rogers Communication, the publicly traded Canadian telecom company with more than 25,000 employees. His resume is also peppered with CEO and president roles at Toronto area startups born out of the late '90s dotcom wave – companies like comparative shopping portal BuyBuddy.com, on-demand e-commerce platform Truition (acquired by CDC Software), travel industry interactive web mapping platform PlanetEye, real estate listing platform Zoocasa, and SMB digital toolkit Webware.io.

The startups Langlois has guided vary in terms of technology, vertical, and target customer, but they have a common thread when it comes to partnerships: None of them really understood exactly what it took to scale through partners. He explains a pattern many tech execs are likely familiar with: "Partnerships were always one of those things you thought were going to transform your business. You would go out and finalize a partnership, and you would think, 'Oh my god, here comes the revenue. It's going to come flying in.' Typically what would then happen was a press release. VCs loved the press release, but really the partnership never went anywhere."

At one point in his career, Langlois admits he had a jaded view of partnerships. New partners would talk a big game, but the needle very rarely moved as a result of the relationship. When he rejoined the Rogers Communication team in the late 2000s, his outlook on partnerships started to improve. Langlois was tasked with portfolio development for the Rogers incubator grooming businesses targeting SMBs, which meant he could look at partnerships from the other side of the table. He didn't fall into the trap of simply leveraging existing resources either. For example, the company had existing sales teams across Canada, but Langlois knew scaling wasn't as easy as giving current reps something new to sell. "That's always a big red flag to me," he says. "It's really hard to get existing teams that are used to doing something to do something else, especially if the economics are different."

At Vend, Langlois has the luxury of clearly differentiated teams. One team runs outbound. Another is responsible for inbound. And another takes the lead on partnership development. He doesn't have to teach any old dogs new tricks in order to grow. There is company-wide buy-in about the importance of partnerships for future growth. So much importance has been placed on the partner team that it's the only one reporting directly to Langlois. That emphasis is partly why Langlois is so energized by his opportunity to change the dynamic at Vend – to transform it from a software company that has primarily relied on an inbound model to add new revenue channels and increase international growth through partnerships. He knows the metrics, mentality, and marketing tactics that can help any software company scale partnerships and get over the press release-mode hurdle.

> "THERE'S JUST SO MUCH OPPORTUNITY IN THE MARKET THAT INVESTING IN A PARTNER CHANNEL LIKE THIS MAKES A TON OF SENSE. WE COULD HAVE 100 PEOPLE IN THE OFFICE DIALING TO GET IN FRONT OF CUSTOMERS, AND WE WOULD STILL NEVER GET TO EVERY OPPORTUNITY."

"PARTNER PROGRAMS ARE NOT A CHANNEL THAT YOU JUST SAY, 'HEY, HERE WE GO. SIGN UP 100 PEOPLE, AND THE DEALS COME IN.' THERE'S A LOT MORE WORK TO IT, AND IT'S NOT ALWAYS SEXY TO DO IT. BUT IF YOU SET UP THE FRAMEWORK PROPERLY, IT CAN REALLY SCALE."

PARTNER PROGRAM METRICS

Langlois says, "The economics of putting a ton of feet on the street or building out an inbound model is really expensive." He's right. But how expensive is expensive? Back in the October 2017 issue of *Software Executive*, we published snippets of The Bridge Group's SaaS Inside Sales Metrics & Compensation Report. Data from 384 SaaS companies shows just how expensive it is to build a robust direct sales engine. Consider this:

- The median on-target earnings per SaaS sales rep is $110,000.
- The average SaaS sales rep's base salary is $62,000.
- An average of $477 per rep is spent each month on sales acceleration technologies.

Plus *CNBC* estimates U.S. employers cover roughly 70 percent of healthcare costs, which averages about $10,000 nationally. With some rounding, that means if your software company wants to build a team of 30 sales reps, it will cost upwards of $125,000 per rep, or $3,771,000 annually. These millions don't account for management overhead (the average SaaS sales manager is responsible for 7.2 reps) or the high cost of turnover (the average tenure of a SaaS sales rep is only 2.4 years). The average annual quota from The Bridge Group's report is $770,000 per rep, and that's a number that just isn't feasible for some software solutions because of price points and/or market size.

Vend is in a better position than most software companies to shell out this kind of cash for an inside sales team. The company has raised $45 million since being founded in 2010, and a strong brand makes it a market leader (in 2017 Vend ranked in the top 15 on both Capterra and G2 Crowd in the point of sale software category). Langlois estimates "point of sale software" generates between 80,000 and 90,000 organic Google searches in the U.S. each month. Even if a company like Vend could afford to pay $125,000 per rep, the math still wouldn't add up. It still wouldn't be able to keep up with the demand. And, like many B2B SaaS companies, its price points don't make sense for a strictly inside sales operation. Vend, for example, offers plan tiers at $69 per month for the starter version, $79 per month for advanced, and $199 for multi-outlet. Add-ons include a $39 per month option for an extra register, and $19 per month for priority phone support. "There's a main difference in today's SaaS model versus the models from 15 or 20 years ago," Langlois says. "When you're selling a product that's in the hundreds of dollars per month category, you just don't have the economics to have reps in every city walking door to door."

The economics Langlois is referring to are why many tech companies already have some sort of partner program today. The problem is, most of these partner programs aren't driving the kind of revenue and growth software companies were hoping for when they launched their partner programs. Why is that? It's because calculating partner program metrics isn't the kind of simple math that proves traditional sales teams are expensive. Langlois understands most companies get the numbers wrong on partnerships when they prioritize quantity over quality, and when they don't properly evaluate leads.

"Historically, companies sign a ton of partnerships and hope they all go get their one deal," says Langlois. "It becomes very hard to manage, and your brand loses a little bit of equity and market share because the partners' customers are unhappy. My feeling is we can go deep enough with partners who are actually very engaged." The only way to build a partner program that really scales is by having partners who become stewards in the market. And the only way to turn partners into stewards is to nurture those partners with personalized attention, support, and incentives – something that can't be done well in bulk.

A focus on finding and grooming quality partners is something all software companies with partner programs preach on their websites. Not all software companies have the same attention to detail Vend applies to evaluating the quality of its partners. Vend puts all partner leads through the same sales discipline that exists across the inbound and outbound sales teams, and then it compensates partners accordingly based on that quality. Since all sales reps are held accountable for a certain conversion rate, it's easy to identify if a partner is sending bad leads. For example, if sales rep A typically closes X percent of warm leads, and that rep is closing X percent less of the leads sent by partner A, then it's clear the leads from partner A aren't a high enough quality to scale that relationship. On the other hand, if partner B's leads are going to rep B – who isn't a historically strong closer – and rep B is closing about the same percent as usual, then the problem is identified at the rep level instead of pointing fingers at the partner.

Holding partners accountable for lead quality in the same way inside reps are held accountable for conversion rates isn't just meant to keep the peace between Vend's three different teams. While some software companies worry about the perceived conflict of interest in selling through a distribution channel and selling direct, Langlois sees that as a nonissue. "There is never a situation where the three inbound, outbound, and partnership teams are talking to the same customer. It just doesn't happen. There's just so much opportunity in the market that investing in a partner channel like this makes a ton of sense. We could have 100 people in the office dialing to get in front of customers, and we would still never get to every opportunity."

VEND

YEAR FOUNDED:
2010

HEADQUARTERS:
Auckland, New Zealand

MAJOR OFFICE LOCATIONS:
Toronto
London
Melbourne

EMPLOYEES:
200+
50+ in North America

CUSTOMERS:
20,000 stores globally
5,000 in North America

GLOBAL FOOTPRINT:
Customers in 150+ countries

GROWTH RATE:
1,000% in first 3 years

VERTICAL MARKET:
Inventory-based retailers
with 1 to 20 stores

TOTAL FUNDING:
$45 Million

NOTABLE INVESTORS:
Peter Thiel (Valar Ventures)
Christoph Janz (Point Nine Capital)

PARTNER PROGRAM INCENTIVES

Even though partners have a significantly lighter impact on the payroll, that doesn't mean partners should be treated as second-class citizens compared to internal sales reps. Vend's inbound, outbound, and partner teams work entirely different customer leads, but operationally speaking, there is quite a bit of overlap. Finding the right incentives and maintaining a high level of engagement matters for partners just as it does for your internal sales team. Langlois knows it's not enough to "provide a value add" or to "give a rate X percent better." As software becomes more and more commoditized, partners will become more and more likely to sell someone else's product, and end users will be more and more likely to ask about alternatives. If you want your software to be a core part of every discussion a partner has with a potential customer, then you need to incentivize them to do just that. If you want a referral partner to send better quality leads, structure compensation around exactly that.

Langlois says, "Incentive programs can't be the same thing every month. There's always deal fatigue. If you're giving someone a trip and you offer it for two months, it becomes stale. Ask yourself, 'How can we motivate partners during a hard part of the month?' It's the same sort of conversation you have about incentivizing your direct sales team."

Vend's take-home message about incentivizing partners is to structure the program so it encourages them to finalize multiple deals in a given time frame. The value of the incentive increases as the number of deals a partner brings to Vend increases. This is based on Langlois' firm belief in the quality of partners over the quantity. He'd rather have 100 partners doing multiple deals each month than 200 partners doing just one. That model is much easier to support and scale. In that model, eventually those 100 partners will start gaining momentum and getting increased support from Vend, which will lead to three deals each month, then four, then five, etc. – all while the hypothetical 200 partners would continue closing just one because of a lack of focus on the relationship.

