WHITEPAPER

# How to successfully navigate the 7 stages of growth

## Our definitive guide to understanding and mastering the challenges of business growth in the software industry.



HARMONY PSA

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# Introduction

Growth is what all companies strive for. However, the flip side of growth is that it brings challenges and complexity. Managing this process and ensuring the cost of complexity doesn't erode profits or lead to revenue leakage is key to achieving the maximum from your organization. Software businesses are historically bad at implementing internal control solutions to help them manage growth. Often making do with home-built partial solutions rather than spending money on someone else's software.

In this white paper we look at some of the systems challenges companies face across seven logical growth stages in the life cycle of an organization – from incorporation to emergence as a successful global enterprise. The paper is aimed at CEOs of growing software businesses, irrespective of where their organizations are along their own particular journey.

# The 7 stages of growing pains

As the software industry has matured, patterns have emerged to indicate the growing pains that successful businesses in the sector have to face up to across their lifecycle. These growing pains can be grouped into seven broad stages, with each one characterized by specific cost, data and complexity challenges. Not all technology businesses will experience every stage, but we're confident that they will all be able to place themselves in one of these stages and will recognize some – if not all – of the pain points outlined.




As successful businesses progress through these seven stages and adapt to their changing environments, they need to maintain the right level of internal control to balance clarity of data with flexibility. Although you don't need to have an enterprise-level control framework in place right from the start, many companies leave it very late in implementing end-to-end processes and as a result do not optimise their revenue opportunities.

This paper sets out to provide a blueprint for companies to work to as they grow. Each section starts with a brief outline of the business environment before looking at the various control systems they should have in place to ensure they are on track to effectively manage the demands of that stage of their growth – and prepare themselves for the next.

# Stage 1 - Start-up

## Business environment

Experiencing the optimism of a new idea and developing software that doesn't yet have any users is a wonderful time in any company's lifecycle. Although it's highly likely you have to watch your finances, life is fundamentally simple and the future looks bright.

## Control system requirements

The system support for this stage is almost non-existent. It's helpful to have an accounting system but if you can't hold everything else in your head, spreadsheets will do. Invoices need to look professional, but this is easily accomplished with Word documents. The problem is going to come as the client base expands and the level of complexity of support contracts begins to grow – this inevitably leads things getting missed.

The other key decision you'll be faced with in this phase is deciding at what point you need to implement a timesheet system. Many companies either write their own simple one or once again use spreadsheets. As the business grows, it can be hard to spot the point at which this ad-hoc model starts to inhibit growth, leak revenue, cost too much, or do all three at once. As a general rule of thumb, once the company has 10-15 staff, it is probably time to buy some software.



# Stage 2 - Growth

## Business environment

The good news is that after all the years of sweat and investment, your product is finally seeing some sales traction in the Growth phase. Customers are signing up and going live. The money is flowing back in at last and the operating model is shifting your focus to multi-customer support and regular billing.

The bad news is that this shift in emphasis delivers contract management requirements and complexity. The first few requirements are easy – you can remember them in your head – but once you get into double figures, this gets more complex and things can easily get forgotten or overlooked. You can't afford to hire a finance department yet, so you do it yourself, adding more administrative burden to an already busy schedule.

Each new account, in particular in the early days, probably contains special conditions and concessions. Partly, as a result of an "anything to get them on board" mentality. As your product gains maturity and wider traction, this needs to be stamped out or you'll find yourself drowning in bespoke contract drafting and one-off billing models. In truth, you may actually realize this yourself, but the habits are often hard to break.

## Control system requirements

For most companies, this is the stage at which you need to make the decision to implement control solutions. The obvious systems to consider are a CRM (normally when you hire your first sales person); timesheet management (once the project load makes consolidated time billing too slow); incident management (to track client requests and problems); and proper deferred revenue accounting. These solutions add valuable control processes to the company, but still mean that management reporting is done manually. Running the business and making sales will always take precedence, and many businesses will find themselves walking into trouble because accessible business-wide reporting is not easy. Let alone automatic.

