BEYOND THE CODEBASE

The challenges and opportunities of building a sustainable software company

software executive magazine

SOFTWARE BUSINESS GROWTH

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You can't count on your code alone to build a sustainable, profitable software business ... but you ***can*** rely on the best practices of your peers. Whether you're trying to build a customer success department, develop a reseller program, improve your culture, or prepare for an acquisition, other software companies have been there before — read on to learn a bit about how they figured it out.

CUSTOMER SUCCESS IS NOT A DEPARTMENT – IT'S A STRATEGY

Abby Sorensen | Executive Editor, Software Executive Magazine

The term "customer success" might have made its debut in the software business in roughly 1996, when a CRM company (Vantive) created a Customer Success Manager role. That's according to the Customer Success Association, one of few that have attempted to track the history of customer success as a profession. For a concept that still feels relatively fresh in the software world, customer success is almost as old as Amazon. But like Amazon's early annual revenue growth, customer success took a few years to catch on. In 2004, another CRM company (Siebel, acquired by Oracle in 2006) created its own "Customer Success Management" team. And of course, anyone who has followed the progression of customer success knows Salesforce was a pioneer when its "Customers For Life" team was formed circa 2014. Customer success isn't limited to CRM software companies. In-between Siebel and Salesforce came Gainsight, which amassed more than $150 million in funding, built a 4,000-attendee conference of record for the customer success industry, and represented upwards of $2 trillion in market cap among its enterprise customers since it was founded in 2013.

Without claiming to be a resident historian on customer success, it's safe to say the concept had a fairly slow adoption period in the software world for its first 20 years. Now, customer success as an "industry" has taken off like a rocket, especially for SaaS companies. I'm willing to bet almost all of the SaaS companies who read *Software Executive* have at least one employee with a customer success title listed on his or her business card. I'm also willing to bet that customer success isn't being used to its fullest capability within all of these companies, regardless of how their software is delivered. My assumption is backed by the Technology Services Industry Association (TSIA) report, "The State of Customer Success." The report found customer success-related topics represented four of the top 10 categories of most popular member inquiries and business challenges collected last year. Despite this, tech companies were drastically underinvesting in customer success infrastructure technology and productivity tools — only 25 percent were using data analytics to predict churn, and only 13 percent were using data analytics to predict expansion opportunities.

Let's be clear: There are many ways to structure and evaluate customer success organizations, but these strategies cannot be managed by spreadsheets alone. The role within software companies can be drastically different — it can own quotas or not; or it can live in sales, post-sales, support, or professional services. You don't need to hear about why customer success came to be so buzzworthy (because SaaS companies already know how easy it is to lose customers compared to the old days of licensing expensive software that was hard to rip and replace). And you don't need to hear why customer success is important to your success (because it's much easier to retain customers than to acquire new ones, and retaining customers is the lifeblood of any modern-day software business).

What you need is for someone to tell you what customer success looks like in action. Enter Jocelyn Brown, VP of customer success at Allocadia. Brown has spent nearly two decades in customer-facing roles. She opened her playbook to give other software companies advice about structuring a success team, building a customer health score, getting away from those "just checking in" conversations with clients, and ultimately elevating the stature of the customer success team within the entire organization.

ALLOCADIA'S CUSTOMER SUCCESS STRUCTURE & STRATEGY

It was tempting to transcribe the entire conversation I had with Brown and copy and paste those words onto the pages of *Software Executive*, but that would have filled nearly this entire issue and would have been far too long to scroll through on the web. Instead, let's start with Brown's definition of customer success:

"There are a hundred different definitions of customer success in the market right now. A lot of companies just assigned people a title without actually changing the way they operate. Customer success is more a strategy than a department. Once you decide to put customers at the center of your strategy, to define the journey to value through interactions with your organization, then it's really about operationalizing that journey and then staffing it and organizing it. Customer success ends up being an investment in your products, tools, and people."