"We realize our cost of acquisition in a partner channel is not as high as it is doing inbound or outbound," says Langlois. "We can use incentives to really get them

VEND'S PARTNERSHIP TECH STACK

VEND'S GO-TO TOOLS:

- SalesForce
- Slack
- Marketo

The company has also developed internal tools to help track referrals, deal stages, and partner compensation. Langlois says, "The partnership channel needs to be treated the same way as your sales team in terms of tools and metrics. Our partners can log in and immediately see data around deal stages and compensation. Complete transparency is incredibly important. The last thing you want is for your partner to send a lead and then think it goes into a black hole."

Vend uses Slack to communicate with many of its top partners. Each partner has a separate Slack channel.

engaged in what we're doing. With any incentive that you give an internal sales team versus a partner channel, the actual behavior that you want out of that channel is just as high maintenance. You can't expect a partner to be sitting there saying, 'Oh, I guess I'm going to go out and evangelize another product for very little, or without any support from the actual company.'"

PARTNER PROGRAM MARKETING

Having companywide buy-in and knowing how to effectively incentivize partners doesn't matter unless you have a proven way to find the right partners in the first place. Since Vend puts a premium on partners who are the right fit, they are selective in their marketing approach. Langlois outlines three keys to marketing success that can be replicated by any software company.

To start, it's not necessary to recreate the wheel; instead, software companies can leverage existing relationships and build from there. For example, Vend's close relationship with a payment processing provider has allowed the company to tap into that partner's network of resellers. The bundled solution not only creates stickier customers for Vend, it also has led to finding partners that are prequalified and ready to start selling its software right away.

Second, Langlois recommends trade shows for significant partnership marketing ROI because of the personal relationships Vend has built at these. Face time not only helps close customers, it also cements partnership agreements. "The conversion rates on face-to-face relationships are significantly higher than trying to establish partnerships online or over the phone," he says. "We've developed a ton of relationships in that one-to-one setting where we can meet someone at a trade show, get a sense of them and where they are, and understand what they're trying to do with their business. Trade shows crystallize partner relationships, and I always come back feeling we're really immersed in each other's opportunities."

Regardless of what partner opportunities you target or how you spend your partner marketing dollars, Langlois stresses the importance of treating partners like employees. By that, he means, "If you're waiting for everyone to apply for a job opportunity with your company, you're probably not getting the best of the best. You want to be engaged and actively encourage partners to come on board because they're good at what they do, and because you're good at what you do." Vend has a specific person on its team dedicated to recruiting partners, very similar to how HR teams have internal recruiters. Actually supporting a partner goes well beyond incentives, and it starts with having a properly staffed team in place to manage partner marketing, onboarding, and continued support. "That's the table stakes, and there are a lot of gaps in a lot of partner programs where you have someone who's just signing up a ton of people," says Langlois. "Their company's metric internally is, 'Hey, if you sign up 50 partners this month, you hit your target and you get a bonus.' It's really important that your team managing the partner program really understands that it's about engagement, not just about numbers."

Despite his accounting background, Langlois isn't impressed by numbers alone when it comes to evaluating partners. Vend's partner team that reports to him doesn't score points for the sheer number of partner press releases they put on his desk. His outlook on the ability of partnerships to help tech companies grow has come a long way since his days working in telecom and dotcom startups. "It's very metrics-driven. Partner programs are not a channel that you just say, 'Hey, here we go. Sign up 100 people, and the deals come in.' There's a lot more work to it, and it's not always sexy to do it. But if you set up the framework properly, it can really scale." S

Conversica's AI-driven sales assistant is a new kind of sell, but veteran SaaS salesman Dave Marod is up for the challenge.

Dave Marod answers the phone in that welcoming Midwestern kind of way, warmly and as though he's been looking forward to our conversation all day. I'm calling him to talk sales strategy at fast-growing Conversica, the bleeding-edge AI software company where he leads the sales effort. Our introductory small talk threatens to derail the interview from its start. Marod is a speed-freak motor head. He races motorcycles. When he feels like going fast, it's a Ducati superbike — capable of reaching speeds of 170 mph — in AMA (American Motorcycle Association)-sanctioned competition. When he feels adventurous, he opts for his KTM woods bike, which he races up and down mountains for hours at a time in WORCS (World Off Road Championship Series) endurance events. At this realization, we take quite a departure from shoptalk. Both of my kids race in a similar off-road ATV series on the East Coast, so the conversation is fluent and excited. Here's the thing, though — my kids are 11 and 13 years old. Marod is damn near 50.

"It's just kind of in my nature to go fast," he says. "It's thrilling. Operating a powerful machine at high rates of speed or on a technically-demanding course requires the engagement of all your senses. There is risk, there is danger, and those are both exacerbated by your competition," he says. "You accept the risk and push your limits because you want to be faster than the guy next to you."

The parallels to his career in software sales don't go unnoticed.

For much of his professional life, Marod worked sales for automotive industry-specific CRM and marketing software platforms. Over the past decade, he saw stints at Outsell LLC (strategic alliance manager), VinSolutions (national sales director), and Better Car People (VP of sales). These were strong, well-accepted platforms, and Marod was good at selling them. But his professional life selling CRM was sort of akin to riding a moped. There wasn't much speed involved. There was very little risk. It was unlikely those jobs would provide him an opportunity to do anything that hadn't already been done before, short of more moves. Marod is taking my call from his Foster City, CA, office on the fringe of Silicon Valley. It's a long way from his home in Bellingham, WA, and even further from his hometown of Grand Haven on the shore of Lake Michigan. He's spent the past two decades moving around the country, from Florida to Missouri to Colorado to Washington, on his software sales odyssey.

At Conversica, which Marod joined in the spring of 2013, it's the technology, he says, that's doing the moving. "AI is the bleeding edge of tech," says Marod. "Selling it is akin to racing in a couple of ways. You have to throw some caution to the wind, and there are very few people with the stomach to do it right now." That's in large part because it's a highly educational sell. Everyone knows CRM. Selling it is simply convincing buyers that yours is faster, easier to integrate, or simpler to use. Selling AI is a different animal. It's teaching buyers what it is, explaining how the algorithms process data inputs and "learn," as well as convincing them that it works. Here's a five-point look at how Marod and his sales team at Conversica are overcoming those challenges.

1. *Start With A Vertical Focus*

Marod was recruited to Conversica by its founder, Ben Brigham, who also earned his software business stripes in the automotive CRM space. During Marod's early years there, Conversica focused almost exclusively on the car dealership space it knew best. In fact, Marod took the task of building a Conversica sales team right back to Kansas City, home of former employer VinSolutions, where he had a target-rich recruiting environment. "It's still early days for AI today," says Marod. "In 2013, it was very early days. If we didn't build our solution and our sales effort around a vertical that we knew well and had a history in, we'd face a severely steep climb recruiting the development and sales staffs we needed to move forward," he says.

DAVE MAROD
SVP of Sales
Conversica

Five SaaS Sales Suggestions

MATT PILLAR Chief Editor @MattPillar

> *"We learned the hard way that it's not good enough to just have a great technology and run with it. It has to be seamless in the stack."*

But as the product matured, and as Marod puts it, "we realized how good it was getting," the company rolled out to businesses beyond auto sales. It was wise, he says, for the company to stay in its comfort zone for a time. With the realization that the application could fit into just about any lead-dependent sales environment came another strategic decision: While there was some solid auto industry sales experience in the Midwest, Silicon Valley and Bellingham housed the talent the company would need to penetrate other verticals — specifically, software sales (Salesforce.com is a flagship Conversica partner). Today, the company maintains sales teams based in Kansas City and Foster City. Its C-suite is in Foster City as well, while its customer success and engineering teams are in Bellingham and Seattle. "As we grew out from the automotive niche, and specifically into the B2B software, we found it strategic to increase operations in areas where we could pull talent from the likes of Amazon, Microsoft, and other big software players," says Marod.

2. *Fund Your Growth*

Of course, vertical and sales team expansion doesn't happen without funding. The acquisition of development, sales, and executive talent that can build, sell, and grow an AI software business, in particular, comes at a premium. To recruit the talent Marod refers to, Conversica needed capital. In December 2016, a $34 million round of Series B funding led by Providence Strategic Growth, Toba Capital, Wellington Financial LP, and Recruit Strategic Partners brought the company's total to $56 million (on the heels of Series A investment from Kennet Partners).

That funding, says Marod, allowed Conversica to pursue and land some big league customer-facing executives with major software company experience, guys like SVP of Business Development Victor Belfor and Chief Customer Officer Brian Kaminski, to name just two. Marod, Belfor, and Kaminski are the corporate extensions of a sales and marketing group the company is actively working to expand by leveraging the injection of funding. Marod says the complexity of the Conversica sales process lends to a pretty prescriptive salesperson persona. "Because our application does really well with CMO-type marketing executives, we look for sales reps who understand marketing and how our technology supports it," he says. "The rep has to quickly understand how to identify a good prospect. Because we're pushing aggressively into the software space, the Bay Area has proven a target-rich environment for our software salesperson recruiting effort."