The other potential drawback in this stovepipe[1] approach is that it requires re-keying data across functions (for instance timesheets to invoices) and lacks a master data[2] model. It may seem that this is not a high priority when there are only a handful of customers. However, try running things once the customer list is more than 100 and you will definitely find yourself missing revenue opportunities.

# Stage 3 - Breakout

## Business environment

Here, you've reached the stage in the maturity of your business where you have a solid customer base. Your revenue is now less volatile as an increasing percentage is based on support-revenue arrangements. Following current trends in the industry, you are looking at, or already offering, hosted cloud-based solutions – with no upfront licence fees but more long-term revenue stability. Things should be getting easier.

Some of your customers may have been on board for years, you've extended their agreements many times and no doubt added multiple configurations and customizations during that time. If you're honest, the contracts are a bit of a mess. Staff turnover in your small finance team means that historic institutional knowledge is a bit thin on the ground. You've got paper files of course, somewhere, but how much should you bill this time, and can that customer really cancel support on that feature with no notice? You want this sorted out, you want to know how much money is coming in each month for cash flow forecasting and you want to make sure that you can defend the invoicing when the customer challenges it, as as well as looking at where you can increase support charges. The only way is to pull out the original contract and check – all 200 of them and then build a spreadsheet!

## Control system requirements

This is the point at which a lack of infrastructure investment really starts to hurt efficiency, growth and revenue maximization. Just at the point you are experiencing success, previous short-term thinking inhibits business performance. If you've implemented the traditional stovepipe solutions, you will see overhead costs rise as the problem of reproducing data between systems increases.

The other key need at this "Breakout" stage is control of the sales order process. Pricelists and quotes on spreadsheets, as well as orders on Word documents, mean that the growing sales team becomes harder and harder to control. Discovering just what has been promised to customers is an increasing problem, particularly with professional services elements of complex orders. With B2C organizations, this problem is well understood and e-Commerce websites are an early control solution. However, with B2B software that is not commoditized, it is common to see this key process neglected (or run on email) leading to poor financial performance, unnecessary delays in the sales process and/or unhappy customers.

The other problem is the lack of an online history of customer quotes and other interactions. Finding out what was offered in the past by a salesman who has left the business can range from very time consuming to plain impossible. In this stage, you need to implement controls around quote creation and internal approval or you'll soon become swamped.

# Stage 4 - Investors

## Business environment

You're running a successful software business. Customers are happy – well mostly. The products are selling well and professional services revenues are up. Recent growth means that it is time to apply some systems thinking to running your business and deliver clean management information systems. But to make this happen, you need some external investment.

The new investors will be particularly keen on clear management reporting and a good understanding of income trends and performance against budgets. They want to see more organisational maturity applied and more discipline in time-recording, contracts and invoicing. As well as a clearer sales pipeline view and more growth but with fewer fixed costs.

Well, you have implemented a timesheet system and even got a CRM system in use. All right, it's not terribly good, but at least you can get some reports from it, once you've chased the sales team to update everything. The problem is the orders that come in don't match what the CRM system says. Some are hard to interpret and a lot seem to have too few implementation days. Luckily, the effort put into quote approval, even though manual, is starting to get the situation under control.

You have a price book that you want to charge, but really, no one pays it that much attention. They just make the sale and move on. Also, too many of these orders are coming in with unacceptable contract amendments or payment terms already agreed. The CRM system can't raise orders; they're firmly in the realm of spreadsheets and Word documents. Plus, although time is now being recorded in a more disciplined manner, it doesn't seem to have helped invoicing much. That's still stuck with spreadsheet hacking by senior management and misunderstandings in finance. The complexity has not been conquered; it just seems to have moved elsewhere.

And you still can't get a clean overview of your top customers without Finance doing specific one-off analysis. The required cost reduction to attract investment is proving hard to deliver.

## Control system requirements

This is the point when clear management information really pays off, both as a means to help attract the right investors and also as a way to keep them informed and happy. Any investment made earlier on in control standardization and solutions will enable you to manage the conflicting pressures of investor management and business operations.

