# software executive magazine

AUGUST / SEPTEMBER 2017

## High-Tech Software, High-Touch Service

p. 16

**TARA KELLY**
President & CEO
SPLICE Software



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# Software Executive

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It's friction points like these that make being a software executive get really real. It can feel like garbage when you're in the thick of it, but you have to remind yourself that it's a blessing because there's typically a silver lining coming.

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We don't want robots working in the company. There are customers who call us just to talk. They don't even have questions.

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**JEFF RILEY** VP, CORUM GROUP

When point of sale software company Dinerware sold to Heartland Payment Systems in early 2015, Jeff Riley (then Dinerware's CEO) turned more than one head in the channel. Two years later he reemerged as a VP at Corum Group, an M&A advisory firm that has been working exclusively with software companies for the past 30+ years and features a long list of dealmakers like Riley who are former software executives themselves. On page 10, Riley provides a rapid-fire list of deal structure tips any software company should consider before buying or selling.



**STU SJOUWERMAN** CEO, KNOWBE4

We aren't kidding when we promise *Software Executive* will feature peer-driven editorial. Stu Sjouwerman (pronounced "shower-man") is a serial entrepreneur whose latest software venture, KnowBe4, debuted on the Inc. 500 list at #139 and grew 2,528 percent over a three-year period. Sjouwerman doesn't kick back and enjoy the view from his Clearwater, FL, office. Instead, he's hyperfocused on growth and has been around the block with four previous tech startups. Turn to page 30 to hear his advice from the front lines on staffing up, execution, and scaling.



**YONAS BESHAWRED** FOUNDER & CEO, STACKSHARE

TechCrunch recently called Yonas Beshawred's new company, StackShare, "a secret weapon for developers and Silicon Valley CTOs." On page 32, Beshawred explains why a software company's tech stack can be a secret weapon for attracting top engineering talent (hint: It matters more than your cushy office or flexible PTO policy, and your stack matters to potential investors, too). If you're skittish about sharing your tools, you'll want to reconsider after reading Beshawred's take.



**RACHEL SMITH** VP OF SALES, RETAIL REALM

What's Rachel Smith's secret to 40 percent YoY growth in developing Retail Realm's reseller and technology partner channels? Good old-fashioned lead qualification. On page 34, she opens up with seven basic questions every software company's sales team should be asking to help weed out bad leads. Smith, a VP of sales with 20+ years of experience, knows the beginning of the sales process is just as important as the end result.

# Welcome To *Software Executive Magazine*

**ABBY SORENSEN** Executive Editor

You're reading the inaugural issue of *Software Executive* magazine. Welcome!

The software world is massive — Gartner predicts enterprise software spending will reach $376 billion by 2018 — but it can also be a lonely place. "Software" isn't exactly a singular industry, and the executives who read this magazine are from vastly different companies and verticals. So then, where do you go for advice on hiring developers, selecting board members, or improving your sales process? We want that place to be here, where you'll learn from thought leaders, subject matter experts, and — most importantly — your peers, other innovative software executives who are finding success.

This magazine was born from our company's flagship publication, *Business Solutions* magazine (newly minted as *Channel Executive* magazine). For 30+ years we've been covering the IT channel, and our primary focus has been on value-added resellers, integrators, and managed services providers. Despite the fact that we had amassed 10,000+ software executives on that circulation who wanted to keep their ear to the ground in the channel, our editorial never did justice to the software side of our audience. Plus, we know software companies want business-level advice that extends beyond the reseller channel. Starting with this August/September 2017 issue, you now have our undivided attention in the pages of *Software Executive* magazine. No end-user speak, no vendor sales pitches — just editorial that we promise will deliver deep, actionable, exclusive, peer-driven content that you won't find anywhere else.

You won't read overly techy articles in *Software Executive*. We write articles, not code. We're going to focus on helping you run your software business. We know what software executives lose sleep over, regardless of their company size, application type, distribution method, or vertical market focus. We're going to write about those issues — scaling, raising capital, pricing strategies, HR issues, working with resellers, marketing and sales best practices, developer resources, and more. We want you to call on us when you face a business challenge outside of these categories (or when you come across topics you're tired of reading about). We have an open inbox policy — drop us an email any time at matt.pillar@SoftwareExecutiveMag.com or abby.sorensen@SoftwareExecutiveMag.com — and we promise a response from a real-life human.

We also want you to enjoy reading this magazine every other month. Do yourself (and your eyes) a favor and unplug from screen time while you flip through these pages. Of course, we'll still have all of the content from the magazine, and more, in our e-newsletters and on the SoftwareExecutiveMag.com website. We're open to any and all ideas software executives want to throw our way. If your software company has a compelling story to share, and if you're doing something innovative your peers can learn from, we want to feature you in an upcoming issue.

I'm an assistant coach for a college golf team when I'm not busy at the office devouring content, listening to podcasts, or talking to experts in the software world. One of the guiding principles of our team is FIO — short for figure it out. When a golfer texts me about the stress piling up from classes, practice, and life, my job is to help him or her FIO Most of the time, coaching has very little to do with swing mechanics, just like running a software company can have very little to do with the technology itself. That's why there's an FIO sign pinned to the cork board next to my desk, a daily reminder that it's our mission to help software companies figure out how to run scalable, profitable, and successful businesses.

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

EAB

# Editorial Advisory Board

*Software Executive* is proud to introduce our inaugural editorial advisory board. These thought leaders represent software companies of all shapes, sizes, verticals, and applications. Their expertise spans operations, marketing, customer success, development, sales, and everything in between required to run a thriving software company. They'll be a focus group to give our editors input on the issues, trends, and challenges that are affecting software companies. We're promising *Software Executive* will be a peer-driven publication, and these are your peers who have stepped up to lead our charge.

# Q

**You could spend hours every single day going down a rabbit hole in search of the best metrics to evaluate your software company. Whether it's your executive team, your board, your investors, or your employees, every stakeholder in your software company might have their own favorite metrics. We asked our editorial advisory board to sound off on what metrics software companies should care about the most.**

**A** INSTEAD OF FOCUSING ON ONE METRIC, I try to focus on a few key metrics that help us understand the customer experience, such as conversion rates from free trials to paid subscriptions, churn rates, and how long it takes the customer to "go live." Each of these tells us about the customer experience. "Trial conversion rates" tell us how many of our prospective users like our free trial enough after playing around with the software for a couple hours to write a check. "Time to go live" captures how easy it is for new users to understand the application, import data, configure settings, and train employees. We want the onboarding process to be super easy for customers, so we continually focus on shortening the time to go live. "Churn rates" capture how many customers decide to look elsewhere after using the system. Obviously, we want this to be zero, but as that's not realistic, we try to closely track the causes of churn. We try to avoid relying on pure growth metrics, such as daily user growth or revenue growth. Our feeling is that these metrics are byproducts of a good customer experience, so we prefer to focus on metrics that capture and provide insight into the customer experience instead of metrics that just measure growth.

KEVIN KOGLER
Founder & President, MicroBiz

**A** THERE ARE MANY METRICS I COULD REFER to related around customer satisfaction, churn, or lifetime value of a customer. But the bottom-line "metric" that matters, if I only have to pick one, is revenue. Without revenue, you or some syndicate of financial backers/stakeholders have to keep financing a business yourself, and eventually the ability to finance a business becomes untenable. The quantity of revenue is also what determines the cash flow you have less operating expenses and capital investments, excluding finance activities. And it is the metric that is used most often to measure the market power of a company, its growth, and to rank it with its peers. The business leaders who don't focus on pursuit of revenue will fail their business, which can ultimately only be successful if it has revenue from its activities.

MARNE MARTIN
CEO, ServicePower

**A** AT SOME POINT DURING AN M&A PROCESS, you will share your forecasts with prospective buyers. From that point on, you have a whole new metric to keep you up at night. Missing your numbers midway through the process will hurt the valuation and may even kill the deal. On the other hand, surpassing your numbers underscores your worth to the buyer and should give the ultimate deal value a boost.

This may seem obvious, but you'd be surprised how frequently companies miss their numbers at the worst possible moment. It's easy for a software CEO to get sidetracked during an M&A process — selling a tech company is a full-time job, and most CEOs are already doing two or three of those! Even in an ideal situation, buyers' meetings are distracting, deal fatigue can set in, and the usual attention to detail that makes you a good CEO can splinter. Sharing the load internally is wise, but be careful—the more people involved in the deal, the more people distracted by it. A high level of internal confidentiality is generally the best move.

TIM GODDARD
Senior VP of Marketing, Corum Group

# 8 Tips For An Optimal M&A Deal Structure

**JEFF RILEY** VP, Corum Group

If three buyers offered $50 million for your company — one in unregistered stock, another via earnout, another in cash — which would you take?

I hope you'd say "cash" immediately. Structure, ultimately, is more important than price. Below are tips to achieve an optimal structural outcome when selling your software company.

## 1 AIM FOR A STOCK SALE

Companies can be purchased as assets—preferred by buyers—or via company shares—preferred by sellers. In an asset sale of a C-corp, the gain will be taxable to the company at time of sale, then taxed again to the shareholder at distribution. In a stock sale, proceeds are taxed at a lower capital gains rate, and in C-corporations, corporate taxes are bypassed. Be sure to clarify expected deal type early in the process to avoid being surprised later.

## 2 AIM FOR A CASH DEAL

Cash is the best option—literally, money in the bank. If buyer stock is expected to perform well, taking some may be reasonable—but with a public buyer, will you have registration rights? Is there enough float and volume to handle sales? Private stock is more complicated. Is there a put provision? Can you sell with founding shareholders if going public? Is the valuation realistic? Don't overlook antidilution provisions either.

## 3 EARNOUTS ARE ICING, NOT CAKE

Earnouts, based on EBITDA, sales, retention, or other measures, are the most litigated portion of M&A transactions, but can be rewarding if structured properly. Before agreeing to an earnout, ensure unambiguous goals and reporting methods. Consider earnouts "icing on the cake," a way to bridge the gap between what a seller really wants and what a buyer is willing to pay.

## 4 STRUCTURE EARNOUTS FOR SUCCESS

Build structure into the deal that gives you the control you need to achieve them. Prior to closing, define postsale roles and responsibilities. This is always important, but crucial with earnouts. If the buyer can negatively influence your performance, what is the point? During integration, monitor performance closely, so there are no surprises on payday.

## 5 BEWARE OF LIABILITIES

What if your biggest customer walks away? Or someone claims ownership to your IP? In M&A, you provide representations about your company and warranties if something goes wrong. If not managed properly, you can be responsible for paying back the entire purchase price, or more. Get experienced counsel, and watch liability language carefully.

## 6 BE CAREFUL ABOUT ESCROWS AND HOLDBACKS

To satisfy potential liabilities, part of the purchase price is withheld. The percentage withheld, survival period, how the escrow is funded, etc., are all part of deal structure. Expect escrow amounts of 10 to 15 percent and survival periods of 12 to 24 months. Specifics depend on inherent risk and likelihood of liability. Escrow, like all structural elements of the agreement, can be negotiated—and we've seen it completely taken off the table to sweeten an offer and win the deal.

## 7 BE POSITIVE ON EMPLOYMENT AGREEMENTS

Signing new employment agreements with the acquiring company is a necessary reality for every current employee. To minimize transition risk, review these agreements up front and negotiate terms that result in neutral to favorable reactions amongst your employees. Oftentimes these agreements incorporate incentive pay for key people. Steer clear of shareholder conflicts by reviewing with counsel.

## 8 KEEP NONCOMPETES REASONABLE

A noncompete is one way buyers protect their investment, restricting sellers from working for or starting a competitive business. They aren't always involved, but are often included in larger deals and those involving complex technology. There are restrictions in certain jurisdictions, so the average is about three years—longer than the employment agreement. Generally they cover proprietary information: domain expertise, knowledge of code, clients, etc. They are part of the package, but keep them limited in length and scope.