Beyond ramping up the sales and customer experience staff, Conversica is shoring up its engineering and product development teams from the top down. It brought on Chief Scientist Dr. Sid J. Reddy, whose academic reputation and leadership on the Microsoft Cortana project speak for themselves. "Our customers have become far more demanding about the security, certification, and integration functionality of the technology they buy. That makes development a top priority." As the company grows, business management and legal counsel are also priorities, so the company recruited VP, General Counsel, and Secretary Michelle Johnson, who brought with her experience from Support.com, Openwave, and Oracle. "We're driving our future by bringing on people capable of helping us create growth, but none of these execs were looking for a risky startup," says Marod. "Without our successful track record of growth and significant funding, which serves to validate our product and our intentions as a company, they wouldn't likely have come on board."

3. *Learn From Your Mistakes*

Marod knows well that AI software is a tough sell because it's a relatively new concept, but he admits that early on, he and his colleagues at Conversica thought the software's promise and tech appeal would make up for its lack of historical reference. Marod and company fell prey to the classic "if you build it, they will come" fallacy. "We learned fairly quickly that to remove a sales barrier, we had to integrate into the potential buyers' current tech stacks," he says. That meant establishing integrations, first with any number of the various CRM applications in its native automotive vertical, and later with the giants of the space, Salesforce and Marketo among them. "We learned the hard way that it's not good enough to just have a great technology and run with it. It has to be seamless in the stack."

Marod says the development of these integrations had a snowball effect. Conversica cut its teeth with some smaller companies before moving in with Marketo and Salesforce. Affiliation with those two brands, he says, significantly reduced Conversica's legitimacy barrier. He points to Microsoft's adoption of Conversica software as further proof that integrations — and growing acceptance of AI — have contributed to the application's market ingress. "Microsoft isn't an early adopter of new technology. You have to have a proven entity to win their business," he says.

Another mistake Marod admits to making — and this is an easy one for any SaaS-based company to fall victim to — was failing to fully comprehend and account for the customers' return on the application investment when determining a pricing structure. "One of our early nonautomotive customers was a for-profit education institution," he explains. "We hadn't fully processed how much return there was in getting a lead to engage in that vertical." At Conversica's one-subscription-per-rooftop cost, that customer reaped an unbalanced reward for its relatively small investment. That early mistake is a fine segue into Marod's fourth piece of SaaS sales advice.

4. *Price With Agility*

Conversica recovered from its flat-monthly-fee pricing misstep by committing to a value-based cost structure. "When we got started in automotive, we were charging between $1,500 and $2,500 per site, depending on the number of users and integration complexity," says Marod. "As we got into tech, education, and other verticals, we realized that some of those clients were getting killer deals from an ROI perspective." Enabling six- and even seven-figure returns on four-figure software investments might sound like a surefire way to close sales, but devaluing the benefit of the application by underpricing it is a dangerous precedent to allow. "We got strategic and built some pricing packages based on lead generation volume, with some variation to account for integration and custom development work, like adding languages," says Marod. "Adopting a variable pricing model ensures we can balance maximizing the return and profit for our customers while optimizing the return we desire to reinvest in the product." It's also enabled Conversica to embrace entry-level companies in addition to its base of enterprise-class customers, all while ensuring its rates are competitive in each of the vertical markets it serves.

5. *Train, Demo, Repeat*

At the 2017 Dreamforce conference hosted by Salesforce, Conversica competed in and won Demo Jam, beating out 30 competitors in Salesforce's 3-minute live-pitch competition. That pitch, says Marod, has been honed by relentless training. "The sales process has grown in complexity over the course of my tenure. As much as I like to keep it simple, because you don't want your salespeople getting caught up in the weeds, it's just a complex time to be selling software," he says. Security concerns, terms of service, and legal protections are among the layers that Marod says affect the sale of a SaaS platform, particularly as Conversica has won larger customers with more detailed vendor agreement requirements. "I nurture longevity on our sales team because it takes a while to learn the ins and outs and develop those anticipatory sales skills. To expedite that, we do a lot of training, much of it based on detailed diagnosis of our sales wins and losses."

One sales axiom that's been reaffirmed from those diagnoses, says Marod, is that given the opportunity, time will kill every deal. On that point, it's virtually impossible for him to refrain from plugging Conversica's technology, which he says his own team uses to keep deals moving through the system and into the funnel. That technology automates the process of nurturing leads via a virtual sales assistant whose persona is, in fact, imperceptibly virtual to the customer. Demonstration of this artificially intelligent virtual assistant with the human-like conversational tone is central to the sales process. "We can talk about how polite, persistent, intelligent, and situationally aware our virtual assistant behaves in her communication with prospects," says Marod, "but that simply can't be fully appreciated until the demo, which means the demo is extremely important."

Three Software Sales Challenges In A Bull Market

The demo is often a deal-doer for Conversica, but Marod admits that it takes a lot of work to get there. "We're still working to find that perfect cadence or word track that gets a prospect to slow down and commit to taking a look at such a bleeding edge technology," he says. "We enjoy a lot of inbound references and referrals, and word-of-mouth has done wonders for us, but we're committed to honing our outbound skills."

Like many software sales leaders, Marod says he often struggles to find qualified sales reps willing to come in and sell a new technology. "We have a healthy economy in the Bay Area, so competition for talent is fierce," he says. "Because we're not yet a big player, our power to draw in quality candidates is limited. We're investing in recruiters and referral bonuses to overcome the challenge."

Finally, as Conversica expands its vertical offerings, Marod says the company is wrestling with the balance between recruiting and training vertically specific sales specialists versus preparing sales reps to be "armed for bear" regardless of the end user's vertical. At issue is which approach will best maintain healthy growth within its core automotive market while simultaneously pushing reps into new, high-growth verticals such as insurance, finance, and education. "Aside from product development, these sales process and strategy refinements are our top priority this year," he says.

ENGINEERING A NICHE STARTUP

ABBY SORENSEN Executive Editor @AbbySorensen_

David Norman spent nearly nine years in senior engineering roles with Google, where he cut his teeth on e-commerce application development. Being a lead engineer on the Google Payments team isn't a bad gig — it sounds like a dream job for many young, aspiring developers. But what Google engineers don't have are close customer relationships, especially not with customers who can serve you a high-quality craft beer while they give you feedback on your software. And that's exactly what Norman has been doing since 2015 — sipping brews and getting out of his engineering comfort zone to amass face time with customers. Norman is the CEO and founder of Arryved, a point of sale software application for breweries and taprooms. It's proven to be a sustainable, profitable, enjoyable venture even if it is a far cry from Google.

There are endless tales of sharp engineers who leave their safe, cushy jobs at Fortune 500 companies to answer the entrepreneurial call in their hearts. It takes a certain kind of confidence — bordering on arrogance — to think your startup won't be one of the 90 percent that fail. Norman is anything but arrogant. His self-described "conservative nature" isn't exactly formulaic for brewing up a software company from scratch. His patience and humility are hallmarks of any good leader, but these aren't the words that come to mind for a stereotypical tech founder. Maybe it's because he founded his company in Boulder, CO, ranked one of the happiest, healthiest cities in the country that's far away from the fast-paced, high-stress culture that breeds so many tech startups in Silicon Valley. Or maybe it's because he can relate to the passionate, artisanal nature of his brewery-owning customers, many of whom also left their "real" jobs to pursue their passion for making good beer. Regardless, Norman's penchant and patience for building a sustainable, scalable business model isn't common in today's world of hyper-growth SaaS companies and quick 10x exits.

So how did a senior Google engineer chart his course to founding a POS software for breweries that is doubling its revenue every quarter? The first part of that answer is that he almost didn't. Originally, Norman had his heart set on a consumer-facing app that would allow customers to order a beer and pay for it from their tables using personal mobile devices. The application was designed to solve the frequent problem of bottlenecks and slow order deliveries. He says, "We were getting close to actually having a working MVP deployed in the field when the first brewery we had partnered with said, 'This is great, but we have an immediate need. We can't seem to find a point of sale we like; would you guys build one?' To which our natural answer was 'no.' The

Any mature software company can learn from this startup's approach to customer input and operational premeditation.

DAVID NORMAN
Founder & CEO
Arryved

NANCY TRIGG
President
Arryved

fact is that if you're in the tech industry, point of sale is not usually a sexy product." But the more Norman thought through the dynamic choose-your-own-adventure style of this niche hospitality industry, the more he realized this was a needed product. In a typical restaurant environment, customers are either served at the bar or a table, and they typically stay put. At a brewery, customers might choose to order inside, outside, in a tasting room, at a bar, or on a tour, and they can move back and forth among these options. "From a geek perspective, we thought this was a great opportunity because there's a huge need. There was a problem and a way to algorithmically fix this so that we can do dynamic tab and order management in a way that nobody else really does."

Norman's "geek perspective" is typical of many software company founders, and it's why he eagerly surrounds himself with people like Nancy Trigg, the company's president and the business brains behind Norman's software engineering operation. What makes Arryved stand out is Norman's insistence on real-world, in-person customer feedback — not just surface-level

> We were getting close to actually having a working MVP to have out in the field and get deployed when the brewery we had partnered with said, 'This is great, but we have an immediate need. We can't seem to find a point of sale we like; would you guys build one?' To which our natural answer was 'no.'