And your investors will expect all processes not only to be controlled, but for you to be able to provide clear evidence of that control and delegated responsibilities. Meaningful management information relies on a solid foundation of operational process, something that small businesses are not usually good at. Addressing the information needs of investors without these processes in place will inevitably be a manual, time-consuming and error-prone exercise. Not being able to deliver the right information easily and accurately will be an barrier to further investment. Even if this is not the case, the focus of senior management will shift away from sales and innovation and instead towards reporting. Just when you should be driving growth, you may end up mired in sorting out poorly aligned data.

# Stage 5 - Overseas

## Business environment

Now the product is selling so well in your home market that the increased business growth investors are demanding will only come from opening up overseas markets. You wonder whether to do this with a new office or through resellers, but recognize that both models are fraught with difficulty.

The reseller route has immediate attractions, bringing rapid entry, local market knowledge, support in the time zone, an existing sales force and low cost of entry. But will they really understand your product and how does that priority stack up against selling their own software or other products they represent? Also, how good will their local support be for a product they don't own and don't have such in-depth knowledge of? Reputations are hard to win and easy to lose and yours is now dependent on a company you don't know much about, in a region where you also lack market knowledge. In the global blogosphere, bad reviews will rapidly impact your home market and hinder sales.

So, you decide to open an overseas office, but once again the problems crowd in. The spool-up time and costs are considerable, but worse is the lack of visibility. Just what are they doing and what pricing are they offering the customers? If you lose orders, is it function or price that is killing sales? Jurisdictional pricing and localization are new problems you need to come to terms with. But the overriding worry is whether you hired the right person to make it happen. Demanding more and better management information distracts your new team from selling, but how can you be sure the numbers are right until it's too late?

## Control system requirements

Going overseas is a very difficult transition to manage. If you haven't developed mature in-house practices and control of data, before venturing overseas, you will only find life harder and much more expensive. The problems multiply, not just dealing with multi-currency and multi-jurisdictional business, the lack of transparency that you may have lived with before will now cost you real money and could kill your venture.

You need all the control solutions in place, but they must now support more than one business unit, different working practices, reseller control (so sales order management becomes critical) and intercompany transfer price models. All your existing internal solutions now have additional complexity and the need for uniform accurate information is even more important than ever. Whatever solutions you depend on will now need to deal with multiple operational entities, resellers and currencies. For many companies, the solution is to implement additional instances rather than multi-tenant single instance solutions. The latter has significant benefits in joining data and really making it possible to manage a group of companies effectively with timely management information.

If you feel you don't already have this problem well covered, make sure you do before you venture overseas.



# Stage 6 - Roll-up

## Business environment

They say every software company is always for sale. You need to maintain growth but for this, you need more customers and customer acquisition costs are high. A cheaper way can be to simply buy another business and farm their customers. Make this work once and there is nothing to stop you doing it again and again. Grow the organization to a certain size and the earnings before interest, tax, depreciation and amortization (EBITDA) multiples change; some people call this a roll-up strategy.

But these companies you are buying have their own ways of working. Being smaller than your successful company, they will be less sophisticated and may not have invested in control systems of their own. The worst outcome is that you leave everything in place and attempt consolidated control and reporting with a layer on top of this disparate conglomerate. You can rebrand everything to make it look unified but the time to consolidate information makes it very hard to run the group. Also any cost savings you projected in your business plan when you presented to the bank for financing may prove hard to realize. Particularly if you can't even get a consolidated customer listing.

## Control system requirements

There comes a point when you have product saturation and further growth can only be delivered by acquiring other companies, or being acquired yourself. Whether this is to provide access to a new customer base, to extend the product without further R&D risk or to consolidate in a new region – or all three – M&A in software companies has long been an popular path for revenue growth.

It is surprising how many mergers have not addressed the core needs of operating complex, multi-product and multi-office businesses using standard tools and processes. Without this, what was not working well before will only get worse. Applying a best-of-breed approach (choosing the best niche control solution and deploying it to the other business units) is a common solution to this problem as it minimizes change and improves the chances of success. However, those solutions need to be scalable and applicable to the new multi-tenanted world, where local practices are hard to change and yet the need for readily available and uniform management information is key to success. This process should not be underestimated, either in time or resources.