# Churn Benchmarks For B2B SaaS Companies

SOURCE: SaaS Capital

SaaS Capital's Committed Credit Facilities are specifically designed to fund the growth of a SaaS business in lieu of a round of equity, providing $2 million to $15 million to SaaS companies with $200K and up in monthly recurring revenue (MRR). SaaS Capital recently published a report on churn benchmarks for B2B SaaS companies. Consistently retaining customers is an important characteristic of any successful SaaS business — here's a look at how your company compares to the industry. To download the complimentary full report, visit www.saas-capital.com/resources.

“The sustained improvement in retention associated with a Customer Success leader (6 percentage points) will improve total revenue, growth, and profitability leading to an expected 74% increase in enterprise value in 5 years.”

**12%** Increased value over 5 years with each percentage point increase in net retention

“Annual contract value has a fundamental and independent impact on revenue retention.”

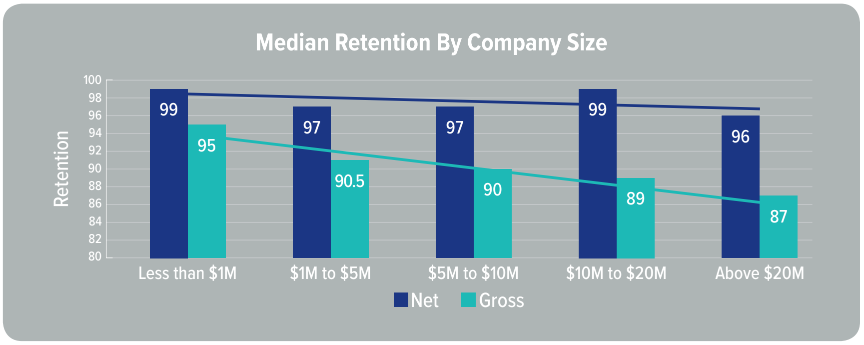
**89%** Median gross retention rate for ACV **BELOW** $1,000

**95%** Median gross retention rate for ACV **ABOVE** $150,000

“Customer success gets harder as businesses get larger (and older).”

**95%** Median gross retention rate for SaaS Companies **BELOW** $1M

**87%** Median gross retention rate for SaaS Companies **ABOVE** $20M



# Upgrade Inc.

Here's how a young software company is riding the e-commerce tidal wave.

**ABBY SORENSEN** Executive Editor
@AbbySorensen_

### LATEST UPDATE

In May 2017, Upgrade was selected as a semifinalist in the High Tech division of the Minnesota Cup, the largest statewide startup competition in the U.S. The competition, sponsored by the University of Minnesota's Carlson School of Management, runs through October 2017.

◂ Stefan Wills, Co-founder & CEO, Upgrade Inc.

### SNAPSHOT

Upgrade Inc. develops a suite of SaaS products for direct sales organizations. Their products help at-home consultants boost productivity and uncover customer and sales data by streamlining inventory management and order fulfillment.

### WHAT'S NEXT

When Stefan Wills and Paul Daugs were working on the Infor CloudSuite Direct team, they wanted to find a way to reduce manual effort required for the sales process. The tools they started building to streamline their jobs at Infor ended up giving them the ideas to build what is now Upgrade, the SaaS company they cofounded with Rob Wormley. Their first software side project was intended to help Daugs' wife streamline her sales as a consultant for LuLaRoe, the direct sales women's fashion brand that has ballooned from 2,000 salespeople in September 2015 to more than 35,000 a year later according to *Business Insider*.

Fast forward to today: Upgrade has 1,500+ customers for that original side project, has just launched a second product, and has visions of selling to retailers who are looking to differentiate and compete with e-commerce giants like Amazon.

Wills makes the first few months of Upgrade's existence sound easy. Daugs' wife had a business challenge, they wrote some code to address it, and within six months they had 1,500 other LuLaRoe consultants using the software. The Upgrade team had clearly identified a pain point for these direct sales consultants who were using Facebook Live to sell products. Its clients who had been spending 2 to 3 hours on the back end of a Facebook Live sale managing inventory and fulfilling orders were now cutting that time down to 15 minutes with Upgrade's software. In addition to addressing an efficiency issue for customers, the Upgrade team also did its homework on the burgeoning live video trend on social media. Wills says, "There is a lot of evidence to show that live video is where the majority of traffic on social media is today. By 2020, some reports show live video being responsible for four-fifths of all internet traffic."

Getting from zero to 1,500 customers wasn't as easy as Wills makes it seem. He pointed out that Facebook's reputation for clockwork-like APIs did not hold true when it came to the Facebook Live API. When Facebook Live was pushed out in a rush to compete with YouTube and Periscope, it came with inconsistencies and documentation gaps. Wills says Upgrade took this in stride, and even saw it as a positive because it meant a higher barrier to entry for competitors. The advice Wills gives to other software companies looking to move forward with a Facebook Live integration applies to just about any startup, "Be prepared for a lot of blown assumptions, a rocky road, and having to figure it out as you go."

The early success at Upgrade gave the three cofounders enough confidence to work full-time on the company starting in January 2017. Though Wills admits LuLaRoe will always have a special place in Upgrade's heart, he has visions to expand to other direct sales companies and eventually to brick-and-mortar retailers. Upgrade's plan is to start with women's clothing boutiques and allow store owners to bring the live in-store sales experience to remote customers. From there, Wills sees a potential play for larger retailers. He cites tier-one retailers like Nordstrom, with high producing salespeople, as potential future customers because they have active personal social media accounts and serve as digital personal stylists. "We want to create technology where the self-service model will scale regardless of the size of the organization. We realize it's not a linear equation, and there are some changes that will have to be made at a larger scale," says Wills. Despite being less than two years old, Upgrade is well-positioned to continue riding the e-commerce and digital waves that are transforming shopper expectations and retailer operations. S

# Offshore Outsourcing: Obstacles And Opportunities

*Expert advice on what to watch out for and what to ask when seeking IT talent in offshore markets*

KRISHNA NAIR

*Going overseas for IT talent is a lot like going overseas for vacation. If you don't have a reliable local to guide your offshoring efforts, you may end up taking some wrong turns — mistakes that can cost you time, money, and ultimately business.*

Despite the risks, outsourcing offshore is on the rise. According to the 2017 Harvey Nash/KPMG CIO Survey, the largest IT leadership survey in the world, as many as four in 10 IT leaders plan to increase offshore outsourcing — a trend that has been largely unchanged in recent years.

"IT leaders tell us they want to free up their own resources, gain access to new skills, and save themselves some money," says Dr. Jonathan Mitchell, the nonexecutive chair of Harvey Nash and the Global CIO Practice. "Hot outsourcing areas include application development, followed by infrastructure and software maintenance."

The road to hell is paved with good intentions, and that includes offshore outsourcing confidence.

Part of the rush to outsource offshore talent comes on the heels of H1-B visa uncertainty, with IT execs unsure of how much international talent they'll be able to bring to the United States.

Harvey Nash's Pulse Report on the impact of proposed reforms to the H-1B visa program found:

- 61 percent of U.S. IT leaders with large development teams believe the proposed changes will make skilled IT talent less available
- 68 percent of companies with 50+ developers believe reforms will increase the cost to hire skilled IT talent
- 59 percent of companies with 50+ developers will consider offshore options

With that in mind, offshore outsourcing seems like an easy alternative to hiring staff here in the U.S. But there's a bigger conversation that needs to happen in the IT industry about the problems that come with this assumed convenience.

## SKILL INFLATION RISK

For example, let's say your organization is trying to move to the cloud from on-premises infrastructure, and you decide to add five offshore cloud and DevOps developers. Your company has no experience working with an offshore team. Let's say you're lucky enough to find three people with a specific, refined skillset for cloud and DevOps. You can't assume they're experts ready to deal with any situation thrown at them. Why? Because the offshore company you hire will say they can handle it even when they can't. Consider the perspective of the offshore company's salesperson. You ask, "Do you have cloud and DevOps talent available to help with my project?"

Few companies will say, "No, we don't have the people." They'll try to win the work and worry about finding staff to do it later. U.S. companies do this frequently. Companies all over the globe do it, too.

> "Just because you can hire coders for $3 an hour doesn't mean you should. Maybe if you're lucky, that $3 an hour coder will work out great, but in my experience, this rarely happens."

We prefer to be honest with our clients. We'd rather risk losing business than put the project or relationship in limbo. Occasionally when we work with new technologies, we build a prototype that showcases our project delivery capabilities. Clients are receptive to this honesty.

Ignoring skill inflation risk can waste time, money, and resources you could have used onshore. Offshore talent can certainly help get projects started, but it's harmful to rely solely on them.

### WHAT'S NECESSARY FOR OFFSHORE SUCCESS?

Now that I've warned you about everything that can go wrong, here's how offshoring can go right.

You, too, can have success in offshoring, if you follow these three keys:

1. Find a trusted partner.
2. Communicate clearly.
3. Set expectations.

It's crucial to have a trusted partner, even if it adds additional expenses. Money shouldn't be the bottom line: Every time you move into an unknown market pursuing the cheapest rate, you put your organization at risk of missing a deadline or getting lower quality work. In the U.S., many technology consulting firms have deep ties to offshore markets. We're like the tour guide who knows where to find the best street food in Mumbai, and which stands to avoid. Sure, you could dine without us, but you'll have a better dinner with us. We do most of our offshoring in Valsad, rather than bigger cities like Mumbai. It's a great family-friendly location filled with talented IT professionals who want to live in a smaller city but still be part of a growing company. By going to Valsad, we get lower turnover than we would in a large city.

### SET EXPECTATIONS

Before committing to an offshore contract, find evidence that the company has the expertise and experience to be your strategic partner. Any size company can get hosed in an offshore market. I watched a firm, let's call them Biggie Bank, pay $220 million to a U.S. consulting firm that then used offshore talent to build a lending product. Within three years, Biggie Bank had to revise the product because it never worked properly. The problem? A lack of ownership by offshore contractors working on the project. While you may envision that you're hiring an offshore firm with a steady employee base, your contractor may be subcontracting to lowest-bidder-wins independent contractors in that local offshore market. Those contractors will do the job and move on. They have no ownership in your project and no incentive to create a product that works. You can probably afford one project failure, but accumulating multiple failures is bad for your career and your company.

### STRATEGIC PARTNERS PREVENT MISSTEPS

The bottom line is you need a strategic partner. If you don't have one, you can end up in a frustrating and costly situation. When you form the strategic relationship, don't consider cost without also evaluating quality. Just because you can hire coders for $3 an hour doesn't mean you should. Maybe if you're lucky, that $3 an hour coder will work out great, but in my experience, this rarely happens.

If you decide to DIY your foray into offshore talent, ask what the offshore partner brings to the table and the scope of their work experience:

- What projects have they completed that are similar to this task?
- What is their core skillset?
- What U.S. references do they have?
- When you hire a whole company, will they do everything for you?
- What are their limits? (Be wary if they claim to have no limits.)
- What's the percentage of employees versus project-based contractors?
- What if they want your team to do more?

Offshoring's most common issues can be avoided with a dose of direct communication and effective partnering. With a little extra work, my advice will help make your next outsourcing experience a success. S

**KRISHNA NAIR**, CTO at 1Rivet, has led large-scale integrations of systems and data, managed content across omni-channel platforms and worked with brands including Nike, Western Union, Verizon, Sprint, ADT, and Harvard University. Nair holds an honors bachelor's degree in mathematics and an MBA in information technology from Symbiosis International University, India. He still likes to jump in and write code when challenges arise.

By M. Pillar

## How did a home-baked appointment program for mom-and-pop businesses blossom into a tier-one application for international enterprises? Sales savvy and a relentless focus on user experience.

Most nine-year-old girls spend their free time playing with dolls and talking to their imaginary friends. Nine-year-old Tara Kelly spent hers playing with code and *building* imaginary friends.