Brown was the first executive-level customer success hire when she joined Allocadia in April 2016. The marketing performance management software company was cofounded in 2010 by sisters Kristine Steuart and Katherine Berry. Since then, it has amassed nearly $24 million USD in venture funding, grown 852 percent since 2013, and earned the business of more than 150 enterprise clients including the likes of Microsoft, Philips, GE, and Charles Schwab. Brown was a natural fit for Allocadia, having spent nearly two decades in enterprise B2B and SaaS. Her most recent tenure was at Eloqua, a marketing automation and revenue performance management software company. During her time at Eloqua, the company completed a successful IPO before being acquired by Oracle in 2012. She then stayed at Oracle for three years in various customer-facing leadership roles.

There were customer success managers when Brown arrived at Allocadia, but the group wasn't represented on the leadership team or in the company's long-term strategy. Brown wasn't handed a blank page when it came to building a structure and strategy, but the page didn't have too much on it either. When she started, customer success existed in the marketing department, and it didn't have any revenue responsibility. She explains why this was problematic: "It can be very destructive to have a new logo rep, somebody who's very focused on acquisition, switch gears and talk to customers. It's a very different selling motion. The level of information customers have post-sales is very different, and their expectations are very different once they actually have the software in their hands."

Over time, Brown's customer success team took on all customer revenue responsibilities, including retention and growth. To do this, Allocadia's current customer success team consists of customer success managers (CSMs) and account managers. CSMs primarily focus on product adoption. Account managers — which were roles created under Brown's guidance — focus on value realization, renewal, and expansion. Each role is segmented to serve either enterprise clients or midmarket accounts. The two roles are also aligned geographically, mainly because the nature of Allocadia's enterprise clients means account managers spend a lot of time on the road. In addition, the customer success team has one person focused on operations, packaging customer data in a way that makes it actionable for the CSMs and account managers.

Brown's goal for her team is simple: "Our main priority is to know our customers, know what it is they are trying to do, know where they are within their journey of value realization, and then orchestrate resources to get that value for the customer." She wants her team to be the storytellers who are responsible for helping the sales, product, delivery, and marketing teams improve the customer experience. In order to find these stories and tell them in a compelling way, Brown needed a customer health score.

RETOOLING A CUSTOMER HEALTH SCORE

Having a robust, fully staffed customer success team is effectively useless unless that team is armed with the tools, data, and insights needed to help customers realize the value of your software. A customer health score plays two key roles, according to Brown: risk mitigation and opportunity identification. She says, "The very first thing I needed to do was define and then map the journey, so that if any person in the company asked anybody on my team, 'How is customer 'X' doing?' they would have a way to explain that based on data."

Allocadia had an existing health score, but it measured only very basic things such as logins, number of support tickets, calls, and NPS. Brown needed to better define the adoption stages a customer goes through on their journey and what other interactions they had with the software and the company. She wanted a health score that accurately and objectively measured adoption, value realization, and relationships. Allocadia was already capturing a good amount of the data Brown wanted to use to create a health score, but it was too manual a process to be reliable. There was too much subjectivity, room for human error, and lag time.

Brown spent a lot of time sitting with the product management team to learn how to map the use of functionalities compared to the maturity of adoption. The product team was a logical place to start, since it shared an appetite to understand how the features being released are being used and whether they are delivering value. In addition, Brown wanted to know what Allocadia's best customers looked like, what features they use, and what the natural progression is for full adoption of the software. Her findings resulted in incorporating health score inputs such as:

- Data completeness
- Quality of integrations with financial, budgeting, and/or spend management tools
- Senior leadership logins and feature usage, especially from the CMO.

In addition to these inputs, Brown set out to capture data relating to customer value realization beyond basic inferences from usage data. She wanted to know: Is the tool properly configured? Have they completed projects or custom configurations to be able to get more value? Are customers getting what they initially told us they wanted when they purchased the software?