The other two aspects of roll-ups needed to deliver improved business performance are customer cross-sell and cost savings. The former relies totally on clean and rationalized master data. If you haven't solved this problem before, it is essential to do so now. That means all the stovepipe solutions must have the same customer master data, across the entire group of companies. This in turn means well-managed data architecture and centralized account management. Ignore this problem and you will not realize the benefits of customer acquisition.

Cost savings that come from back-office efficiencies will clearly only be realized if those efficiencies are made. This requires the internal systems architecture to span the enterprise. Leave local practices and stovepipe solutions in place and you will not be running an optimized organization.



# Stage 7 - Enterprise

Overcome all these stages and you may end up with a global enterprise. Get to this point without an integrated control environment and you will be missing:

- revenue
- sales opportunities
- control and visibility across the enterprise.

# Conclusion

Managing growth is tough. Over-solution too early and you will lose flexibility, initiative and opportunity. However, if you delay implementing control and back-office automation, you will end up with an inefficient and poorly informed organization. One that is not only wasteful but also leaks revenue.

The solution is to implement solutions that grow as you do. This allows you to vary your business practices and product sales models quickly in response to market pressures, while still keeping the score and delivering efficient back-office operations at all times. The current hype in the marketplace is all about “cloud”, implying that the lack of a dedicated server is the key to optimum performance. Cloud computing offers advantages of speed to deploy and low-to-zero cost growth. However, simply virtualizing your technical environment will not solve the core process control problems you will have to face to take the company from 10 people to 500. In fact, taking a set of non-integrated stovepipe solutions and placing them in the cloud will actually make things worse, as data integration between cloud solutions is very tough and can be error prone.

So, don’t be tempted to sign-up to a cloud CRM solution, for example, until you have considered the end-to-end nature of your business, understand how that solution will fit into your control and data architecture, and have decided how your master data needs will be delivered without double keying or resorting to complex interface solutions.

# Capability map

| Area | Capability | Start-up | Growth | Breakout | Investors | Overseas | Rollup | Enterprise |
|---|---|---|---|---|---|---|---|---|
| Finance | Basic Accounts | | | | | | | |
| | Deferred Revenue Mgt | | | | | | | |
| | Contract Management | | | | | | | |
| | Central Product Pricing | | | | | | | |
| | Purchase Orders | | | | | | | |
| | Consolidated MIS | | | | | | | |
| | Multi-currency Accounts | | | | | | | |
| | Client Master Data | | | | | | | |
| | Multi-entity Accounts | | | | | | | |
| Sales | Basic CRM | | | | | | | |
| | Pipeline Reporting | | | | | | | |
| | Quote/Order Management | | | | | | | |
| | Target Reporting | | | | | | | |
| | Campaign Management | | | | | | | |
| | Revenue Recognition | | | | | | | |
| | Reseller Management | | | | | | | |
| Operations | Multi-tenant CRM | | | | | | | |
| | Global Reporting | | | | | | | |
| | Billable Only Recording | | | | | | | |
| | R&D Claim Back-up | | | | | | | |
| | Incident Management | | | | | | | |
| | Expenses | | | | | | | |
| | All Time Recording | | | | | | | |
| | Project Budgeting | | | | | | | |
| | Formal Billing Control | | | | | | | |
| | Support Time Tracking | | | | | | | |
| | WIP Accounting | | | | | | | |
| | Inter-company Sales | | | | | | | |

**Capability Legend**

| | |
|---|---|
| No system capability required | |
| Useful depending on nature of business | |
| System capability essential for growth | |
| Limitations become an impediment to growth | |

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# How Harmony can help

Harmony PSA was written specifically to help companies deal with success and manage growth, without being strangled with over-bearing and prescriptive software.

Harmony covers the entire capability map in a single multi-tenant instance. Not only is it very simple for small businesses to use, it will smoothly scale to the most complex global enterprise.

Unlike many other offerings in this space, Harmony is not modular; it has all the necessary capabilities in one software offering. It was written specifically for software and services businesses and is full of niche functions that make managing those flows workable without suffering system-induced compromise.

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For more information email info@harmonypsa.com or call +44 204 327 0460

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