Kelly's dad was a programmer. Kelly loved to spend time with her dad, so she learned to write in COBOL. "Had my dad been a mechanic," she quips, "I might have taken a different career path." Her first program asked simple questions such as, *how old are you* and *what color is your hair*, questions that built upon one another and created a profile through ongoing dialogue. "Learning how simple it was to turn code into something that created a rich, interactive experience was weird and exciting to me," she says. "It was like building something with Legos, only better." Oh, the foreshadowing.

Her career path, however, resembles anything but a straight line. Abashedly, she admits that she dismissed the idea of following in her father's footsteps. "Coding was for geeks," she says, "And it certainly wasn't for girls." Kelly went to college — *university*, as they say up North — where she studied commerce at the University of Calgary. In 1997 she earned a perfect score on her final project, a business plan for a holistic wellness center and retail health food store. Some friends dared her to try it in the real world. Reluctantly—entrepreneurship wasn't part of her future plans—she submitted the idea to the Royal Bank of Canada. In short order, she was awarded a quarter of a million dollars, fertilizer for a disinclined entrepreneur.

Kelly operated the Kelly Center of Wellness until 2001, during which time she got back to her roots when she realized a need for a customer-facing reminder system for her wellness store customers. "I was really irritated by how much work I had to do to remind customers about their appointments in a personalized way. The laziness alone drove me to be more efficient," she jokingly recalls. So, Kelly built a piece of software that automated personalized phone calls to her clients. That software worked well enough to license to other small businesses. As demand for the application built, she recognized that it was time to pivot. Kelly launched Simply Health Systems, the commercial iteration of the application she built for her wellness business, and focused on its development full-time. She successfully sold that application to small businesses where appointment schedules were mission-critical, like salons, health clubs, and wellness centers like the one she had previously operated.

> "Coding was for geeks, and it certainly wasn't for girls."

But 2006 served up another inflection point for Kelly. It wasn't something she *sought*; it was something that *happened*. During a telephone exchange with a bank she had been patronizing for years, the financial institution completely muffed the interaction. "This bank had a ton of data about me that should have made the exchange pleasant and efficient, but it wasn't applying that data in the context of our telephone exchange," she explains. As her frustration mounted, she blurted out that the phone software application she sold at the time, which she had grown to integrate personalized newsletters and billing, "does better for dog groomers." She hung up abruptly, eyes wide open at the jarring realization of what she had said. There was a blatant need for technology that would facilitate personalized, contextual phone interactions at the enterprise level. That's where she set her sights.

TARA KELLY
President & CEO
SPLICE Software

# HIGH-TECH SOFTWARE, HIGH-TOUCH SERVICE

**MATT PILLAR** Chief Editor @MattPillar

Today, Kelly is president and CEO of SPLICE Software, the company she founded in August 2006, shortly after that infuriating telephone conversation with her bank. In just 11 years, her company has onboarded some high-profile international clients — Intuit, La-Z-Boy, and Mercedes-Benz among them. We caught up with Kelly for a conversation about the product development and sales strategy that are driving her company's success.

## PICK THE FASTEST HORSE IN THE SHED

IVR (interactive voice response) technology has roots dating back to the '70s, but Kelly admits that 2006 was early days for truly contextual, personalized phone and SMS response software. The big data that SPLICE software draws from to create personalization wasn't quite so big back then. Neither were the AI and cloud infrastructures that facilitate the company's applications today. "I think we definitely let some blood out in the streets," admits Kelly. "Thank God, we didn't *bleed out* in the streets, but I always say the road to success is paved with blood and skeletons of the companies that paved the way. We felt some pride in laying the groundwork that has become the highway that everyone else drives on today." While there was plenty of bloodletting at the time SPLICE launched, an early glimmer of hope for the company was proliferating: broadband.

Rewind for a minute to Kelly's first foray into software sales and development. Within a few years of its 2001 launch, Simply Health Systems grew to serve some 76 small businesses across Canada, primarily service-oriented shops in strip malls and small towns. The world was still using dial-up to connect to the internet. But broadband was on the way, and that meant disruption for companies like Simply Health Systems. "We offered a desktop application with web services," explains Kelly. "We had a data center where we hosted everything, but customers had to upload all the touches that were going to go out before they could use the application." Updating was painful, requiring on-site manpower and an executable file. "We needed to go online, but that would have required a very expensive and time-consuming rewrite of our existing software," says Kelly. She was at a crossroads, one that found her contemplating whether to rebuild her existing application in the cloud or spend the money it would cost to do so on a reset moment. A visit with a business-savvy friend, the CFO for a major international oil field services company, turned into a brainstorming session. "We started exploring what he referred to as 'the fastest horse in the shed,' and that's become one of my favorite expressions," says Kelly. "The fastest horse in your shed is the one that creates the fastest return on the development resources you spend." Kelly quickly realized that the element of her solution that drove highly personalized, outbound communications was her fastest horse, the one that created the greatest value to her customers and, in turn, the one that yielded the best growth for her company.

It was on the heels of this conversation-turned-realization that Kelly had that fateful call with her bank. "I didn't know exactly how we would do it, and I knew nothing about selling into large enterprises," admits Kelly, "but I decided to pivot."

## RESTRUCTURING FOR SUCCESS

The pivot Kelly speaks of marked the birth of SPLICE. She took Simply Health Systems' core IP, pushed her existing customers' support and service contracts to Geek Squad (which would later become a service of Best Buy), and liquidated the assets of shareholders who decided to leave the company. "It's friction points like these that make being a software executive get really real," says Kelly. "It can feel like garbage when you're in the thick of it, but you have to remind yourself that it's a blessing because there's typically a silver lining coming."

> "The fastest horse in your shed is the one that creates the fastest return on the development resources you spend."

Today's SPLICE has been debt-free and completely customer-funded since 2008. Year-over-year revenue growth has never dipped into the single digits. "Those are some numbers that I am really proud of. There's not a lot of fluff, and there's not a lot of hype in the business that is SPLICE," says Kelly. With the exception of some natural attrition, the company's original shareholder base remains intact. They have an even-based valuation expectation that is a return with no hype. I think that's a neat place to be," she says. At the same time, she admits there's pressure on her to push forward and maximize their return. That pressure has inspired Kelly to exploit some new opportunities in the near future. Case in point, last year SPLICE secured a North American patent for its real-time, data-driven, personalized dialogue application. "The patent is relevant to chat bots, voice bots, IoT, you name it," says Kelly. "It's a really, really big deal, and I would be a very bad and very irresponsible person not to maximize what that reach can do. The world is ready for what we have now, and we're seeing this in a really much bigger way across many more verticals."

### DEFINE YOUR CUSTOMERS AND ADVOCATE FOR THEM

In its first decade, however, the company has opted for vertical *specificity* in an effort to go deep, not wide. "We've sought to understand everything about the retail customer's experience, and we made a conscious decision to focus on retail so that we could get as thorough an understanding of the competitive landscape as possible," she says. In the early days, that retail emphasis was narrowed even further, hyperfocused on the furniture segment. There, La-Z-Boy and Raymour & Flanigan are among its marquee clients.

While SPLICE has fielded plenty of interest from financial institutions — perhaps ironically given the software company's origins — Kelly says retail is where the need for personalization is most dire. "Banks are so sticky because it's painful for us as consumers to walk across the street to reset and redo all of the automation and infrastructure that's baked into our banking relationships," she says. "Despite the lip service, driving the greatest customer experience is actually not that high on their list." By contrast, says Kelly, retail relationships aren't so sticky. It's very easy for a consumer to walk across the street or jump to another site to buy a T-shirt or a sofa from another place. In the insurance market, it's become almost equally easy to switch coverages and companies online, which is why Kelly's next big bet might be in the insurance arena. "The best verticals for us to work with right now are those with companies that are deeply committed to the experience, so that when you're with that brand, they're taking care of you, and you're moving up that value chain into perceiving your needs versus just behavioral and transactional data."

Healthcare, she says, is another greenfield opportunity for personalized, contextual dialogue. The company's latest release, a data-driven voice application for Alexa Skills-enabled devices like Echo and Echo Dot, allows consumers to just as easily inquire about an expected retail delivery as they can order a prescription refill. "We're looking for people that have a need to communicate not just more frequently, but more critically important data. Those are fundamental to the way we identify market opportunity."

### HOLD SALES STAFF TO A HIGH STANDARD

Of course, leading the company to full troughs in opportunity-rich markets is just one part of being a software executive. Getting salespeople to drink the water is quite another.

At SPLICE, the pitch is pretty simple. The company sells a bundled package that's tailored to a specific shortcoming in the dialogue its clients have with their customers on the path to purchase. SPLICE sales consultants are trained to analyze the consumer journey in client environments and discover where the client sees room for more personal, accurate, and timely dialogue. Customers pay a setup fee that falls north of a couple thousand dollars, depending on the complexity of the client environment. That covers call center testing, loop integration, routing, email/phone/text preference evaluation, CRM integration, and so on. Then, the client purchases a pay-per-touch package with pricing based on the volume of touches per month.

With such a straightforward sales model, SPLICE sales consultants might be tempted to sell the package to anyone willing to pay for it. Not on Kelly's watch.

"We've said no to some prospects that many of our competitors might consider really good, juicy customers," says Kelly. Her two-factor litmus test for acceptance is simple. You have to be nice, and you have to want to squeeze every drop of value out of the application.

The first reason SPLICE will say no is if the prospect company amounts to what Kelly terms "a bunch of jerks to work with." "We don't work with assholes," swears Kelly, in the congenial way only Canadians can. "We've pulled out of two big projects that were underway when we said, 'You know what? We're just too different. This isn't going to work.' I won't ask any of my employees to work with someone who's a big jerk." Kelly surmises that if a company hires jerks, its employees will treat each other like jerks, and there's a good chance those employees will treat their customers as poorly.

The second — and more frequent — cause for cessation happens when a SPLICE customer runs into what Kelly calls a "value issue." If the company doesn't support SPLICE, won't refer SPLICE, or uses the application to such a lame degree that it reflects poorly on SPLICE, chances are "super good," says Kelly, "that we'll just say, this is money we don't need. I call it bad money. Bad money is money that takes you away from your vision."

Kelly admits that labeling "bad money" is hard in the moment, but she says it saves money in the end because it allows her to evolve SPLICE toward her vision for the company. Of course, with the controlling share of a committed board, it's relatively easy for Kelly to unite the top brass at SPLICE toward the vision of highly personalized, AI-driven uniqueness that gets it right every time — and with select customers. But, convincing sales reps to say no when commission checks are at stake is quite another challenge.

Kelly says it's important to reinforce the bad-money philosophy with sales reps. "Reps need to understand that if they take a customer that isn't in line with our vision and isn't likely to grow, they're just making a huge problem for themselves," she says. "If you take on a new $200,000 customer, but the customer's product isn't that great in the market, their messaging platform isn't really personalized because they're not committed to bringing enough data to the table, and they don't refer you to anyone, that won't help you sell. Now you have a problem because you need $400,000 the next month, and that guy's not going to help you get it. He's actually holding you back from getting it."

Kelly says these days, conversations like this are the exception to the rule, thanks to rigid hiring standards and ongoing training. Still, they happen. "I've pulled up old numbers and said, 'Okay, here's a customer. It's one of those three that we never should have taken. It wasn't a good fit. They dropped out. What happens when you build your lifestyle or you get a new car or you create a payment—based on this customer that you're counting on—and then they disappear? They didn't refer anybody else, because it wasn't actually a good visionary fit to begin with. How is that going to feel? Do you really want this money?'"

If too many of these conversations take place, Kelly takes the blame for making bad hires or providing inadequate training. Mind you, SPLICE goes out of its way to avoid creating a sales culture in which it feels wrong for a rep to want to take a prospect's money. "We simply work through their sales funnel sheet with them. We help them build out their quarters prospect by prospect," she says. That exercise includes an evaluation of how each customer supports the rest of the rep's funnel and where each win might help secure another win. "They begin to see that a one-time win is a short-term grab, and that short-term grabs aren't moving them to a place where they're getting an annuity going forward and building the overall annual revenue they want." A single paycheck might look better, she says, but if it's not going to put a rep where they want to be, it's usually made apparent in the numbers.