The answers to these questions can't all be captured in a single conversation during the pre- or post-sales process. This data has to be tracked in the context of a business review, or if a customer renews for more than a year, or if the customer's spend grows. Brown says, "I wanted to make sure the customer's ability to derive value, and their actual confirmation of getting that value, was captured in the score. That erodes over time, so we have to check back with them constantly. You have to keep asking customers about the value they are getting from your software."

The health score also needed to measure relationships. This is more complex than plugging in NPS data (although NPS is still a small part of Allocadia's health score calculation). When Brown arrived at Allocadia, she quickly realized customers had strong relationships with people outside of the customer success team. All software companies, especially those with enterprise accounts, have customers engaging with the education, support, delivery, product management, and executive teams. Brown wanted to know how many relationships customers had and how strong those relationships were. To measure this, everyone at Allocadia is connected to a tool (Nudge.ai) to track relationships. Her team is responsible for making sure customers establish relationships, even those outside of customer success. "Customers are going to work with whoever is delivering the most value and will interact with your company in a way that is supporting them," says Brown. "I wanted to acknowledge and measure each of those potential relationships in an objective way."

Once Brown sketched out the initial plan for the health score, she manually ran a handful of high-performing and at-risk customers through a spreadsheet version of it. She then took the preliminary rankings to key stakeholders, including the customer delivery lead, head of support, and the product management team to see if customers were scoring as they expected them to. Based on their feedback, she made some slight tweaks, including lowering the value inputs for NPS and advocacy and increasing some of the adoption values.

It's important to note that these changes were made at the start of building the health score — Brown cautions against adjusting the inputs too often. She plans to use the current health score for at least a few quarters before she makes significant changes; that way she'll have enough time and data to evaluate renewals and growth. She says, "Right now, whether the health score is right or wrong, even just the visibility is valuable. Of course, I want it to be right, and I'm confident it is. But even if it weren't, the point is to raise consciousness about what we are trying to do, which is to help our customers be successful in what they want to do."

CUSTOMER SUCCESS IN ACTION: NO MORE "JUST CHECKING IN" EMAILS

Once Brown articulated what she wanted to measure, she spent the better part of a year finding a way to make that data visible and usable. Allocadia increased its customer success team and gave Brown the resources to build a robust, objective customer health score. The result was a health score that spits out a single number for each customer related to adoption, value realization, and relationship metrics. The last step for any software company investing in customer success is to push that customer data out of the nest and let the team fly with it.

Brown looks at the health score during one-on-ones with her team and as a quarterly overview for all active accounts. Of course, the score itself will trigger activities for CSMs and account managers. She explains, "To me, the score dictates next steps for our team. It gives them an action by showing, 'Somebody is really good on adoption but low on relationships. You need to make sure to get more relationships to mitigate the risk of having only one contact there. Or, if somebody is really high on relationships, but not good on adoption, you need to figure out what the miss is. It's been a while since we've confirmed their value, that's the "thing" you need to do.'"

Allocadia's ultimate goal is to enable anyone within the company to have a smart, high-value, contextual conversation with any customer and be able to do that in five minutes. Yes, it's a given that the customer success team knows where each account stands. But that knowledge must be passed on to the rest of the team in order for a customer success investment to be effective. It shouldn't be a fire drill to hand off data to an executive headed to a client meeting. "Somebody outside our group who talks to a customer should be able to go a bit deeper with our data. They know the basics, what functionality the customer is using, what products they have, and why they bought, so it's never just an update call."

No customer (or prospect) has time for an "update" call, but they will make time to learn how to get more value out of your software. A well-designed health score and a well-oiled customer success team means Allocadia can deliver value to customers at the start of each communication. Brown says, "I'm trying to get away from the 'just checking in' concept on either side of the fence. Let's start from a fact-based and a data-anchored conversation so that you can ask the next question. For example, from a usage perspective you might ask, 'How are you using that?' or, 'How is that working for you?' but you don't have to start from, 'Do you use that?'"