DAVID NORMAN Founder & CEO, Arryved

customer satisfaction surveys — and his willingness to slow down and be intentional with his engineering road map. It's also why you won't find Norman reminiscing about his time leading projects at Google. "It was different at Google, because when you're on products you're so removed from the customers," says Norman. "Now we're so engaged with our customers. We have monthly meetings with most of them, and we love finding out how they're using our products."

DON'T DEVELOP IN A VOID

What does it really mean to be engaged with customers? Every company has some version of a line on the "About Us" or "Company Values" page of its website about how customers are the key ingredient to its success. You'll never see a negative customer testimonial on a website, either. So when Norman and Trigg talk about customers dictating Arryved's product road map, it's easy to write them off as just another company claiming to care deeply about the people who use its software. For founders like Norman, who have an engineering background and a strong preference to write code instead of spending face time with customers, it might be tempting to push out release after release while relying only on the sales and marketing team to relay user feedback. It's also a common shortcut to send out regular net promoter score surveys and run a few reports around help desk tickets and call that being engaged with customers.

"It's easy for an engineer to want to be an introvert," says Norman. "Being out in front of customers and talking to customers all the time forces you out of that element. You've got to approach everything with a certain level of humility. I think when we spend so much time engineering problems we forget that side of it. You have to extend yourself beyond just sitting there and wanting to create great products. You've really got to know that you're building the *right* products."

Norman spends face time with customers on a regular basis. Not just emails to check in. Not just quick customer satisfaction surveys. Not just phone calls. Real, live, actual meetings — which often include exactly what the product is designed for — drinking a craft beer. Persuading engineers to set aside their tech geek hats and switch to customer mode is a lot easier when your software's customers can serve up a good brew. Trigg claims Norman doesn't let more than a week go by without seeking out a customer to have a meaningful conversation with. And the regular conversations with customers don't have to be forced, either. Trigg says, "The questions to ask are, 'How are you utilizing this thing we just did?' and '*Are* you using this thing we just did?' It's not just asking, 'What else do you want us to do?' We want to know if customers are using features and how. You can ask these questions 5,000 times."

Asking these questions helped Arryved discover that its customers were using the software for very different environments, not just the traditional taproom setting of opening tabs to encourage customers to stay longer and drink more. Customers also wanted a simpler, faster version for field environments like festivals, where lines form quickly. This meant emphasizing fewer clicks and less complexity, not adding functionality to increase inside service capability. Norman says, "Typically you just try to keep pushing out new features and you accumulate more technical debt. If we had done that in this case, we would have added more screens that we would have had to fix later on, which would have ended up being more costly and creating all sorts of different flows that create new bugs. We're trying to back off on the engineering side and really think about how people are using it before we deploy a solution."

> If you're developing in a void, you can spend a lot of time developing the wrong thing. When you're trying to get going and wanting to develop a lot of things, you can't afford that waste of time.
>
> **NANCY TRIGG** President, Arryved

In a fast-paced world where the barrier to entry for a new competitor is lower than ever, it's hard to justify customer site visits and a patient development cycle. And sure, sending your founder to have a beer with each of your customers a few times each year isn't scalable as software companies like Arryved continue to grow. But for now, seeing customer feedback in person is what's dictating development projects. Trigg says, "It does take a lot of time to interface with the customer. But there's no more valuable way to spend that time, because you're going to make the right decision if you do. If you're developing in a void, you can spend a lot of time developing the wrong thing. When you're trying to get going and wanting to develop a lot of things, you can't afford that waste of time."

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SOFTWARE SHOULDN'T RUN SLOW, BUT SOMETIMES YOUR BUSINESS SHOULD

Slow growth is a perceived death sentence for most born-in-the-cloud software companies. Many would have taken Arryved's early realization to pivot from a consumer-facing app to a robust B2B solution as an opportunity to floor the gas pedal. Instead, Norman insisted on starting small and getting it right with just a small handful of pilot locations. The company wasn't going to risk sending the wrong impression with an MVP, which is why it spent almost two years developing fully functional and scalable software before accelerating sales efforts in early 2017. Trigg explains, "The brewery industry is a close-knit culture, which is a really, really good thing for your business if you can earn trust and build a reputation. But if you blow it by coming to market too quickly with an incomplete product, you can lose your shot, too."

And Arryved's customer base does traditionally move very quickly. Brew masters are known for experimenting and constantly changing their beers without the fear of failure. Norman doesn't think that should be the case with software. "We had to be pretty judicious about how we wanted to approach this and if we could find a place to succeed where others would not," Norman says. "There are a lot of cautionary tales of companies in Silicon Valley that have opened and folded. We wanted to be sure that we were hyper-focused and knew the market we are going into. We figured out a revenue model before really pushing forward." This revenue model was built with the philosophy that, unlike many SaaS companies, Arryved didn't want to shackle customers into long-term contracts. After reviewing different pricing options and seeing how those played out with early customer conversations, the company focused on creating a frictionless contract. This meant Arryved was staking its own revenue model on how much it could help customers succeed, and by committing to mutual success, it also meant the company was willing to share the risk with customers.

This "slow down, figure out your revenue model, and then grow" philosophy isn't glamorized in the tech world. Look no further than some of the high-profile software IPOs from the past six years: Marketo was still showing nearly $35 million in losses when it filed for its IPO in 2013. Then there was Box with its $45 million in losses when it filed in 2014. Both Coupa Software and Workday were posting losses in the ballpark of $46 million when they filed in 2016 and 2012, respectively. Maybe these examples are being too picky — after all there are plenty of highly profitable, private, bootstrapped companies that aren't being covered regularly by the likes of *Forbes*, plus some of these public software companies are turning profits now. But Norman's foresight in building a sustainable revenue model before diving headfirst into sales acceleration wasn't just noble. It also helped pave the way for an easier fundraising round, and it allowed Arryved to develop a process-focused mentality that would help the company onboard customers more efficiently in the long run.

For example, when Georgia's governor signed a state law in May 2017 allowing breweries and distilleries to sell directly to consumers, Arryved saw a flurry of new customers all wanting to launch around the same time that the law would go into effect in September. Instead of raising a toast to the new flow of customers, Trigg took a moment to slow down. Arryved had never rolled out so many new customers at once. She explains, "We literally stopped and said, 'If we launch all of these sites at once, support could be an issue.' If after we go live every single one of them is calling us for support, that would be overwhelming to us. So how do we frontload some of that activity?'" Arryved could have wasted cash on adding extra hands to its support staff. Instead, the scrappy team doubled down on training customers before the go-live dates and built internal checklists and processes to make sure no stone was left unturned. It's scalable and repeatable, and it became a staple in the onboarding process moving forward.

"Over the last year it's been really important to pause and reset," says Trigg. "They don't have to be long moments, they don't have to be 'stop development for a month and focus on something else' moments. But it's worth the effort to take that day or two days and sit back and say, 'How can we better manage this process? How can we better facilitate getting features out to our customers?' So it's not just the engineering of scale that we pay attention to, it's the human side where we're constantly addressing operational points of pain."

From an operational standpoint, Arryved is mature beyond its startup status. It's still doubling every month, and in the process, is winning business from much bigger, VC-backed competitors – albeit competitors who aren't catering specifically to Arryved's craft beer niche. The company has its sights set on vertical expansion down the road; but for now its leadership team isn't trying to build a unicorn. They're just trying to master the craft of engineering, and occasionally, they enjoy a nice, slow pour. Trigg says, "Our growth strategy is solving one problem at a time. For now, that is a point of sale solution for breweries. There are secondary markets, of course, which are obvious in terms of market growth, but there are also plenty of problems to solve within the industry we're in." S

Bluescape

PETER JACKSON
CEO
Bluescape

San Carlos, CA

Bluescape helps companies innovate, collaborate, and work better. Its content collaboration software gives dispersed internal and external teams a digital workspace to meet, share, develop, and iterate on content, ideas, and products.

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

We're seeing a renewed emphasis on security, in part driven by the shift to cloud computing and by the alarming number of very big, very public cyberattacks across a number of industries making headlines. As a result, businesses are faced with a number of liability insurance challenges along with the associated technology challenges. As the saying goes these days, "It's no longer a matter of if you will be hacked, but when."

WHAT ABOUT YOUR COMPANY IS KEEPING YOU UP AT NIGHT?

My favorite quote about this is from Andy Grove, former CEO of Intel, "Only the paranoid survive." If I'm not paranoid, then I'm not going to become the relevant player in this market. This is an interesting time for Bluescape as we shift from startup to growth mode. I keep an eye on the big players in this market and how quickly they can catch up with us. In many respects, you need to be in land-grab mode to establish a beachhead before they figure out you are on to something. We're already seeing bigger players introduce lower-end products, which brings with it lots of marketing dollars, so we need to stay ahead of that.

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

I've been in the software business for a long time and have raised lots of capital, navigated IPOs, and negotiated M&A. Along the way, I've learned venture capital isn't that complex; the process is more logical than most passionate entrepreneurs think. VCs spend most of their time looking into crystal balls and asking what will be relevant five years from now. You need to do your homework. Does the VC specialize in a particular area, and are there themes you can glean from their recent investments that support your story?

You also have to understand your matrix. You either have to be way ahead of everyone else, like Google was, or you have to have enough adoption traction with early adopters to support what the investors are interested in. Finally, you need to know what stage your company is in based on norms for different funding rounds. Series A companies have traction, Series B companies are maturing, and C and D rounds are for massive growth. Be confident that you are meeting the basic criteria of the VC firms you are talking with and that you are at the right stage. Do your homework, and remember that it's never easy. It's among the hardest things I've ever done.