## EVALUATE RELENTLESSLY

Because SPLICE is a company dedicated to improving customer experiences, it's incumbent on Kelly and company to eat their own dog food. It's implemented NPS (Net Promoter Score) among all of its customers, and it's taking the program to the nth degree. "We don't just do it with the executive that signs the bills," says Kelly. "We do it with every operations employee who experiences our brand. We'll take NPS as far as they'll let us." Surveys aren't enough for SPLICE, however. The company regularly sends associates to customer sites to observe the software in action. "Even the simplest tools—software or otherwise — can be made that much better and create that much better an experience when its builder puts herself in the user's shoes," says Kelly. To that end, SPLICE reps spend their time on-site with customers physically observing users in the SPLICE portal. They observe the way users log on, access reports, and navigate the site. Time spent doing so has proven priceless.

> “We've said no to some prospects that many of our competitors might consider really good, juicy customers.”

"We were knee-deep in an on-site customer observation, and we noticed how hard users were working to pull reports for their executive team," recalls Kelly. "The users were trying to compare a few different sets of data, a comparison exercise that we didn't know was important to the client." Despite this cumbersome reporting process, Kelly says every interaction with the client—from the C-suite to the daily users — always yielded a pleasant exchange. "After the observation, we said, 'Hey, it would be so easy for us to give you some toggles and switches that would make that data comparison much more efficient. How about we do that for you?' We never would have known there was room for improvement had we not watched them use the application in their own setting."

Kelly's high-touch, hands-on approach to the evaluation of her application's performance has earned her more than an earful from venture capitalists, SaaS analysts, and other talking heads in the space. On-site visits and in-context tinkering is the antithesis of automation. *SaaS should just run*, they say. Kelly says nonsense. She believes that human-assisted AI is critical to the success — and the future — of SPLICE. "I think this is worth it. I think this is a great investment. I think it's worth it to put that employee there for a whole day, with no agenda beyond just watching what the heck is going on."

This anecdote is representative of Kelly's philosophy on software development and sales — a philosophy that's earned SPLICE a 92 percent customer retention rate. It's user-centric through and through. It's about value exchanged. It's about living in the application and making the application a seamless extension of the user's day. It's about that feeling she got when she built her first program at nine years old and witnessed the elegance of code in practice. Only now, she's making money at it. We're glad her dad wasn't a mechanic — and so are SPLICE customers.

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*U.S. Department of Commerce, 'Top 10 International Markets: 2015 Visitation and Spending'

# 3 WAYS TO KEEP YOUR CUSTOMER SUPPORT TEAM (AND CUSTOMERS) HAPPY

By A. Sorensen

**NEAL COOK**
Director of Support
Front Rush

# 3 WAYS TO KEEP YOUR CUSTOMER SUPPORT TEAM (AND CUSTOMERS) HAPPY

**ABBY SORENSEN** Executive Editor @AbbySorensen_

When Neal Cook's unpaid summer internship ended at Front Rush, he kept showing up to work. Brad Downs and Sean Devlin, the company's cofounders, decided to extend the internship for class credit during his fall semester. Then, when Cook's semester ended, he still kept showing up to work, still not on the payroll. Finally, after a month of working for free, Downs and Devlin started questioning if he had anything better to do with his time. He didn't, so the cofounders finally relented and gave him the open position on the support team.

Today, Cook claims to know upward of 300 customers by their first names. He's grown from a tenacious intern to the director of support at Front Rush, a college athletics software suite that offers recruiting, compliance, admissions, and administrative solutions. Founded in 2006, Front Rush is currently used by 9,500+ college teams across 950 colleges and universities. When he talks about the support team, it's with the kind of excitement you might expect from an engineer who has just fixed an important bug or from an account rep who just closed a major sale. Why does an intern-turned-support-specialist get so excited about a less than glamorous role at a software company? Cook firmly believes Front Rush's support team is viewed as the most important aspect at the company. Front Rush keeps its support team, and therefore its customers, happy by preaching and practicing transparency, relying and acting on Net Promoter Score (NPS) data, and proactively finding ways to get customers to contact them more frequently.

## PRACTICE THE TRANSPARENCY YOU PREACH

Click on just about any company's web page listing corporate values, and there's a good chance "transparency" or "honesty" makes the list. At Front Rush, this isn't just a customer-facing belief. Cook says, "One of the ways we ensure the quality of our responses stays high is to make sure our team is sending good emails. I'll go through emails and tickets randomly to make sure the level of expectation and transparency is clear across everyone on the support team." There's a fine line between micromanaging and empowering a support team, but Front Rush employees expect these unannounced checkups and have even embraced the concept, often joking with Cook that he is the office creep. Cook doesn't view this practice as overbearing, rather as a way to give the management team more insights into their customers. "As you continue to grow the support team, you are one step further away from the actual customer. So you want to stay as close as possible and make sure your team is better than you are at handling support."

Cook also admits the support team isn't afraid to let customers know when something isn't working. "It might not be the best thing, but it's the right thing. Instead of waiting for people to contact us, we reach out to them. Maybe only 5 percent of customers are reporting an issue, but many of the other 95 percent are experiencing it, too, and just haven't bothered to contact support. We'll preemptively push out an email to make coaches aware of the issue."

## CREATE A WIN-WIN INTERN PROGRAM

A big part of the reason Neal Cook, now director of support at Front Rush, kept showing up to work unannounced (and for free) after his internship ended had to do with the way Front Rush structures its internship program. The company has worked with about 30 interns since being founded in 2006, and it treats interns the same way it would treat any full-time employee. In most cases, interns are assigned to manage a specific project or to help a specific team. There isn't a single person managing all interns because interns are fully integrated with whichever team they are assigned to.

Caedmon Patalano, VP of operations, says, "Companies shouldn't underestimate the work it takes on both the part of the intern and the part of the company to make these internships successful. It doesn't make sense to hire interns if you're not going to dedicate the time and resources to making them successful." The company has hired about 20 percent of its full-time employees from its pool of interns, but that isn't the sole purpose of the program. Interns who move on to other companies after college are not viewed as a time and resources drain; rather it's a point of pride for the company to develop young talent.

Front Rush is at an advantage because its headquarters is near Philadelphia, so it has a plethora of two- and four-year colleges to provide an internship pipeline. The company has had success building close relationships with a select few schools like Temple, Drexel, and a community college in New Jersey. These schools have come to know what Front Rush expects and can help screen interns to determine who will be successful there. The company looks for interns with a strong personality and a good sense of humor to fit its culture. Having a sports management major is a plus, but Front Rush has hired interns with diverse personal and educational backgrounds. Despite its successful internship model, there isn't a standing internship offering year-round. Cook says, "There have been semesters where we don't have projects we need help with, so we won't hire an intern just to have an intern around. We make sure there is a list of things they can actively get involved in."

Keeping with the theme of transparency, I admit I'm biased when it comes to Front Rush's software. As a part-time assistant golf coach at a DIII school in Pennsylvania, many of my evenings are spent working in its application. In any given recruiting year, our coaching staff will have a few hundred names in our Front Rush database, and we use it just like most B2B companies rely on a CRM system. If my Front Rush account was shut off tomorrow, I would be completely helpless on the recruiting trail. So, when Front Rush announced a major overhaul to its player profile pages and reverted to the previous version twice in an 18-month period, I couldn't help but wonder how its support team was navigating choppy waters. And truthfully, had it not been for a series of emails pointing out the issues, I likely wouldn't have noticed the hiccups in the first place.

Here's an excerpt from a statement made by the company's cofounders when they rolled back the new version release: "One of our core values at Front Rush is full transparency — we believe it is critical to our success building great products, building a great team, and most importantly, building trust with our customers. We do a lot of things right at Front Rush, and we have done our fair share of things wrong. We sometimes break things. Hard as we try not to, it does happen."

Front Rush didn't lose any customers as a result of a few emails explaining where it had gone wrong. In fact, Cook and his support team had customers responding with encouragement. The profile update glitch was a valuable learning experience, and now the support and operations team knows to cast a wider net the next time they select a subset of users for beta testing. The company is on track to have the improved version in beta in the next few months, with the goal of a full (and final) production rollout by the end of 2017.

## USING NPS AS A SPRINGBOARD FOR IMPROVED SUPPORT

Caedmon Patalano, VP of operations at Front Rush, understands an NPS survey is only as valuable as you make it. That's why the entire Front Rush team — from sales to support to engineering to accounting — reviewed every single piece of feedback from customers who responded in March 2017 (its most recent NPS survey since the initial effort in 2015). When she says the team looked at all feedback, she doesn't just mean the summary generated by one of their data analysts. She means all Front Rush employees read all the raw data and comments from customers. If a customer took the time to type out a comment, the entire staff was required to read it. The company takes this all-hands approach to customer feedback beyond the NPS survey results, too. Patalano says the entire company is active in Slack threads where people post both positive and negative customer feedback.

Getting company buy-in to review NPS results is only half the battle. The support team then reached out to all detractors regardless of whether or not they left comments. In the end, any customer who left actionable feedback, even if it was positive, received a personal follow-up. Patalano explains other software companies shouldn't automatically brace for negative feedback or expect to pivot based on NPS results. In some cases, Front Rush heard feedback on features and improvements that were already on its road map. It was simple to move these initiatives higher on the priority list and communicate that to already happy customers.

Another key takeaway from the NPS survey was to reach the less engaged customers. Most companies, regardless of industry, only hear from their happiest or their most miserable customers. There are many more customers who fall somewhere in the middle and who rarely take the time to point out inefficiencies or voice minor frustrations. For example, Cook said the support team wasn't getting a high volume of tickets related to the mobile version, but the NPS feedback revealed several areas it could improve. The mobile speed and functionality improvements were easy fixes, and the support team likely wouldn't have communicated these changes to the product team. Cook says, "Any SaaS company wants to have a great product and customers who say that they are happy with the support. In order to have this, the support team has to be able to not just answer the tickets, but also provide feedback to the product team."

Front Rush was thrilled with the insights gleaned from its initial NPS survey, but it isn't stopping there. Moving forward, its goal is to conduct a survey twice per year to be able to better measure improvement.

## BAKE COOKIES & ENCOURAGE MORE PHONE CALLS (YES, REALLY)

Front Rush doesn't want to wait for its next NPS survey to hear from customers. Cook says, "A lot of companies look to reduce calls to support. Yes, we look to reduce unnecessary contacts by making the product easier to use. But on the other hand, we're not trying to eliminate all tickets because our tickets are our communications. That's what makes coaches go from one school to the next and bring Front Rush with them. We want people to reach out to us." The kind of customer engagement efforts Cook oversees might be more commonplace for B2C companies, but Front Rush knows how important relationship building is. Turnover in the college coaching world can seem just as high as in the software world, and Front Rush wants its software to be sticky.

Increasing that stickiness at Front Rush comes from increased contacts with customers, regardless of how that might impact ticket or call volume KPIs. The support team brainstorms ways to get customers to reach out to them. For example, they ran a holiday promotion where a support team member shipped homemade cookies to customers who provided feedback. Cook has also devised a word-of-the-day trivia game. Customers are given a heads-up and asked to call support, and once they phone in they are asked to define the word of the day (yes, they will even give the coach the word in a sentence). Customers are then entered to win a custom-built email template. Even if the trivia game's main purpose is to be a relationship-building tool, it also promotes one of Front Rush's additional revenue streams (custom-branded templates range from $55 to $200 per team). Another support team member is responsible for creating a quarterly newsletter. Another runs training sessions on the side to help colleagues learn basic programming and database query best practices.

The support team at Front Rush is empowered to do much more than close out tickets. The benchmark is be personal, and be professional. There are no call or email scripts. Cook says, "We don't want robots working in the company. There are customers who call us just to talk. They don't even have questions." The support staff doesn't spend all day having casual conversations with customers; they are efficient in answering 80 percent of emails within an hour. They rotate who covers incoming tickets in the evenings during the week, and they also have someone checking in on a less frequent basis during the weekends. The average customer response time after hours and on weekends is under 4 hours. Cook explains it gives people additional insights into customer needs and makes it easy for the support team to take time off.