Once other departments started to see how they could benefit from customer insights, they started to ask Brown's team for more and more data. Anyone can access customer information in Salesforce, so by the time they get to Brown they are looking for context, not just data. Companywide, there is a high level of awareness of the health score and its importance that didn't exist before Brown joined Allocadia. Everyone knows the elements their role contributes to the health score.

Allocadia's customer success team is no longer a loosely coordinated group of employees who sit under the marketing department's umbrella. Brown and her CSMs and account managers now own crucial data that empowers every team across the entire company. Customer success is not just a department at Allocadia — it's a mission-critical strategy. Brown's commitment to taking on revenue responsibilities and building a health score with cross-functional input means the importance of customer success has been elevated within the organization. She says, "I really do believe that when you're in customer success, you touch every single department. The very basic math is that it's way more profitable to keep a customer than to acquire a new one. Your most efficient source of revenue is your customer base. Why would you leave that to chance? Why wouldn't you put some operational efficiency and some real investment into your most efficient source of revenue?"

7 LESSONS LEARNED FROM BUILDING A RESELLER PROGRAM

Kevin Kogler | Founder & President, MicroBiz

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

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

STEP ONE: UNDERSTAND YOUR CUSTOMER'S BUYING JOURNEY

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

Be sure you can answer questions such as:

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

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

STEP TWO: CREATE A CLEAR VALUE PROPOSITION FOR THE PARTNER

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

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

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

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

STEP THREE: DEFINE RESPONSIBILITIES FOR YOU AND YOUR PARTNERS

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

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

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

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

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

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

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

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

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

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

STEP FIVE: INVEST IN A PARTNER SUPPORT INFRASTRUCTURE

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

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

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

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

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

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

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

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

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

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

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

PREPARING FOR POSTACQUISITION SUCCESS

Bruce Milne | CEO, Corum Group

In the midst of selling a software company, it is easy to neglect the final phase of the M&A process — namely, the integration of the two companies after the deal is closed. According to an Ernst & Young study, nearly 53 percent of mergers fail to meet the buyer's or seller's expectations, and integration is the leading factor.

As a founder or CEO, you don't want to be seen as someone who did a deal to benefit yourself while leaving your customers or employees hanging out to dry. Beyond that, if the deal has earnout provisions, with some percentage of the total sale price contingent on the performance of the company going forward, all shareholders have a vested interest in ensuring a smooth and successful integration process.

The good news is that sellers have a significant opportunity to influence the ultimate outcome of integration during the M&A process itself. By anticipating problems, understanding the options, and preparing properly, you can help ensure the deal works for everyone involved.

To begin with, be sure you and the acquirer are on the same page when it comes to the expected level of integration, whether limited, partial, or full integration.

- **Full integrations**, where the entire company and all its business units are absorbed, are generally less common, particularly at the outset.
- In a **limited integration**, some aspects of the companies will be consolidated, generally key corporate functions such as treasury management, legal, and other things that are not needed on-site, while leaving the acquired company more or less freestanding.
- In a **partial acquisition**, more departments will be merged together, possibly combining the sales organizations or some of the development or support activities.

During the integration period, many people will be performing two jobs, so everybody will be stressed. There will be lots of uncertainty about people's positions, who they report to, etc. Thus, it is critical that there be open communication and feedback. Set realistic expectations, as full integration often takes time.

ESTABLISH AN INTEGRATION PLAN WITH THE BUYER

To mitigate these issues, you will need to develop an integration plan with the buyer. Put together a multidisciplinary team with members from both companies and across all departments. You can't just have the guy who runs sales trying to run the entire initiative. Create a team balanced with HR, legal, development, ops, sales, marketing, and other key departments. If possible, put in place a full-time executive officer as integration manager to guide the process. Have the team and manager set key events, create milestones, and develop a 90-day plan that everyone can focus on.