For those who are self-funding, it can be hard to compete with companies that are taking outside VC money who are able to ramp up their product and go to market more quickly. Funding is the fuel that can take a company from the third inning to the sixth inning overnight. Funding is protection in many ways, and higher valuations typically lead to better returns for everyone. But if you have market share and the scale to stay on top, then self-funding makes a lot of sense. You ultimately have to ask yourself if you've got enough funds and resources to ensure competitors won't leapfrog you.

WHAT ARE THE THREE MOST IMPORTANT QUESTIONS YOU ASK IN EVERY INTERVIEW?

The most important questions I ask are designed to assess the candidate's preparation for the interview as well as to get a sense of their DNA: Tell me what you know about my company. What are your thoughts about the product/service? Tell me what you know about the competition, and why do you think they are doing what they are doing?

WHAT IS THE BEST BUSINESS BOOK ON YOUR SHELF?

Emotional Intelligence by Daniel Goleman.

Leveraging Partnerships To Scale Your Company

Solve the riddle of scaling fast while spending slowly by asking the question, "Who wins if we win?"

CHARLES FOLEY SVP, Talon Storage

One of the key reasons 63 percent of IT companies don't make it to their fourth year is because of their inability to scale. Most people think of "scaling" as simply adding more people, more facilities, and more "stuff," but that's actually a tail-wagging-the-dog mindset. Real scaling is done by figuring out how to scale output *without scaling* investment. *Everything else follows naturally — and beautifully — after that.*

The issue is that too many young tech companies try to do everything all by themselves. After all, whatever their product is, it was their idea, right? So they think that they have to make the product, market the product, sell the product, and support the product — all by themselves. Take it from someone who's done it before, that's a ton of work, and not all of that "doing" has a good ROI for you. Young companies need to find a way to tap into the already-existing ecosystem that they'll eventually be running in and figure out how to have some of the larger, more established companies put wind in their sails, which will eventually lead to greater billowing of their sales.

PRODUCT DEVELOPMENT PARTNERSHIPS

Making the product is one of the first ways to partner. There are a lot of opportunities to partner on aspects of development that can slash fixed costs, risk, and time to market. Ask yourself, "Out of everything we're doing, what is really our core technology value?" Then be able to isolate that in the overall spectrum of your final offering. Protect your intellectual property fiercely, either with IP protection, secrecy and obfuscation techniques, or simply by doing something that's just really hard. But for many software solutions, there are components of the product that (while required) aren't really part of the core value. Often these are things like UI components, encryption libraries, and API definitions. These are targets of opportunity where you can investigate existing components in the industry so you don't have to build (and later maintain) everything from scratch. Good places to look are open-source projects, targeted vendors, and even simply asking around as to what similar solutions are using for these components.

Let's say, for example, you're developing a software solution to deliver in the form of an appliance (for ease of deployment, scale restrictions, etc.). You'll likely evaluate a plethora of "white box" hardware providers to find the right mix of specs, cost, and quality. Enhance your analysis to add to the equation base-level software components, such as systems management software, customizable install routines, platform health checks, or APIs that can connect to your error logs for escalation and reporting. This can save you a ton of time in development of infrastructure, while also raising your "world class product" profile faster. Recommended courses of action for fast development scaling are:

1. Task someone on the team to evaluate your product to determine what is critically core value, what is medium value, and which is common function/low value.
2. Then task someone on the team to talk to your vendors, industry associations, and open-source groups about the common low-value technol-

ogy plug-ins to find where you can have "good enough" non-core technology to allow you to concentrate on the really important stuff.

MARKETING PARTNERSHIPS

Once you have the product in hand, you then need to market it. Far too many young companies shortchange themselves by not tapping into the partner marketing ecosystem. And it's a shame — the graveyard of technology is littered with amazing creations that didn't see enough light of day to be profitable, while just over the hill are a number of "good enough" offerings that did a far better job of getting in front of customers. Two common reasons for this lack of exposure are lack of marketing funds and pride of authorship. Find a way around both or stay small. Think about it — do you really want to foot the cost to staff trade shows across the globe in order to get in front of enough potential buyers? Or, if you want to do a webinar/seminar, do you really think you have enough contacts and credibility (as a small company) to get the required attendance to make a difference? Done right, a tremendous amount of this kind of heavy lifting can be done by other players around you, and often they'll be glad to do it.

The key is to ask this one simple question, "If we win, who else wins?" In the world of IT, there's always an answer to that if you look hard enough to find it — and it's golden. The other winners may include a complementary technology company that could expand their deployments faster for their customers if your technology were there to amplify the value proposition. Or maybe it's an infrastructure giant, like Microsoft or Amazon, in a race to find every possible value accelerator for their cloud offerings. Regardless, if you ask yourself that key question, you'll find an answer.

Case in point, Talon Storage produces software-defined storage technology that allows companies to consolidate dozens of globally scattered file servers into a single, centralized storage footprint, which slashes the cost and risk of managing data while cranking up global collaboration capability. Through the "who wins if we win?" line of questioning, Talon identified groups of established companies that could benefit from joint deployments. These included cloud players such as AWS and Azure, software-defined storage companies such as SoftNAS and Scality, and enterprise storage giants like NetApp. In each case, the existence of the Talon solution in an enterprise account visibly magnified the value of the target's solution. So, Talon approached key players in each area (cloud, SDS, storage) with a proposition: Let us join your marketing efforts, and we'll drive a larger average deployment for you. The result is far more marketing and visibility than normally available with a finite budget. Ideas of leverage are to jointly exhibit at trade shows/events where they are already participating, joint white papers that get sent to their (larger) customer base, and joint webinars that they can drive attendance to from their channels. Recommended actions to fast-scale marketing are:

1. Get your team together and ask, "Who wins if we win?"
2. Identify a short list of companies in each ecosystem sub-category from that list.
3. Develop a clear partner value proposition for each one (just as you would a customer value proposition) and share it with the business development or product marketing lead at those companies.

SALES & SUPPORT PARTNERSHIPS

Now that you've tapped into outside leverage to scale both development and marketing, focus that same thought process on selling and supporting it. This is the final important step, as it's getting harder and harder to stay ahead of the competition simply by cold calling and door knocking. When you're young it's better to have someone else make those calls, and it's even better when they make those calls to customers that are already buying from them. To do that, pick key cities and geographies and find out what VARs and integrators are significant in that area. The best way to check is to survey real customers. Offer a $5 Amazon or Starbucks gift card to simply respond to a survey or email inquiry — it could be the best $500 of market intelligence you can get. Once you know the key players, investigate their current offerings and craft a value proposition as to why they need yours. Remember, this is not an end-user value proposition; it's a partner value proposition, and they're totally different. This one focuses on faster sales cycles, higher margins, and greater services contribution.

Target partners who can keep your support costs low. Ensure that they have a defined practice in your area that would indicate solid preinstallation assessment and a willingness to be trained to take the first call on your solution if their customers have issues. Tips for fast-scaling sales and support are:

1. Target key geographies and find the best integrators and VARs in your domain in these areas simply by asking target customers who they work with.
2. Look for synergy with the technology partners involved in development and marketing.
3. Build a partner-specific value proposition and approach these players with it.

Sales Tax For SaaS: An Update

A state-by-state breakdown of SaaS sales tax status.

STEVE SEHY CPA, MBA, Fractional CFO for SaaS companies
CHRIS LIVINGSTON Director of Product and Operations, Vertex Cloud
JENNIFER DUNN Chief of Content, TaxJar

States have been rapidly changing the sales tax environment for internet businesses, including Software-as-a-Service (SaaS) companies. The changes include changing definitions of SaaS, changing the taxability of SaaS, and changing the requirements for determining for which states a company needs to collect sales tax. Since none of this contributes to company revenue or income, the best case scenario is break-even, and the worst case scenario includes paying sales tax to a state (up to 10 percent of revenue) when you didn't collect it, and penalties as well. While larger companies may have a team working on this, small to midsize SaaS companies are struggling to deal with this issue.

CURRENT STATUS – TAXABILITY BY STATE

We have assembled a table indicating the current status of taxability in each state. Note: The definition of SaaS is different from state to state. You will have to research to confirm that your business falls within the definition that we have used. Some states still identify SaaS as application service providers (ASP). In a SaaS/ASP model of delivery, software applications are delivered as services, rather than products, as in traditional licensing models. Application service providers host and maintain software for the end user, who then accesses them over the internet.

CURRENT STATUS – NEXUS

Nexus is the term indicating whether or not you need to collect and remit the sales tax for a state. It means that you have sufficient contact with a state that you fall within their tax laws. The general rule is that if you have an employee or a facility in a state, you have nexus with that state. Note: If you have a remote sales force, one employee in a state is enough to trigger nexus. Or, you could have a main office in Chicago, IL, for example, that employs an Indiana resident, so you will need to review your payroll register.