It's a good thing Front Rush believes in staffing support on nights and weekends, because that's how it discovered an untapped revenue stream. Cofounder Sean Devlin believed in the importance of customer support and volunteered to handle incoming tickets during off hours during the early days of the company. This not only gave Devlin a better understanding of customer pain points, it ultimately led to the development of Front Rush Pass (a product for college admissions offices) and Coach Packet (an add-on for coaches to track recruits and automate data capture at camps and large-scale recruiting events). Today, roughly 20 percent of Front Rush's employees are dedicated to supporting these products, and according to Cook, the support team continues to have a loud voice in the development of new products and features.

The culture on the Front Rush support team mirrors the way Cook describes customer support interactions. The fun, transparent, relaxed environment he touts is befitting of a young, fast-growing SaaS company. All new hires spend their first two weeks with the support team, further emphasizing Cook's belief that support is the most important department in the company. At Front Rush, customer support is more than an operational necessity — support is the foundation for the company's success. S

# Lessons From A Serial Entrepreneur Turned Software Executive

ABBY SORENSEN Executive Editor @AbbySorensen_

# HOW TO KEEP IT SIMPLE FOR INVESTORS, DEVELOPERS, SALES, AND CUSTOMERS

Serial entrepreneur Joe Meyer draws his leadership and management style from two very different inspirations. He can't help but provide ample military analogies when describing how he launched six companies throughout his career. As a retired U.S. Army major, it's clear why he values trust and discipline. On the other hand, Meyer has his mother to thank for some of his business acumen. Thelma Meyer is the mother of nine and the namesake of the Mrs. Meyer's Clean Day household cleaning product line sold throughout North America.

Meyer says of his growing up with his mother, "We always joked that she'd make a great corporate leader because she never waited 12 months for a performance report. If you did something wrong, you knew about it right then and there. That tells you something about what you need to do with your employees; if it's wrong, you have to fix it."

Just as his mother is quick to give feedback, Meyer has never wasted time between successful exits and starting his next venture. After spending five years as the president of telecommunications giant BellSouth Products (now AT&T after an $86 billion merger in 2006), Meyer founded Skylight Financial in 1997. When Skylight, a pioneer in the prepaid debit card industry, sold for $121 million in 2005, Meyer got back in the game by founding FirstView LLC in 2006, another prepaid debit card and payment processing company. FirstView was acquired in 2011, and by that time, Meyer was focused on his next startup, InterPoynt, a cloud-based billing, invoicing, and processing platform he founded in 2009. InterPoynt sold in 2013, and Meyer's next move was to launch CentralBOS, the Atlanta-based cloud ERP software company he founded in 2014 that is occupying his full attention today. For good measure, he also founded MeyerCap in 1997, which provides venture and growth capital to fintech, business services, and consumer product companies, including some of his own businesses.

Before jumping ahead to CentralBOS, it's important to understand Meyer's firm belief in a leadership style that focuses on simplicity. To him, running an ERP software company has a lot in common with a telecom company or a financial services company. "The key is you have to think about the logic of delivering a service. At the end of the day, you're talking about networks, databases, and the applications that make them work together. Once you understand those three components, the rest is just what you do to put them together." To him, "the rest" is simply where software comes in. His time at BellSouth helped him understand networks, and being in fintech helped him hone his expertise in data. Despite not having an engineering background, Meyer knows how to make tech companies work.

Meyer recalls a poignant moment at SkyLight Financial when he knew the business model was working, but an investor backed out at the last minute. It was 2001, and many investors were easily spooked. The board told him on a Friday night that they needed a plan by Sunday night or they would file for bankruptcy. His active investors were spooked too and didn't want to keep funding SkyLight. It didn't help that Meyer had stopped actively fundraising because he was so confident this new investor was locked in, and it certainly didn't help that he had a lot of his own money tied up in the company.

He went home on that Friday and vented his frustrations to his wife, who asked him to spell out the problem as simply as he could. Meyer told her, "This just doesn't make sense to me. I can acquire a customer for $60. I generate $22-$24 per month from that customer with 85 percent gross margin. So I get my money back in three to four months, then that customer stays with me for at least 24 months. I'm quadrupling my money on my

**This just doesn't make sense to me. I can acquire a customer for $60. I generate $22-$24 per month from that customer with 85% gross margin. So I get my money back in 3 to 4 months, then that customer stays with me for at least 24 months. I'm quadrupling my money on my customer. How is that a bad deal?**

**JOE MEYER**
Founder & CEO, CentralBOS

customer. How is that a bad deal?" It wasn't a bad deal, so his wife told him to go state that exact story to one current investor. When Meyer asked the investor why he wasn't on board with that business model, the response was, "You've never explained it in that simple way before." That investor, as well as the rest of the board, scraped together enough funding to keep the company afloat. Meyer hit the fundraising trail again, borrowed money to boost his personal investment, and four years later, the company sold for $121 million.

The lesson here? Keep it simple, just like the natural ingredients in Mrs. Meyer's cleaning products. "If you can simplify what it is you're getting done, and explain how it makes money, then it's just a math equation to make an investor happy," says Meyer. His love for simplicity stems from the one sentence mission statements he heard so often throughout his 14 years of military service. He explains how everyone in a unit, from the general to the person driving the tank, understands the who, what, when, where, how, and why of the mission statement. The same is true in Meyer's business world, where everyone from the CEO to the developers to the customers knows exactly what the "why" is behind the product.

### FROM TELECOM TO FINTECH TO...ERP SOFTWARE?

The "why" behind CentralBOS stemmed from Meyer's never-ending drive for simplicity. His frustration with the time drain required to perform basic business workflow functions such as CRM, accounting/finance, inventory management, and HR/payroll at his previous companies inspired him to create CentralBOS (pronounced "central boss," the B-O-S standing for Business Operating Suite). He knew disparate data sources were a problem for most businesses, and he wasn't willing to settle for end of month reports taking 60 days to generate. Today the CentralBOS platform provides both an all-in-one ERP solution with modules for accounting/finance, inventory management, CRM/order management, and HR/payroll. CentralBOS is closing in on 60 employees and just moved to a larger office. Meyer has taken four lessons he's learned from his previous businesses and applied them to this software company: empower employees, focus on customer fit, enable a nimble development process, and keep the product simple.

## Lesson 1

One of Meyer's many favorite military quotes is from General George Patton, "Don't tell people how to do things; tell them what you want done and let them surprise you with their results and how they did it." When a CentralBOS sales rep shared his excitement about a new market strategy, Meyer pushed him to run some tests and outline customer acquisition costs. Now CentralBOS is doing a trade show in that space. When the sales and service teams were continually fielding questions beyond the technical components of the accounting and payroll modules, CentralBOS created a new revenue stream by providing outsourced HR/payroll services for existing clients. Meyer is happy to give all the credit to the CentralBOS team for these revenue generators. "I'm not a heavy handed leader. When I hire people, I expect them to push everyone on the team. I don't make command decisions and tell everybody to execute."

## Lesson 2

Early on at CentralBOS, the sales team realized they were executing on the wrong type of customer. At first, sales targeted smaller businesses, mainly those with less than 10 employees. Meyer quickly realized that size customer wasn't ready for what the CentralBOS platform provides, partly because companies that small don't have the right technical and financial skillset. His sales team also knew they were putting as much effort into the small companies as they were in selling to midsize companies, so it was easy to identify the opportunity to move upstream and land lucrative customers. Fortunately, this meant CentralBOS could adjust its sales and marketing strategy without having to retool the software itself. Since the company was already running a lean operation, this sales pivot didn't set it back drastically. Meyer believes in making a company's sales process work first before ramping up for rapid growth. "It's easy to spend money in marketing and by hiring a bunch of salespeople. But you really have to understand how you can sell repeatedly and then determine if that is scalable."

**Lesson 3** A software company can't scale or pivot its sales strategy without the support of a nimble development team. Dan Catan, VP of Sales and Marketing, credits development's ability to move swiftly as a key advantage over larger, more established competitors. "We can react quickly to the market and provide product road maps that in my previous life at Oracle and PeopleSoft might take months or years. We can crank things out in days and weeks. That's creating a difference between us and legacy ERP competitors in the market." For example, CentralBOS is trying to get ahead of competitors by adding voice activation features. Meyer knows voice technology is gaining momentum in the consumer space, and he's betting more and more customers will rely on that feature within their software to make their jobs easier. Development didn't dwell on making voice activation perfect, and engineers didn't waste resources trying to build something from scratch when they could leverage existing off-the-shelf technology. CentralBOS also worked quickly on deploying an RFID prototype. The technology was needed to make the software simpler to use for customers, so CentralBOS created a simple feature within a few weeks.

**Lesson 4** When it comes to making product changes or rolling out new features, Meyer's advice is to keep it simple so it can keep selling. At one point CentralBOS decided to delay sales while waiting to implement significant UI/UX (user interface/user experience) changes. "In hindsight, the product was working. I could have kept selling. Instead I pulled back selling the interface that wasn't so sexy or quite so easy to use. I can justify it, but we should have kept selling what we had." His approach to development is simple: Build something that works, and worry about the bells and whistles later. When Meyer was still working at Skylight Financial he recalled another development hurdle to illustrate this belief. The company had a major compliance hurdle to resolve, and needed the development team to address it quickly. "I'll never forget, it was a Friday afternoon and the developers were telling me it couldn't be done in time. I said, 'This is all it has to do,' and I broke it down in its simplest form. 'Quit trying to think about the other things it could and would and should do; it just needs to do this.'" The development team did just that, and by Monday morning, they delivered the solution. For Meyer, the key to his success as a serial entrepreneur is to help teams refocus, eliminate distractions, simplify problems, and move quickly.

### PLAYING THE LONG GAME

Meyer didn't build CentralBOS for explosive growth and a quick exit. He has funded the company up until this point, and plans to start raising growth capital before the end of 2017. "We're confident in our metrics now. We know how much it costs to acquire a customer, how we acquire that customer, how long and how much it takes to onboard that customer, and that our margins are significant enough to ensure a nice return." His background in the military and as a serial entrepreneur has taught Meyer the importance of running a lean company and staying focused on the outcome.

Running lean doesn't mean skimping on the resources needed to grow. For example, CentralBOS has invested heavily throughout the past two years in building a relationship with Gartner. The company gets regular updates from Gartner analysts, and has worked closely with them to explain how its platform is truly different. After all, Meyer points out, websites for competitor software companies all look the same on the surface. "It's like any consultant, spending the money is the easy part. What's critical is understanding what both sides want from the relationship."

> "It's easy to spend money in marketing and by hiring a bunch of salespeople. But you really have to understand how you can sell repeatedly and then determine if that is scalable."

Meyer knows the more time he spends with analysts discussing sales and marketing strategy, the more likely the CentralBOS name will be brought up in conversations with third parties and potential customers. These conversations don't focus on product development — Meyer knows that part of the equation is already working. Analyst briefings include questions about messaging channel partners, finding efficient ways to market to large enterprise customers, and developing sales strategies. CentralBOS also relies on Gartner to give them a fair understanding of how they stack up against competitors. The company doesn't expect to snap its fingers and end up in a Gartner FrontRunners quadrant overnight; rather, the ROI is more qualitative. For now, Meyer has laid the groundwork to help the company be seen as a best in class software solution.

"We're early in this journey, and in the early innings of the impact of the movement from on-premise software to cloud delivery. We have the chance to build a really great company. This has the ability to be a very large enterprise. I only worry about one inning to the next, but I'm excited about what the end of this ball game looks like."