Ninety days is short enough initially that everyone can know and understand what the plan is, what the objective is, and how close you are to achieving it. It's a short enough time frame that it can motivate people to get on the bandwagon. Then monitor that progress and report back what is happening, making sure people know and understand what is happening and where they stand.

With an integration manager and an integration team in place, they should develop the plan and execute it, charting how the companies will come together across all departments. Who are all the players and what needs to be done? The goal of the plan is to mitigate risks, keep key employees, protect the intellectual property, and engineer the short-term wins. Make everybody feel part of the team and want to be part of the deal going forward.

FOCUS ON KEY EMPLOYEES & TRANSPARENCY

You have a variety of audiences here. Not just shareholders, but also employees, customers, vendors, partners, and, of course, the investment banking community needs to know and understand what this deal is and why it's good for all of these participants. When things get bumpy, you need to go back and tell people, "There's a reason we did this; let's refocus on that plan and make this work."

You need to establish an operations model. First and foremost is the organizational chart: Who works for whom. In many situations, you will have duplicate roles and responsibilities. There's only one VP of engineering, so you need to figure out who will be that head and how to make sure the other person knows they have an important role moving forward. Fortunately, in most cases, much larger organizations take over much smaller organizations, providing significant opportunity for the acquired company's employees to advance within the buyer's ranks.

Throughout the process, identify and focus on the key employees. They are the glue that will ultimately bond the two companies together. There will be a half dozen or a dozen, depending on the size of the organization, key people that the rest of the employees will look up to and respect. If these key people are on board, the rest of them will follow.

There are many ways to do this:

- For some, you will want to have one-on-one conversations.
- You can also institute regular small team Q&A meetings to give people an update and make sure they know they're part of the team.
- For larger groups, you can do "town hall" meetings.
- Provide welcome packages to make sure people know and understand the new organization and what it offers.
- Another good option is a peer-level "buddy system," linking employees laterally to someone in the same position within the new organization. When an employee has a problem or a question, they don't have to go up some ladder to learn the context, but can speak with a peer within the acquiring organization and get immediate feedback.

An unpleasant item that you may need to deal with is layoffs. These are generally uncommon in software acquisitions, but if you find yourself in that situation, it is best to do it immediately — ideally, the same day as the merger. This gives those who remain the confidence that they are not about to be laid off.

An announcement of, “We were forced to let go of these people for this reason, but we foresee no future layoffs and you can rest assured that we have employment packages for each and every one of you in the new organization moving forward,” will turn an unfortunate situation into a positive statement for those staying with the company.

DEVELOP AN EMPLOYEE RETENTION PLAN

The most critical piece of the integration is the employee retention plan. Any transition as significant as an acquisition will naturally make employees consider their options, even in the best of circumstances. In the worst circumstances, you can find a significant amount of money held hostage by a single disgruntled key employee who didn’t receive compensation or incentives commensurate with his/her value to the company.

Ensuring the success of your company going forward, as well as the goodwill of employees and their families, requires investment to confirm they are sharing in the gains of the company.

Retention plans will vary from company to company based on the specifics of the situation, but there is a common set of tools that companies can make use of in various combinations. This includes some combination of welcome bonuses, retention bonuses, completion bonuses, profit sharing, stock options, no-cut provisions, and even sharing a percentage of the earnout itself amongst the employees.

The value of retention bonuses is evident, as employees are directly incentivized to stay through the transition period. These can also be given as welcome bonuses, where half is provided up front and the other half after 12 months. Stock options that vest after a period of time can have the same impact.

SAMPLE EMPLOYEE RETENTION PLANS

SOURCE: CORUM GROUP

COMPANY A	7 Employees	▸ Quarterly retention bonuses for two years ▸ Completion bonus to R&D staff ▸ Profit sharing
COMPANY B	25 Employees	▸ Welcome bonus (50% now; 50% in 12 months) ▸ New stock option — vested four years ▸ No cut; 12-month severance
COMPANY C	60 Employees	▸ Put key employees into earnout — based on milestones ▸ Two-year stay bonus — lump sum in 24 months

When there are significant technical projects in process at the time of the acquisition, or where the technical integration itself is likely to be a significant task, a completion bonus offered to the team working on that project — R&D, development, etc. — can be a more directed incentive toward accomplishing the goals necessary for a successful integration. A profit-sharing plan can have a similar impact on the sales and marketing side.