Some states have enacted Remote Sellers laws that create economic nexus by just selling in the state. However, many of the states have a minimum sales amount in the state before these rules apply. Also, instead of collecting tax, some of these laws require you to send your customers and the state a report indicating that sales tax was not charged, and therefore, the customer must pay the use tax. The states where SaaS is impacted by this include: Alabama ($250k prior calendar year), California ($1 million, prior 12 months), Colorado ($100k prior year - use tax notification to customer and state), Louisiana ($50k current year, send an end-of-year use tax notification to customer and state), New Jersey ($10k prior four quarters), New York ($10k prior four quarters), Pennsylvania ($10k prior 12 months), and Washington ($10k).

PROPOSED FEDERAL LEGISLATION

While sales tax is currently governed at the state level, several federal bills have been introduced in Congress over the past few years that would overhaul the U.S. sales tax system. These include:

- The Marketplace Fairness Act (MFA) — This bill got the most traction, passing in the Senate but expiring

STATE LEVEL SaaS SALES TAX STATUS

T = taxable at the standard rate

T* = taxable at a nonstandard rate

E = exempt or nontaxable

NONE = no sales tax in the state

T#, E# = Generally taxable or exempt, but final tax status may vary based on specific definitions or conditions. This could be due to regulations regarding where the host server is located in relation to the customer or whether the customer takes control of the server.

SaaS is defined as providing access to an application service provider (ASP) server of canned software delivered electronically over the web. Computer consulting is defined as fees for setting up a new computer system. Software training is defined as separately stated charges for training sessions on the use of the software.

STATE	SAAS	COMPUTER CONSULTING	TRAINING (WEB OR ON-SITE)
Alabama	T#	E	E
Alaska - Local	E	E	E
Arizona	T	E	E
Arkansas	E	E	E
California	E	E	E
Colorado	E	E	E
Connecticut	T*	T*	T
Delaware	NONE	NONE	NONE
Florida	E	E	E
Georgia	E	E	E
Hawaii	T	T	T
Idaho	E	E	E
Illinois	T#	E	E
Indiana	T#	E	E
Iowa	E	E	E
Kansas	E#	E	E
Kentucky	T	E	E
Louisiana	T	E	E
Maine	E#	E	E
Maryland	E	E	E
Massachusetts	T	E	E
Michigan	E	E	E
Minnesota	E	E	E
Mississippi	T#	E	E
Missouri	E	E	E
Montana	NONE	NONE	NONE

STATE	SAAS	COMPUTER CONSULTING	TRAINING (WEB OR ON-SITE)
Nebraska	E	E	T
Nevada	E	E	E
New Hampshire	NONE	NONE	NONE
New Jersey	T#	E	E
New Mexico	T	T	T
New York	T	E	E
North Carolina	T#	E	E
North Dakota	T#	E	E
Ohio	T	E	E
Oklahoma	E	E	E
Oregon	NONE	NONE	NONE
Pennsylvania	T	E	E
Rhode Island	T#	E	E
South Carolina	T	E	E
South Dakota	T	T	T
Tennessee	T	E	E
Texas	T	E	E
Utah	T	E	E
Vermont	E	E	E
Virginia	E	E	E
Washington	T	E	E
West Virginia	T	T	T
Wisconsin	E	E	E
Wyoming	E	E	E
Puerto Rico	T	T	T
Washington DC	T	E	E

CHART: As of December 1, 2017

before further action. In simple terms, it would have required all sellers who gross more than $1 million in remote sales per year to collect sales tax from buyers in states that meet certain requirements.

- The Remote Transaction Parity Act (RTPA) — This bill is similar to the Marketplace Fairness Act, but would have gradually, over a period of four years, required all remote sellers to collect sales tax from buyers, no matter their state.
- The No Regulation Without Representation Act — Unlike the other laws, this law would have prohibited all legislation requiring remote sellers to collect sales tax. Instead, it would have codified the precedent that a seller must have physical presence in a state to be required to collect sales tax.
- The Sales Tax Simplification Act (STSA) — In this law, states who elected to participate in a “clearinghouse” and otherwise take steps to make sales tax collection and filing simple for remote sellers, could require remote sellers to charge sales tax to in-state buyers.
- Supreme Court cases — Further, on the federal level, South Dakota has petitioned the U.S. Supreme Court to hear a case that would overturn the current nexus precedent set by Quill v. North Dakota. The court has yet to decide if they’ll hear the case, which could potentially have huge implications for which retailers need to collect sales tax.

MONITORING CHANGE

To help you follow sales tax changes in the future, here are some useful links:

- State by state review of SaaS taxability status with cited sources: www.taxjar.com/saas/
- Every six months, Vertex posts an updated report of changes in all sales tax areas. The “New Sales Tax Report Shows Significant Increase of Rate Changes in First Half of 2017” can be found at www.vertexinc.com/news

USING AUTOMATION

There are now automated tools to assist you in calculating the sales tax by customer location. In general, these tools allow you to assign a tax code for each of your products, and this code is used to pull up the appropriate rate in states that you have activated. After the tax is calculated, the data is used to create and file the state sales tax reports. Some of these tools tie into your own billing system (e.g., QuickBooks). Others provide an API that can be used to integrate into your own checkout or billing systems.

NEXT STEPS TO TAKE

We have worked to simplify the information in this article to make it readable. There is room for interpretation since rapid change is happening in this area. If you are already collecting and remitting tax in some states, review the list and your nexus to determine if you need to add more states. If you haven’t paid sales tax in a state, and you should have, you can submit a Voluntary Disclosure to the state to resolve back tax issues. Generally this will reduce your penalties and the look-back period.

If you don’t have a system in place, talk to a tax person specializing in state and local tax (SALT). When you do, you’ll want to have a 12 month revenue report by state and your payroll register by state to facilitate this discussion. Here are some key points to discuss with a SALT specialist:

- Where does my company have nexus?
- Where does my company have economic nexus based on our selling process?
- In those states where my company has nexus, where does my product offering fit in the definitions of SaaS for each state?
- Where should I get the tax rates based on the buyer’s address?
- Should I have already been collecting sales tax in certain states? How much should I have collected?

As states continue to look for revenue, these rules will continue to change. Be sure to find a way to keep up to date. S

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What Software Companies Get Wrong About DevOps

DevOps is just as much about cultural transformation as it is about tools and technology.

GORDON HAFF Technology Evangelist, Red Hat

You want to do DevOps. You've read all the studies about how great it is. You want your company to save money and roll out new or improved software services more quickly because doing so will directly benefit your bottom line. You've got the right idea. But software companies don't always get DevOps right on the first try. Here are some of the common failings.

NOT CONSIDERING CULTURAL AND ORGANIZATIONAL ISSUES

You can't buy DevOps. Some even say that DevOps isn't really about tools and technology at all but, rather, is fundamentally about radical cultural transformation. For example, Parker Yates argues that "DevOps has too many cultural implications to convert believers over a long period of time; DevOps requires reorganization, not a subtle shift." Personally, I'm more inclined to echo Andi Mann of Splunk when he writes: "Talk of DevOps almost immediately focuses on culture — like having empathy for fellow workers, being flexible and adaptable, seeking continuous improvement, building relationships, etc. However, while critically important in DevOps, culture is an outcome, not an input, and such attributes are mostly either innate or acquired slowly. Culture cannot easily be taught."

Such debates notwithstanding, there's broad agreement that DevOps will only be effective if at least as much attention is paid to people as to technology. This includes embracing organizational values like transparency and collaboration and putting in place incentive systems that reward iteration and experimentation.

TRYING TO RETROFIT DEVOPS INTO EXISTING PROCESSES

Many DevOps best practices have much in common with how many open-source projects operate: agile, iterative fast releases, continuous integration, ongoing improvement. This is different from traditional enterprise development and operational models. Although many shops have adopted agile methodologies in one form or another, software requirements gathering and overall approaches to writing software are still often built around a lot of formal processes and heavyweight tooling that isn't a good match for DevOps. In a similar vein, traditional IT operations prioritize stability over introducing new features and services. The trick is to put the right testing, software architecture design, and deployment patterns (such as blue-green deployments) in place to minimize risk while accelerating the pace of change.

NOT PUTTING (THE RIGHT) METRICS IN PLACE

Perhaps the most common number you see touted to indicate DevOps success is the frequency of deployments. It's not a bad number to use as a metric. But you also move beyond that. What is truly important to you from a business perspective that you're trying to accomplish with DevOps? Cost efficiency? Happier customers? Better data for the business? More services to sell? These are all worthy goals, but a given business is likely to be more focused on some things than others (or they probably should be).

Choose your key metrics with that in mind. If you're looking to have a direct effect on customer experience, a metric such as customer ticket volume might be appropriate. If it's efficiency, more cost-centric measurements will be better. Goldilocks' metrics are often the best — high enough level to be meaningful to business owners, while low enough level for operations and development teams to affect in some way.

NOT BUILDING IN QUALITY

Deployment frequency grabs a lot of DevOps headlines, but quality is just as important. This means taking time to write tests, implementing automated processes to verify you're not pushing out insecure code, and not leaving quality checks until too late in the workflow. In their *2017 State of DevOps Report*, Puppet and DORA found that even low-performing teams were closing some of the speed gaps with their higher-performing peers. However, their quality wasn't improving proportionately. They speculate that "this is due to low-performing teams working to increase speed, but not investing enough in building quality into the process. The result is larger failures and more time to restore service. High performers understand that they don't have to trade speed for stability or vice versa, because by building quality in they get both."