# How To Scale For Growth

*Tips from a CEO whose company debuted on the Inc. 500 list at #139*

**STU SJOUWERMAN**

*As a software "serial entrepreneur," I'm aware that there are a multitude of factors to consider in determining how to grow your software company into a successful, thriving enterprise.*

I have three rules I use to build my business, and I drill these into my staff on a regular basis. 1. Do it right the first time. 2. Do it fast. 3. Have fun while you do it. These three rules are woven throughout the more detailed growth enablers I'll discuss here.

### IS IT THE IDEA, OR THE EXECUTION?

Conventional wisdom implies that it is the idea that counts the most and it is just a matter of detail to get the product to market to make your fortune. This is the common approach most people think of when building software products – build it and the masses will consume it.

A more practical approach is: It's not the idea, it's the execution. Bob Metcalfe, the co-inventor of Ethernet and founder of 3Com, was most proud of his business aptitude rather than his skill as an inventor, as it was his hard work as head of sales and marketing that earned him his fortune.

Engineers invited to Metcalfe's home would tell him what a great house it was and how they wanted to invent something like Ethernet. He'd tell them all about how he owed his house not to inventing Ethernet but to selling it for a decade. It had nothing to do with his initial brainstorming.

One of the reasons execution remains superior to an idea is the simple fact people will copy your idea once the market is established. Being first does not mean owning the market. Take the case of Facebook over MySpace or Google beating out Alta Vista.

If you develop a product that solves a market problem and works well, it is a good place to begin as you can build your company to scale.

### HOW DO YOU GROW YOUR BUSINESS?

If you want your business to grow fast, you need to learn how to scale. You should question every action before implementing it and determine, "Does it scale?" Everything from the cloud stack to personnel and development processes must scale. Even when writing code one needs to consider how to write it so it works but will scale, rather than try to develop for a million users off the bat.

For example, your customer service rep receives a support request. This gets taken up and sent directly to a support rep with a ticket. Five more support reps get the same issue with five different tickets. There is no centralized process in place to track common issues. These six reps are now busy handling the same issue. Does it scale? No. You need to develop a simple process for managing your workflow. You put in a ticket system that identifies or allows for common issues and may generate an automatic FAQ. Does that scale? Yes.

### HOW DO YOU DETERMINE SCALABILITY?

As you develop your business processes, you need to consider how each will affect the workforce who must deal with the data flow.

Take the case of a newly hired sales trainer. The sales trainer has all his new sales reps send an email direct to the marketing department requesting emails and promotion to support a sales objective. Magnify that by 100. Does it scale? No.

A better approach would be to send a direct request to the marketing department to create a centralized repository of promotion and email templates to support a sales objective. The sales staff would be able to get to it at any time and pull what they need for their prospect conversation. Does it scale? Yes. It allows you to do it right the first time and do it fast.

Let's take another scenario. Your development team has received a feature request from the sales department – which means if they have this feature, the sales rep will be able to close the deal.

> **"You don't experiment on a proven production line or take apart something that is already working to test your theories or ideas."**
>
> **STU SJOUWERMAN**
> CEO, KnowBe4

There are many questions to ask to determine whether the feature will scale. How much is the sale? What are the costs involved for supporting this feature into the future? Will any other customer benefit from this feature? Will you lose customers or recurring revenue if you do not have this feature? Does it solve a market problem? Will it take you away from other, more pressing or profitable development? Asking the hard questions can help you determine the practicality and decide the best route to take.

## HOW DO YOU SCALE YOUR STAFF?

The subject of personnel comes up sooner or later. The issue of how to hire can be a challenge. It should be like constantly doing yourself out of a job. At first, you are handling everything yourself, and eventually the sheer volume forces you to shed some of these duties, bit by bit.

A workable way to hire is to find the staff that can grow into the role as the business expands. And you hire people who you think can do the job better than you can. It helps remove the temptation to intervene.

Hiring a great salesperson who lacks leadership quality as your first hire will not allow you to scale. You want someone who can sell and help train others to sell while you grow. They will be a better manager in the long run. They will know what it takes to get that sale. They've done it themselves. Does this scale? Yes.

Now let's look at doing it another way. You hire a sales rep. He's good and he brings in several deals. Then you want to expand. You hire another sales rep. Now you have two to manage directly. And you keep hiring good reps. Who is going to manage them? You are. Does it scale? No. You'll be drowning in no time and unable to get to your other duties.

If you hire with the view of scaling the business and doing it right the first time, you'll be able to grow that much faster. When you get to hiring an HR department, get staff who can not only manage but can also hire. This allows your business to accommodate fast growth.

## HOW DO YOU HANDLE HYPERGROWTH?

If you've managed to get your business into growth mode, you will be forced to revamp your business processes, especially when you need to support a period of hypergrowth. There is a smart way to do it. This is when you pilot a new activity and create it as a parallel to what you already have working. You don't experiment on a proven production line or take apart something that is already working to test your theories or ideas.

Keeping it lean, you create the activity and test it out first, like a working prototype. Does it work? Can it be duplicated? Does it scale? If so, you slowly integrate into operations while continuing your other actions. And you monitor it to make sure it doesn't kill off your bread and butter.

An example would be creating a new product. If you didn't pilot it, you might have all your sales reps jump on the new product, which is unproven in sales, and drop promotion of existing products. Don't be surprised if you experience a subsequent drop in revenue.

## HOW DO YOU FIX WHAT'S BROKEN?

There comes a time when production in any given area levels out. Whether it is development, sales, or lead generation, production goes flat. This is the time when you need to inspect and revamp. You can't throw more resources at a broken process and expect it to change. It doesn't scale. You should isolate the problem first, and then add resources when they are needed.

Take the case of rising support costs. Inspection finds the development and QA process have been shortcut. Needed testing or an extended beta wasn't done, which in turn resulted in a premature product release. Left unchecked, this will negatively affect sales and profits. Fix the product. Adjust resources. Perhaps automate support tools to improve and speed up reporting. This rapid inspection and fixing the problem (do it fast) will result in an improvement. If not, you have the wrong problem.

Whatever you do, look and be objective. Fixing a broken process or team is in everyone's best interest. And keep it fun.

**STU SJOUWERMAN** (pronounced "shower-man") 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.

# Why Your Technology Stack Matters

*From attracting developer talent to impressing investors, your stack is a representation of your business.*

YONAS BESHAWRED

*Attractive recruitment benefits — a generous PTO policy, a kitchen stocked with delicious snacks — may be attractive to many potential employees, but when it comes to recruiting the top developer talent, these extras don't go very far. Today's superstar engineers want perks, but what they really need to see to get them excited about your company is a killer tech stack.*

Every business has a tech stack. Your stack is the set of tools and technologies that you use in your business. It's everything from your programming language and your database all the way up to which tools the sales department uses, like SalesForce, or the accounting department uses, like Bill.com. It's the tools you communicate with, like Slack. It's all the software products that you use. That's your stack.

### WHY TOOLS MATTER

You already know that the best tools cut down the amount of time you spend on tasks that can be automated. Choosing the right tools means choosing efficiency, but it can also mean choosing innovation. If a company is using a tool that hasn't reached mass adoption yet, it means they have a leader in place who believes using the latest and greatest is important. This is extremely attractive—to employees, to investors, to the tech media. It impacts the way your company operates and the way you are perceived. Your stack also demonstrates the extent to which you have asked and answered some hard questions: Which technologies are going to solve the problems that we have now? Do these technologies scale? Are they supported? Can we find talent that can use these technologies and is excited by them?

### BEYOND A TOOL BOX

But your tech stack isn't just a collection of tools you need to achieve your company's mission—it's a reflection of your company's personality, and outsiders can tell a lot about your company just from looking at your stack. Every tool in your stack tells a story, regardless of the reason you picked that tool. Your tech stack answers questions about corporate fit and company culture before a job candidate even steps in the door, and it answers questions about scalability and innovation before your first meeting with a potential investor. Are you taking risks with your stack or using the same old tools? Are you using tools that are held in low regard among developers? What problems are you solving with your stack? Are you combining tools in innovative ways that will lead to new industry standards? Have you open-sourced any of the technologies that you've built internally?

> **"For many developers, your stack is a way better test of corporate fit than talking to the people at the office or digging into your mission statement."**
>
> **YONAS BESHAWRED**
> Founder & CEO, StackShare

For many developers, your stack is a way better test of corporate fit than talking to the people at the office or digging into your mission statement. The technology that you choose is part of the DNA of the company. If a company is started by three engineers, and they're all from the same company and know the same tools, that impacts who they hire and where they go from there. A lot of the time, a stack can reveal where the founders came from, be it from Google, Amazon, or Facebook. The tools tell a story. Your stack shows your history, it shows your capabilities—but it also shows the gaps where your company may improve. Is your stack telling the right story about your business?

## THE STORY IN FACEBOOK'S STACK

Facebook was founded in 2004, and today it has nearly 2 billion active users uploading 300 million photos each day. The site is built on PHP, the most widely used language on the internet. But ubiquity doesn't necessarily mean popularity. Many developers hate PHP! A dynamically typed language, it can be unwieldy and difficult to manage and keep bug-free, and it requires more server space than other languages. The company has stuck with the language, resisting a full rewrite but creating some innovative workarounds. For example, Facebook created HHVM (Hip Hop Virtual Machine) to run its PHP code on fewer servers and developed a new programming language called Hack that allows its team to manage code in a streamlined way, eliminating errors. So though PHP tops out Facebook's stack, developers aren't turned off, because other pieces of the stack—HHVM and Hack—show that the company has innovated by taking a "tired" language and creating some "wired" solutions. The story is in the stack.

## PLENTYOFFISH'S LEAN—AND PROFITABLE—STACK

Potential employees aren't the only people looking at your stack—investors are, too. PlentyOfFish, the dating site, had 90 million active users but fewer than 100 employees when Match Group bought it in 2015. In fact, for many years, PlentyOfFish's owner, Markus Frind, was the company's sole employee, and at the time of sale, he held sole ownership, having neither courted nor accepted funding. His secret? His stack. Frind was able to build the site and keep it running on his own because he used a lean stack that required very little upkeep—just the language he wrote it in (ASP.NET) and Microsoft IIS. For monetization, he used Google Ads and kept it simple—and kept the profits. When he sold the company for $575 million, he allegedly pocketed $525 million.

## SOLVING PROBLEMS THROUGH STACKS

If you're trying to solve a problem and you're a developer, the first thing you're going to do is ask someone who had the same problem. Evaluating other companies' stacks allows you to quickly see how other people have solved their technology problems. For instance, Facebook's PHP problems—buggy code and slow servers—are solved by Hack and HHVM. It's there in the stack.

## STACKS AS RECRUITMENT TOOLS

Developers are very interested in evangelizing the technology they know. Many have their preferred coding languages in their Twitter bios. They have favorite tools, and working with companies that also cherish those tools is incredibly important to many of them. Your stack allows you not only to advertise your use of favorite tools, it also lets you advertise your values. Many developers are committed to open-source software, and in your stack, you can show them that you are, too. Emerging open-source software is a way to recruit talent. Microsoft has embraced open-source culture. They are not only transparent about the tech they are using, but they are also embracing the spirit of open source and spreading the technology that they have built.

## THE DEVOPS REVOLUTION

Another component that a lot of developers will be looking for in your stack is an interest in DevOps, a newly emerging process for mobile application development with an emphasis on collaboration. DevOps is the cutting edge right now, and many large companies are embracing it, not only because it's incredibly effective at helping you move quicker and ship software in a more efficient way, but because they know that in order to attract the best and the brightest developers, they can't be rooted in old ways. They need to be using the latest and greatest. Do you have DevOps in your stack? That's a big question that founders need to be asking themselves right now. And if you don't, what are you going to do about integrating DevOps?

## WHY SHARE YOUR STACK

For a lot of startups and young companies, sharing their tech stacks is natural and obvious. But some older companies can be skittish about it—the collection of tools they use seems proprietary, and there doesn't seem to be any gain in being open—only an opportunity to share their operating plans with the competition. But there has been a noticeable shift in recent years. Now, not only are companies getting comfortable sharing the tools they use, they are going even further, sharing their tech stacks openly and willingly as a badge of pride and a recruitment tool. Size up your stack and share it! You have nothing to lose, and everything—including the attention of top recruits—to gain. S

**YONAS BESHAWRED** is the founder and CEO of StackShare, a platform that helps developers and engineers piece together their tech stacks by showing them what tools big companies are using and why.