CONTINUING TO TREAT SECURITY AS A SILO

Security has often worked as a gatekeeper at the end of the development process. That approach is out of step with the DevOps philosophy of shifting tests, security verification, and process checks to begin as early in the development pipeline as possible. "Shift left" is the term you'll often hear. There are many historical reasons why security has functioned apart from the rest of the development process. It's a specialized skillset with its own language and paranoia about all possible threats. And deep organizational security expertise is still needed.

However, with DevOps (or DevSecOps if you prefer), it's important to better integrate security people into multifunctional teams. It's also important to promote a broader understanding of security principles and trade-offs within the organization as a whole. No one should think of security as being exclusively someone else's problem. As Gartner's Neil MacDonald wrote in a recent report, "Train all developers on the basics of secure coding, but don't expect them to become security experts."

FORGETTING ABOUT THE INSTRUMENTATION

Earlier, I discussed selecting key metrics so that you can properly access the success of your DevOps initiative. However, it's also important to collect detailed data about both your running applications and the processes you're using to write them and iterate on them. This data serves two main functions.

The first is primarily reactive. If something goes wrong, you want to be able to trace the problem through your environment until you get to a root cause that can be fixed. You often run into second- or third-order effects. Excessive latencies somewhere in an environment increase page load times, which reduces customer conversion, which ultimately leads to a drop in revenue.

The second is more proactive: It's about detecting patterns and trends that you can use for things like capacity planning or optimizing your processes. Is your failure rate going up or down? Are your developers getting burned out? We're seeing an increased use of statistics and machine learning for this type of trend analysis. Eyeballing dashboards doesn't scale and will also often miss nonobvious patterns and anomalies. As with building in quality, data from early in the process can lead to fixing problems faster with less work. Cutting corners may save a few dollars in the short term but will lead to technical debt and less effective DevOps.

TAKING A PATCHWORK APPROACH

Much of the tooling commonly used for DevOps is open source. The cloud-native platform landscape, largely oriented around container technology, provides the most stunning example. However, many of the tools that developers use also spring from open source. The innovation that comes from all these upstream communities is impressive. However, it also creates an almost irresistible temptation to cobble together unsupported and unsupportable assemblies of piece parts. The same can be said of the teams implementing DevOps. It may or may not make sense to go all-in on a cloud-native approach. Some organizations prefer to focus on agility for a subset of their portfolio, while following a more conservative modernization strategy for the rest.

However, for the cultural, organizational, and process reasons described above, it's important to approach DevOps as part of a coherent strategy. Not every group in the organization needs to use the same languages, tools, and methodologies. But start with a common container platform and build from there. Modular technologies like microservices mean that everyone doesn't need to be in lockstep. But a technology strategy based on piecemeal adoption of the latest coolness is rarely the best path. S

Why Choosing A Smaller Niche Is The Best Business Decision You'll Ever Make

Is your software company suffering from "We Can Sell This To Anyone" syndrome?

MARK SOKOL VP, Corporate & Solutions Marketing, ConnectWise

Maybe this sounds familiar: You're a successful software entrepreneur. You worked with one customer, identified its biggest problem, solved it, and looked for others like them that had that same problem. Today, you have great traction finding new customers and generating revenue. Success did not happen immediately; it developed over time as you added great technical talent, found that all-star sales leader, and allowed your emerging marketing team to initiate broad-scale marketing activities.

The early successes were exciting, but you have a nagging feeling there is something missing. Despite doing everything you thought was right, your lofty growth projections for the coming year appear to be at risk.

The latest deals that sales brought in the past year have experienced onboarding challenges, and your ability to acquire referenceable accounts is getting difficult. Your momentum appears to have slowed down. Unfortunately, sales blames marketing, and marketing points back to sales. Yesterday, marketing and sales joined forces and began pointing fingers at the onboarding team. You just spoke with that team, and they attribute the problem to product. So, you begin taking inventory. Where did you go wrong? You think back over the past year or two and notice some trends:

SALES – As the company added head count (including that sales leader), you began to focus on CEO activities. As sales targets increased, sales began shifting their attention to larger deals. These larger deals were "almost" a fit, but not exactly your original target customer.

MARKETING – Since you started the marketing department, you know that the messaging was spot-on (you drafted the first few documents). However, marketing has adjusted activity to find larger prospects.

ONBOARDING – The time it takes to bring on new customers has shifted to months, when it used to be weeks. These larger customers want additional capabilities, and your consultants are spending time creating workarounds.

PRODUCT – You started out being the product manager. Now you have a team working across marketing and sales and reacting to the shift toward larger deals. The product road maps have been adjusted to address areas of product weakness for these larger opportunities.

In short, your previous laser focus has splintered, and you have allowed your sales team to move off into too many different directions. Even worse, you've lost momentum with your core target audience because they don't know who you are anymore.

THE PROBLEM: "WE CAN SELL THIS TO ANYONE" SYNDROME

If the scenario I just described sounds familiar, you're in good company. Geoffrey Moore talks about this idea in detail in his essential book, *Crossing The Chasm*, and its companion book, *Inside the Tornado*. If you're in the technology industry and you haven't read these books, stop reading this article and go order them (I'm serious!). The concepts described in these books over 20 years ago have helped thousands of businesses and have stood the test of time. According to Moore, "the chasm" is a rite of passage for every business. It's the gap between a strong beginning and true, long-term success. To build the critical mass of new customers you need, you must cross over the chasm.

The problem is that many software businesses develop "We Can Sell This to Anyone" syndrome before they hit critical mass with the original target. They fizzle out when they start to scale because they try to grab as many customers as they possibly can, and they lose the ability to both communicate and deliver unique value to their potential customers.

Moore describes this phenomenon beautifully in his case study about software company Documentum. As a spin-off of a larger company, Documentum languished for several years at about $2 million in revenue during the early 1990s. But then something changed. Instead of selling to anyone and everyone, Documentum focused on a seemingly small market of the top 40 pharmaceutical companies. The result? Over a four-year period, Documentum grew to $75 million in revenue, and eventually the company sold for $1.7 billion in 2003.

THE SOLUTION: FIND YOUR NICHE

How did this turnaround happen? Documentum suffered from a "chasm" problem. They needed to find a way to scale the company and generate more revenue, but they were spread too thin because they were trying to be all things to all people. Only when they found their niche did they achieve explosive growth.

Seth Godin has recently begun referring to this idea as developing your "minimum viable audience," or MVA. Godin advises companies to stake out small markets they can serve extremely well: their MVAs. Documentum's MVA of 40 potential customers sure seems like a yawner to an outsider, but the solution was worth tens of millions to these 40 customers because of the tremendous pain it alleviated. The takeaway: Don't try to engage everyone, or you will engage no one.

WHY SCALING DOWN IS THE WAY TO SCALE UP

Focus on a tiny niche seems counterintuitive, doesn't it? After all, if you want to grow, you need more exposure, not less. But the truth is that if you want to create a groundbreaking solution, you have to be really good at solving a specific problem for a specific customer type.

Here's a personal example of how this worked. In the early 2000s, I joined a $4 million system integration company. The company had been successful reselling bar code labels, printers, and mobile scanners in warehouse environments, with some proprietary software.

On the day that I started, the CEO, who was a terrific salesman, said, "Look, our chief technical officer created this application on Palm OS-based mobile devices. We need to develop a piece of sales collateral so we can promote it." Then the CEO said something I will never forget: "Anyone can use this. Look across the street. See that KFC? They could use it. And look next door — that Shell station could use this." It was the start of my awareness of "We Can Sell This To Anyone" syndrome.

After some probing, I discovered that the software was already being used in a handful of hotels in the United States to ensure that fire extinguishers were current and compliant with local laws. It solved a pain point for hotel engineering management by documenting when the extinguishers were being checked and provided visibility into their audits. The potential fines (up to $25,000 per violation) were large enough that they needed a way to ensure compliance.

With that information in hand, we did basic research and determined that there were approximately 50,000 hotels (many being managed by a hotel management company) in the U.S. facing the same problem. The potential for millions of dollars in fines from the fire marshal was tremendous. Forget the KFC and the Shell station. We had a core target identified with significant and solvable pain, and we knew that with the right sales and marketing they would be clamoring for our solution.

START SMALL AND OWN THE SPACE

Now, I know some might be thinking that this problem would exist at any type of building, so why limit to hotel management companies? Here's why: People like to buy products designed for them. Every time I went on a prospect visit, the hotel management leaders would tell me, "We like you because you only focus on the hotel industry. There are other building maintenance solutions out there, but they don't really fit our needs."

The result? Over a few years, the solution was implemented in thousands of hotels and eventually became standard at large, global hotel management companies.

To recap, here's why our solution was successful:

- **SMALL NICHE (MVA)**: Hotel management companies (about 1,000 in the U.S.)
- **BIG PAIN POINT**: Millions of dollars in potential fines for unchecked fire extinguishers
- **TARGETED SOLUTION**: Aim at the core audience, and become high-demand experts in the space
- **SCALE**: Maintain focus, and continue communication of commitment to this niche

And this type of focus will work for your software company, too. Start small. Identify a big pain point. Own the space. Be aware of opportunities for growth, like extending capabilities and solving even more problems in your space; but don't pursue them all at once. Stick to your niche. At some point, you will hit the ceiling in that industry. Then, and only then, will you be ready to take the next growth step and target that next niche.

5 Questions To Ask Prospective Partners To Reach Revenue Objectives

Before selecting channel partners, make sure you ask the right questions about a prospect's sales capacity, customer reach, marketing resources, and market segment.

WAYNE MONK SVP of Global Alliances & Channel Sales, ASG Technologies

When it comes to selecting channel partners who will extend your reach, drive sales, and accelerate revenue, it's critical for companies to consider the "Four C's" — commitment, competence, coverage, and capital. While these four criteria are essential to identifying the most productive partners for a business, the one that typically warrants the most questions is "coverage."

Whether a company wants to strengthen its foothold in an existing market or expand into new ones, it should carefully assess potential channel partners' coverage in sought-after segments. By asking five questions, software companies can easily determine whether potential partners have the reach to propel sales coverage and help them reach their revenue goals.

WHAT IS YOUR SALES CAPACITY? ARE SALES TEAM MEMBERS FIELD OR INSIDE SALES REPRESENTATIVES?

One of the first things organizations should ask of their potential partners is whether their sales teams are comprised of field or inside sales representatives. When dealing with enterprise software and complex sales cycles, it's important to have a field sales team that can meet with clients in person and represent the business outcomes realized by incorporating the innovative and unique solutions they provide. Partners who can offer field resources will more easily be able to establish themselves as trusted advisers to the client.

While field sales are essential for enterprise software companies, inside sales representatives can bring value as well. Inside sales teams function well as sales development resources, handling the front end of the discovery process. This includes fielding inbound inquiries, vetting marketing-qualified leads (MQL), and setting up appointments for field sales teams. Independently, inside sales teams can bring strong value in representing commodity-based products, where the sales cycle is shorter, fewer approvals are needed, and the solution is self-discoverable — meaning there is less need for live interaction. At the enterprise level, a mix of field and inside sales is often most effective.

WHERE ARE YOUR SALES RESOURCES LOCATED?

It's important to uncover a potential partner's ability to develop relationships with the audiences that matter most. Customers want to buy from people they like, and this means taking the time to build relationships with prospects. This is done most effectively in person. In fact, for most channel partners selling enterprise software, nearly 80 percent of clients reside within a 4-hour drive of field sales resources. When assessing a potential partner's field sales resources, you need to look at the number of team members, where they are located, and whether they are fully trained on your solution. The most valuable partner will have a dedicated, well-populated sales force close to the client.

Ideally, a channel partner will already have a significant sales force in your target geographies. When considering which channel partner to invest in, companies should look to the highest sales capacity as the best chance at return, as there is often a correlation between sales team and revenue. If a company doesn't know a partner's sales capacity before investing, it may be wasting its time and money. The one exception when size doesn't matter is when a partner can bring something unique to a company. For example, if a partner brings differentiated value, then the company may be more willing to help augment their sales coverage.

HOW MANY CUSTOMERS DO YOU HAVE? WHAT PERCENTAGE OF YOUR CUSTOMERS ARE ACTIVE VS. DORMANT?

To estimate ROI, measure a partner's current market reach. In other words, how much of the potential market opportunity can be realistically tapped through this channel partner right now? To answer this question, first determine the size of the market. This provides context for the total available market (TAM). Say the market is composed of 5,000 potential customers — ask the potential partner: "Within that market, how many customers are you dealing with today?" This helps to determine how many of those 5,000 prospects the partner has relationships with today. You may find the partner has done business with 20 percent of the market. Another important question to ask is: "Of those 1,000 customers, how many are you actively working with?" To consider a customer as active, the partner needs to show established levels of frequency and intimacy. Active customer coverage is of high value to companies because it indicates the actual reach a partner prospect brings to the table. You may find there is an even smaller pot of prospects that the partner is actively engaging. This can be shown by how many times a year they do business together.

Through these questions, you may find the potential partner is boasting about its high customer reach. If the partner isn't actively engaging key prospects, then it's working with a much smaller slice of the market than it's claiming to — and therefore, it isn't positioned to deliver the results you expect.

DO YOU HAVE A DEDICATED MARKETING TEAM? WHAT IS THE MARKETING REACH AND ACTIVITY?

You also need to look at potential partners' marketing teams, rather than just the sales teams. To measure their marketing reach, ask these questions:

- Do you have a marketing database in-house?
- How many companies or contacts exist within the database?
- When is the last time you mailed to them?
- When you do mail/what is the bounce-back rate?
- Are you touching this market in another way (trade shows, etc.)?
- Are you buying lists or trying to syndicate and build content?

Marketing reach is a key. Let's say the partner has an in-house marketing database containing 3,000 companies with over 13,000 contacts, and they actively mail to this list with less than a 1 percent bounce-back rate. Now the partner is able to potentially reach 80 percent of the TAM, which is very compelling. If the partner successfully passes the "Four C's" test, then you may need only one partner to successfully reach this market segment. In cases where a partner already has a dedicated marketing team, you can tap into that resource pool, introduce their messaging, and extend market reach that way. Plus, if a partner can spearhead the campaign effort, you'll benefit from a transfer of marketing costs. Not only that, but when the partner can build and execute campaigns independently, you'll see enhanced value through successful marketing initiatives marked by the partner's deep understanding of how to message solutions to their customer base.

WHAT ARE YOUR TARGET MARKET SEGMENTS? ARE THEY HELPING YOU REACH YOUR NEW CUSTOMERS OR BUYERS?

Companies can look at coverage through many lenses — by industry, by solution, or by partner business model — which can create several market segments and potentially confusing intersections. The question then transitions from "How many partners do I have?" to "How many partners do I have per segment?" While the goal is to increase coverage, companies need to be wary of too much coverage or overdistribution. Once an organization has joined forces with several channel partners in the same market segment, it needs to manage intercompetition. In terms of both market and geography, a little competition can be healthy, but it's important to find a balance.

Another factor to understand is the partner's business model and where each partner plays in the marketing, sales, and delivery cycles. Some partners provide advisory services, others focus on delivery and implementation services, and the new breed of partners provides ongoing cloud or managed services to their clients. The most valuable partners will help you uncover new opportunities for their solutions and assist with marketing, sales, and delivery.

Organizations that ask prospective partners these five questions will increase their chances of finding channel partners to help exceed their sales goals. Of course, coverage is just one dimension of the "Four C's" criteria, and the best partner will satisfy all four categories (commitment, competence, coverage, and capital). With a focus on resources, reach, and return on value, software companies will be better prepared to tackle entry into the channel and experience the sales results needed to win in the market. S

The Intersection Of Joy, Skill, & Need

JASON COHEN

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Type-A executives don't have time to ask questions like, "Do I love what I do?" or, "Are my projects important?" You can't love what you do all the time, or maybe even most of the time. And yes, of course what we are doing is important, we're VP of Something or the Chief Executive Something — the work is important by definition. Often the answers to these questions become excuses for not facing difficult facts. And this attitude certainly leads to burnout.

I was the CEO of my last startup, which I ran for seven years and sold successfully, but I was burned out and did not maximize the potential of the organization. Today I am the CTO of my current startup, now nearly eight years in, and I did things differently this time. I'm not burned out, our company is extremely strong, our team is capable and motivated, and our valuation is 100 times larger than the previous one. Not a coincidence. Here's the framework I've used to make better decisions this time around. It's a typical Venn diagram, where the circles are: Joy, Skill, Need.

"Joy" means things you love to do. "Skill" means things you're good at. Often those are the same things. We often enjoy what we're good at exactly *because* we are good at it, and we became good at it because we loved it so much that we were willing to work hard to become good at it. But that intersection is not as big as you might think. We take on projects that we love, but these projects could be done better by hiring or delegating to someone. Keeping these projects for ourselves steals interesting work from others, work that others could do better, which undermines the company's best interests. We feel good about it anyway because we enjoy doing those activities.

Another trap is when we do work we're good at, but don't love. This is where executives stay much of the time. "The company needs me to do it, so I'll do it" and "Nobody wants to do this, so I will do it, which protects my team so they can do more interesting things and be motivated" are common refrains. But taking on the horrible things yourself, even when you're good at it, is not healthy for you or for the company. You might be surprised that your team might actually *want* to help with the drudgery. Your team wouldn't expect to code up new features but delegate the bug-fixing to you. You might also be surprised to learn some people don't think of it as drudgery! In fact, for any work you dislike, I can find you someone for whom that's their perfect dream job, meaning they'll love doing it and will do a better job at it too.

As executives, we think everything we do must be worth doing. But we also have long lists of things that would be more valuable to do. In reality, there are only a few things that really matter, and the rest is noise. Our job is to make sure the most important things get done, and the noise is set aside. Nevertheless, we still take on projects we love doing but that the company doesn't truly need. Or, we take on a project we enjoy because it needs done, but in fact, it ought to be delegated to someone else.

The center of the Venn diagram is an ideal state, where joy, skill, and need intersect. It's not possible to inhabit the center all the time. What is possible all of the time is to proactively use the framework to figure out when we're chasing passions over requirements, or when we're taking a bullet for the team instead of sharing the drudgery with the team, or when we should keep looking for the perfect person to take on an important project rather than powering through it. Of course, this is not just true of executives. When each person on the team does work that makes them happy, and they are skilled at the work that the company truly needs, this creates a happy place of efficiency, effectiveness, morale, and business performance. Use this framework to avoid burnout and to lead a stronger, healthier business.