# 7 Key Questions Every Software Sales Executive Should Ask When Qualifying Leads

*How fine-tuning your qualification process will yield more sales*

**RACHEL SMITH**

*The process of qualifying or disqualifying a lead is an exercise that can prove to be fruitful for you — if you do it right. Eliminating prospects who are not serious or not able to buy means you're optimizing the amount of time you spend on those who actually want to (and are likely to) buy your product.*

This increases your success rate because, A) your efforts are focused on only those accounts you have a high probability of winning and, B) you're investing time and attention only on qualified accounts.

Over the past several years, my sales team at Retail Realm has experienced 40 percent year-over-year growth in developing our software reseller and technology partner channels, and one of the key reasons is because we have been able to provide good, qualified leads.

To get the answers we needed to qualify the lead, we found it best to always ask these seven fundamental questions.

### QUESTION #1 - DOES YOUR PRODUCT FIT?

How well does the prospect meet your ideal customer profile? This is not an exhaustive list of questions; the purpose is to gather enough information to know there's a high probability that your solution will meet their needs. Further into the sales cycle, and after you've gathered as many details as you can about how they operate and what their long-term plans are, you will be in a position to determine and articulate how your product will benefit them, what business challenges it solves, how it creates new revenue streams, helps them grow, saves them money or resources, streamlines operations, etc. At this point, gather key information about their organization up front that either qualifies or disqualifies them for your product. For instance, if your solution only works in the U.S., and they have locations internationally, this would be a deal-breaker.

### QUESTION #2 - DO THEY HAVE A BUDGET?

If your buyer has established a budget, this is an excellent indication they will be buying a product. And as a sales executive, of course, you want to know they will be spending money, right? When a business establishes a budget, they are creating a plan to spend (or save) money. So, if a new software solution is not in the budget, then it will be much more difficult for them to get approval to buy. Price qualifying is just as important. Get an estimate of how much they are planning to spend. If they have a $150K budget, and you know your solution is no less than $500K, then this could be a deal-breaker. Is their budget CAPEX (capital expenditure) or OPEX (operating expenditure)? If they have allocated an operational expense to the purchase, and you can only sell them a perpetual license, this could be a significant obstacle, as they likely won't have the capital to purchase your up-front fees.

### QUESTION #3 - WHEN ARE THEY MAKING A DECISION, AND WHAT IS THEIR PROCESS FOR MAKING A DECISION?

If your prospect has determined a decision date, there is a good chance they are serious about buying a solution and have put a plan in place for making a decision. Ask them things like: What is their process? Will they go to RFP? Is there a team of people or just one individual making the decision? What are their titles/roles? What things will affect their decision? If they haven't determined a date and have not put an internal decision plan in place, this is not a good sign.

### QUESTION #4 - WHAT IS DRIVING THE DECISION FOR A NEW PRODUCT?

Knowing which key factors are driving a purchase decision is critical. Ask your prospect why they are looking to purchase a new product. Later in the sales cycle, you will be finding out what is working and not working with their current solution, so that you can best position your product. But in the initial qualifying phase, it's important to know if they are casually looking to see what else is out there, or if there is an event that is driving the decision, such as their existing product's support is about to expire. If the answer is the latter, it's a high probability they will be purchasing a new solution.

### QUESTION #5 - WHEN ARE THEY PLANNING TO IMPLEMENT?

Question #3 asked when they would make a decision. But you also need to know when they plan to implement. Software can have long lead times in terms of installation and configuration. It's important to know because they will likely be dependent on you for resources to install and support their solution. Knowing that you have resources available to meet their planned timeline is critical. If you cannot make resources available to them, and if their implementation date is not flexible, then it's a waste to spend time on a sales cycle that has no realistic delivery.

### QUESTION #6 - WHO ARE THE DECISION MAKERS (AND, MOST IMPORTANTLY, ARE YOU WORKING WITH THEM)?

Knowing who the decision maker is and making sure that you are working with that person, or as close to that person as you are allowed, is critical – especially during the qualification process. Obtaining answers from the key decision maker qualifies your opportunity at a higher level. It's also important to know if the decision will be made by a single person or a team. If it's a group of people, learn their titles, roles, what's at stake, and decision influencers. I've been in sales situations where I was working with the key decision maker, but an influencer (like an IT manager) felt threatened by the idea of new technology and tried to affect the decision.

### QUESTION #7 - WHAT OTHER PRODUCTS ARE THEY EVALUATING?

Know which companies you're competing against. This helps you understand up front how to position your company, promote its value, how likely you are to win the business, and if the competing products are comparable to yours. Consider the price of your competitors' products. If you know their price point is vastly lower than yours, then perhaps this is not business that you should try to compete for. Also, find out the solution they currently have installed and what they like and do not like about it. And don't forget that sometimes, when all is said and done, your prospect may decide to build its own solution.

### ALL-OR-NOTHING APPROACH

These questions and, more importantly, their answers will provide you with the insight you need to make an intelligent decision on whether you should invest your time in pursuing the lead – so work to get all the above questions answered. If your prospect cannot answer any or most of these questions, you are wasting your (and the company's) time. At a fundamental level, this is time management – putting a laser focus on those endeavors which will yield the most return.

### BEST PRACTICES

Since your goal is to solicit answers, a best practice when asking these qualification questions is to avoid the interrogation approach and instead pepper your questions naturally into conversations. Not only does this make prospects feel more comfortable, but it demonstrates you're interested and that you care, which helps establish a rapport and a relationship. Let them know you are trying to assess the probability of your solution being a good fit for them, and that their time is valuable, and you don't want to waste their time evaluating a solution that ultimately will not meet their needs, be within their budget, or deliverable within the time frame they require it to be. Remember to be honest and genuine.

Approach each lead as a business opportunity for both parties. It's just as important for you to qualify a lead as it is for the prospect to be qualified by you. At the end of the day, it comes down to optimizing time and resources for both you and your prospect. Both parties will be more productive because of it.

**RACHEL SMITH** has 20+ years of experience in business development, building sales channels, forming strategic alliances, and securing product development projects in the hospitality and retail technology industries. Smith is the VP of Sales for Retail Realm, a multinational, retail-centric software development company.

# Is Free The Right Price For Your Software?

*Why a 23-year-old software company transitioned to a freemium model*

HUNG NGUYEN

*In the product business, capturing user adoption and market share is key to achieving success. If a product is well designed and solves a specific problem effectively, then it's simply a marketing and sales game. You can invest in PR, promotion, digital marketing, lead-gen programs, trade shows, and your sales force. What if you want an alternative strategy? A freemium model might be the answer.*

At LogiGear, we have studied it, implemented it, and enjoyed the results from it. I want to share with you our journey of transforming our business model into a freemium model and some lessons learned along the way.

First, let me give you an overview of our product, what it does well, and our business challenges. As the world is moving toward automation, it is natural to see software testing being automated. With the movement toward DevOps, software is developed, tested, released, and deployed rapidly and continuously. However, the key to optimizing DevOps methodology is to automate, automate, and automate. Test automation is one of the big parts of the DevOps pipeline. Our product, TestArchitect, is serving that test automation demand.

### OUR BUSINESS CHALLENGES, OBSERVATIONS, AND MOTIVATIONS

There are many major, well-funded players in this space. Examples include:

- Open-source solutions: Selenium and Appium by Sauce Labs
- Third-party solutions: Unified Functional Testing by HP, TestComplete by SmartBear, and others
- Large customers: Our customers consist of large software development operations; hence, large test automation operations. Because they have completed large test automation projects, they understand the broken test automation problems.
- Price sensitivity: Smaller software development and test automation operations also need a good solution. Typically, they are sensitive to pricing.
- Flexibility: There is a need to augment our business model to compete in a very competitive market owned by key open-source and third-party off-the-shelf players.

LogiGear wants to expand user adoption and penetrate into new market segments. We want to increase our product usage by putting our products in the hands of small teams with small or virtually no budgets for tools. Instead of being stuck with difficult-to-use, open-source tools, our easy-to-use, no-coding solution enables these companies to access a comprehensive, enterprise-level solution for a fraction of the cost. With the right business model, freemium customers, in the long run, will potentially upgrade, increasing sales.

### FREEMIUM CONSIDERATIONS

As we were searching for an additional avenue to broaden our user adoption and market share, we dug deeper into the freeconomy model. The term "freeconomics" was coined to depict a goods giveaway strategy with the hope of securing sales in the long run. This concept is not new. It is another way of developing and introducing an alternative pricing model consisting of a mix of free and full-priced products, or freemium and premium products. Designing a program targeting both with a seamless transition point is key. The essential piece to this model is a clear understanding about which customers are price-sensitive and which customers are not.

### FREEMIUM DEFINITION CHALLENGES

As we made the decision to move forward, there were some challenges to overcome.

- Finding our Goldilocks: What features should be included in the freemium model? The offering must be substantial enough to deliver the functionality and clear value to attract targeted customers without cannibalizing the premium, full-priced version.
- Keeping it simple: At first, we started looking at taking our lowest priced edition (we carried four different editions) and offering it for free. After much discussion, we ended up with a much simpler model. We now offer only two editions: One is free or freemium and the other is full priced or premium.
- Know your upgrade path: While a free version already delivers great value, you must offer more substantial value in the premium edition so it makes sense to justify/pay for the upgrade. We clearly differentiated the freemium versus premium versions. In our case, it made the most sense to limit the volume of test cases (up to 100), and the number of users (two node-locked users). In our experience, we know that even with limitations, the freemium version will be useful for many small teams with small projects.
- What is the maintenance and support model? We needed to determine how to handle support for freemium customers and define what paid support/maintenance looks like. We decided to sell maintenance support separately. Given our experience, customers enjoy and gain extra value with our coaching programs. It's been the key differentiator in our offerings. A majority of our clientele have cited our expertise in our tool, coupled with our automation coaching and professional services, as the reason for their purchase compared to going with other vendors.

### EXECUTION CONSIDERATIONS

The major work will be coordinating across functions to build out the new product editions and building the infrastructure to support the new model. Your product manager will work with engineering, sales, marketing, finance, support, IT, and operations to bring the project to life. Hold weekly meetings to sync up statuses and get the entire team to progress toward go-to-market. Trainings and demo scripts/videos will be required. A new website will need to be built, and marketing and sales collateral will need to be refreshed. Focus on educating existing customers and partners about the difference between the free and the premium product editions.

### LESSONS LEARNED

Now that we have launched TestArchitect Team, which is a freemium edition of our product, we are seeing an expansion in our customer base and growth in adoption. In the process, we have also learned a great deal:

- It starts with the why — clearly understand why you want to change. The answer will be different for each business, but defining your motivations is essential.
- You need to know which customers are price-sensitive. This is the basis of how you will design the freemium versus premium edition.
- Again, find your Goldilocks — know the value of the freemium version as well as the justification for upgrading to the paid edition. You are defining the upgrade path in the process.
- It is essential to build and deliver an easy-to-use product. Offering the product for free does not mean that you get adoption. The users must have a meaningful user experience to adopt your product.
- You also need to understand what makes the product offering viral; then you have to market it heavily to keep the momentum going.
- Freemium customers are real customers; treat them as such. The freemium product is a real product; treat it as such.
- Conversion rate expectations and optimization represent a continuous improvement program. We make an on-going effort to try different options and know our data analytics. Then it is easier and more realistic to set expectations on conversions. Similarly, the game of promoting the upgraded version will require continuous improvement. The real payoff occurs when customers upgrade.

### RECOMMENDED READING

*Free: How Today's Smartest Businesses Profit by Giving Something For Nothing* by Chris Anderson. S

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# Defining "Channel" For Software Companies

*Is an indirect sales strategy a fit?*

DAN CHANDRE



*Building a direct sales force is expensive. Driving top-of-funnel leads is expensive and challenging. The answer? Go indirect and embrace the channel. Unfortunately, it's just not that simple.*

Channel strategies are evolving. At least I like to think that channel strategies are evolving. The problem is that software has evolved, but the concept of channel sales has straddled the old software world and the new world of SaaS software. After all, channel sales were born when software was on-premises, installed server-based software that required a tremendous amount of customization and implementation complexity. Resellers earned commission by adding value around this complexity, hence the term value-added reseller (VAR). In comes multitenant, SaaS-based software designed to remove much of the cost and complexity that installed software used to represent. So how, then, do we embrace the long-held efficiencies touted by the reseller channel and work within the world of efficient, low-cost SaaS offerings?

The most basic answer is that we evolve from traditional reseller thinking to the current world of channel sales. First, let's clarify the difference between a reseller program and a channel strategy. A channel strategy implies that you embrace the reality that an external organization can drive interest, and ultimately sales, in your software. In reality, "channel" can have many manifestations, from referral agreements, marketplace representation, and reseller programs to software partnerships. Reseller programs are simply an optional component of a larger channel strategy. Let's focus one level up on the overall concept of channel strategy.

Now, there are many interpretations of how you bring a channel strategy to fruition. I would like to focus on channel strategies that are deeper than referral agreements. If you choose to share customer lists with another software offering in a similar space, that's a traditional referral agreement and one that may be successful for you. That being said, I believe that the strength in channel sales exists when the model consists of more deeply integrated organizations. In the current world of SaaS software, I feel that there are three primary variations of channel strategy. Depending on your software, you may embrace one or all three:

### VALUE-ADDED RESELLERS (VARs)

It is not my intent to diminish the need for VARs in the software sales/delivery landscape – that just wouldn't be accurate. Any time a software exists (SaaS or installed) that requires an understanding of the complexity of the offering for the end user to realize the value, VARs will have a place in the market. Two things to consider:

- Is your software configurable and, at least, moderately complex? If so, creating a network of resellers that can add value through implementation and configuration services may be a fit. A core tenet of VARs is that they offer something that buying the software direct from the provider doesn't. The merchant may want what that software ultimately does, but they need someone else to help make it make sense. That's the VALUE in VAR.
- Do you have enough revenue to share? A VAR is basing its business on the ability to resell your

software (and like solutions) for enough revenue share that it can add value. Therefore, if your total SaaS fee to the end user is $50 per month, chances are that a VAR isn't going to be able to add value and recover enough revenue for it to make sense to sell. Conversely, if your offering starts at $499 a month because of its complexity, there's probably enough SaaS fee to go around.

### MARKETPLACE

Markets react, and the SaaS software market reaction to high-priced software and VARs is the evolution of software marketplaces. The base concept is that one primary service provider has the mindshare of the end user and, therefore, can offer, through a consumable software platform, many complementary offerings to its core offering. This has been one of greatest areas of growth in the SMB software space. Primary offerings (think website builders, accounting software, POS providers) offer a suite of ancillary products through a self-serve, single sign-on (SSO) environment. While logical, again, there a few things to consider:

- Who is the marketplace owner, and what is the role they play with the merchant? If I'm a merchant, why would I look to that solution provider as an authority of other solutions I need to run or grow my business? As a point of comparison, the Apple App Store works because consumers trust Apple as the source for what apps work best on their OS. Why would merchants trust XYZ solutions provider to complete the suite of solutions they use to run and grow their business?
- Do merchants provision business management solutions? I believe that this space is yet to be fully defined, but it remains as an open question. In evaluating your strategy, you have to weigh your belief in the fact that merchants self-provision. If you believe they do, or will based on your adjacency to the core offering, marketplaces can be a low-cost, high-value delivery of your solution.

### COMPLEMENTARY SOFTWARE OFFERING

The greatest development in the current SaaS landscape is the ability for distinct software offerings to partner together to offer a combined solution that is greater than the individual parts. The single most important part of this option is that the two software solutions complement each other in such a way that 1+1 does not equal 2, but 3. In other words, the sum of the two solutions must create a unique value proposition that neither solution can offer independently. Most commonly, this is achieved through the sharing of necessary data that powers the complementary solution. As above, a few things to consider:

- Do your solutions truly complement each other, and is that value easily apparent to the merchant? I can't stress the importance of this point enough — if you are simply looking for one software to sell another software, you more closely resemble the marketplace model. There's nothing wrong with that, but understand what you're working with. For example, if a web-hosting company agrees to sell an accounting software to a common merchant, that's fine — but what's the true value of the combined solution? In this case, very little except perhaps a discount or single point of access. The true value to the merchant is if data powers greater solutions. Think POS software powering accounting software — like data that creates a better end state.
- Are your merchant bases, or future addressable markets, common? If not, you may be reaching. If so, you may be on to a successful strategy. Understand your place among your merchants — are you vertically specific and, therefore, need to be aligned with vertical solutions, or are you more vertically agnostic and can apply to a market at large?
- The revenue opportunity for both companies in this scenario tends to be a mutual revenue share, which works well when the offering is similarly priced. It's important to consider the total value that your solution offers to the merchant and ensure that your revenue percentage of that offering is in line with the value that you provide.

The key to a successful channel strategy is determining which of the above fits your offering. If you are an enterprise-like platform that requires significant configuration and onboarding, a self-serve marketplace is probably not the right fit. You'd most likely be better served with a VAR network. Conversely, if you have an inexpensive SaaS solution aimed at the middle of the market, marketplace and complementary software offerings will give you a better chance at go-to-market success.

There are many components to executing a successful channel strategy, but the first step is determining the right model for your software offering. When chosen and executed effectively, the above methods can deliver a successful return on your channel investment. S

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# Lattice, Inc.

**BRIAN SCHWARZ**
President
Lattice, Inc.

Wheaton, IL

Lattice provides patient safety software solutions that ensure quality and improve productivity for specimen collection, transfusion administration, infant feeding, medication administration, and anatomical pathology tracking. These applications streamline patient care, bringing error reduction, speed, and efficiency to caregiving in both inpatient and outpatient settings.

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

Top-notch customer service matters even more than it did a few years ago. When smaller companies are competing with much large entities, functionality and lower cost may get you in the door, but great customer service (without additional charges) is what drives retention.

### WHAT IS THE BIGGEST THREAT AND OPPORTUNITY YOUR BUSINESS FACES?

Vendor consolidation in healthcare is the biggest threat. While there are still a significant number of hospitals and health networks that purchase best-of-breed solutions, vendor consolidation can mean that smaller vendors get locked out in exchange for solutions that don't satisfy the end user's functional needs. The biggest opportunity is that there are still a significant number of niche opportunities in healthcare that are too small to be on the radar for the large vendors, but represent a considerable revenue stream for smaller companies.

### WHAT IS THE TOP METRIC YOU USE TO MEASURE SUCCESS?

License revenue has the highest margin, and everything else (professional services and support) is largely driven by that number. License revenue drives our internal metrics, including hiring and growth, and it also drives the hardware and service revenue for partner VARs and MSPs.

### WHAT VERTICAL OR NICHE MARKET PRESENTS THE MOST LUCRATIVE OPPORTUNITY IN THE NEXT FIVE YEARS?

Outpatient/ambulatory healthcare. Most of the healthcare IT dollars in the past 10 years have focused on inpatient healthcare (within the hospital). We know that one of the drivers for reduced healthcare expenditures is to get people out of the hospital and out of emergency rooms. The challenge from a business perspective is selling into that environment – it's a lot harder to knock on doors in the outpatient space than for inpatient healthcare due to the sheer volume. This is a great opportunity for resellers as well, since smaller facilities don't have the in-house IT departments that inpatient hospitals do.

### IN WHAT WAYS WILL MILLENNIALS IMPACT THE WORKFORCE?

I have a millennial daughter who is just getting into nursing. Her career is going to evolve in a world where there are always electronic medical records and population health, and computers always double-check before you give a medication or transfusion to a patient. She's grown up with tablets and smartphones, and her generation isn't going to focus on how to use the technology, but on how the technology can be used to help patients. Public healthcare policy uncertainty and baby boomers just starting to really utilize the healthcare system are going to drive healthcare (the technology channel included) much more than the impact of the millennial generation.

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

Ideally, I'd be a dive instructor and scuba dive in the Caribbean every day! Realistically, I'd still be in the healthcare vertical, likely in a technical role. It's an industry that I care deeply about because it can make a real difference in people's lives.

### WHAT IS YOUR HIRING PHILOSOPHY?

Team fit is more important than any particular skill or specific experience. I want well-trained technical generalists, but it's critical that new hires don't break the existing corporate ethos.

### WHAT IS THE BEST BUSINESS BOOK ON YOUR SHELF?

The best guidance I've received in the past year hasn't been from a book but from podcasts – "How I Built This" and "Corner Office" are outstanding ways of learning from others. S

# Goldfish, Customers, & Attention Span

JESSICA DEWELL

JESSICA DEWELL is a nationally recognized business development tactician with over 20 years of experience. She is the founder of Red Direction and Infusion Principle, specializing in client retention, improving customer experience, product development, market reach, talent management, organizational procedures, and building teams. She also serves as the president of the Association of Software Professionals.

Proven product development revolves around three concepts in this order: make it work, make it right, make it fast — and then repeat. The lesson here is how we take product development and mesh it with the ever-rising bar of customer expectations. The process is (almost) the same.

## MAKE IT WORK & MAKE IT RIGHT

Our customers expect something they download to work according to their perspective. All the messages we've heard about first impressions we give when we meet someone apply to software today.

Goldfish officially have longer attention spans than humans. Or do they? There has never been a study of how long a goldfish's attention span is, contrary to popular belief (search for "Marketing has its own fake news problem" by Jason Miller).

What we do know is that our attention span is decreasing, and we have less time to make a connection with people than ever before.

When it comes to customers, they will not give a product a second look. Potential customers will just look for something else altogether. We have one chance to make people open our app or come back to our site. Just take a peek in your password software; how many of those sites do you actually use? We are not immune to this reality.

## MAKE IT FAST

This doesn't mean fix and add and update fast. It means make the output of the product fast. Fast as in load and response times. Fast as in intuitive to use.

Many of the companies I work with provide horrid customer service. Not because they don't care about customers or because they are mean, but because they expect their customers to know the product like they do. Ask if your company can:

- Reduce the complexity of getting to the end goal (Can the steps be reduced?)
- Increase ease of use (How obvious is the path?)
- Change the type of customer support (Is it time to retire those FAQs and How To videos that talk about features? Instead, reflect real-life customer use cases.)

These are not quick things to figure out. These are purposeful quests filled with thought about the actual problems. The goal is getting to the root of what the product does and meshing it with what customers will actually do so well that customers want to come back to your product over and over.

## CHALLENGE THE GOLDFISH

The thing is, there is something to the concept of a goldfish's attention span, even if it's just something we heard and believed. It is unrealistic to expect our customers to try harder than we do to use the product, or even know the product as well as we do. The action we can take is to ask questions to find ways to improve within our organization so we can improve for our customers and our stakeholders. Here are the four questions:

### 1. What are our assumptions?

In conversations, we hear things like, "We've tried that and it didn't work", or "That won't get us what we need." Assumptions also show up in what we don't hear because something is blatantly ignored.

### 2. What do our assumptions mean to our business?

Our organizational culture's assumptions directly affect profitability and sustainability of the company.

### 3. What do we need to decide so that we can create an impact?

Identify the problem — what's below the symptoms, the immediate pain we are experiencing in the business. Those problems can be considered in regard to available time and resources as well as priority (the potential impact).

### 4. How will we lead the change?

Rarely do single actions make a lasting change. It's through repetition and consistency that we tackle something that requires change for lasting results.

Surpassing the goldfish's attention span is a business advantage, because while it's easy to do, it requires a lot of effort. Truly think about how to best serve our customers the way they use our products within the attention span we get. S


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