The broadest way to engage your employees is through adding them to the earnout program. In general it is a good idea to do so if there is earnout as a part of the transaction. If you lose all of your people, your chances of achieving the earnout shrink dramatically. We have seen deals where as much as 30 percent of the earnout was shared with employees. That can seem like a significant amount, but if the alternative is a possibility of achieving no earnout whatsoever, it's a good deal.

Whatever the specifics of your integration plan, from organizational structure to retention, strive to have as many specifics as possible negotiated before closing. While there is significant, legitimate pressure during a deal to "just get it closed," it is worth spending time to be sure that your employees and other stakeholders will be taken care of after the deal is closed. Many of these items can be negotiated and outlined in the final purchase agreement.

As with all aspects of the M&A process, this negotiation will go much more smoothly if you run a careful, global process with multiple buyers brought to the table. Without the leverage of another party or two waiting in the wings, it can be difficult to persuade an acquirer to focus on integration at this phase. Instead, many would rather wait until the deal is closed and they can make decisions based on their own priorities, which may or may not line up with yours. In this case, as in all others during the process, it's likely the most important transaction of your life — do it right.

SCALE YOUR CULTURE BY ELIMINATING PROCESS

Marc Gingras | CEO, Foko Retail

More often than not, as a startup scales, there's a tendency to add more processes to how things get done in an attempt to manage growth. It's around this time that process starts dictating a company's culture.

It shouldn't be that way. Here are my top tips on how to scale your company's culture as it grows, without sacrificing innovation or productivity.

PEEL BACK THE RED TAPE

As your company continues to grow, think about the past and reflect on how it got to where it is today. Your success has a lot to do with you and your team's ability to innovate — the process of surveying your surroundings, finding a solution to a problem, and putting it into practice.

But the bigger a company gets, the more often it seems like coming up with new ideas is one of the first things to go. It's easy to understand why: After years of effort, you probably don't want to mess around with the recipe for your success and risk ruining everything you worked hard to accomplish.

But it's important to remember that revolutions and industry upheavals (software and otherwise) didn't come from the minds of people willing to settle for the status quo.

So think differently: Make it not only easy but mandatory for your employees to share ideas and bring them to life. Eliminate red tape by analyzing the rules and policies that got put in place as you grew. Although many are probably there to help things run smoothly, there's likely a few that involve needless paperwork and layers of supervisory approval that are inhibiting innovation. Work with your team at identifying and removing them so creativity can flourish.

Encourage collaboration by allowing engineers and developers to work on projects outside their comfort zone and areas of expertise. Not only will they be able to foster a multifaceted skillset (an integral part of any burgeoning startup), but perhaps a new set of eyes will spark a new idea in an area worth improving that would have gone unnoticed otherwise. Don't hold them back from experimenting. After all, rules were meant to be broken.

FEWER MEETINGS, MORE ACCOUNTABILITY

If a startup wants to grow, it's crucial that everyone involved — from fresh recruits to the head of the company — is held accountable for their actions. For a lot of executives, that means hosting more meetings so everyone has a better idea of everything that's going on. But research shows that the majority of today's executives and their coworkers feel overwhelmed by the sheer number of meetings they're subjected to on a weekly basis.

Instead of filling your schedule with meetings, try hosting only one at the start of each week to trace out each team's trajectory, reinforce the company's overall vision, and make team members feel accountable for its success. People take pride in what they're doing if they know where things are headed and how they fit into the puzzle. Just don't make taking part a mandatory activity — if meetings start to cut into team members' productivity, allow them to skip if they feel it's a waste of their time.

And don't feel the need to be involved in every decision. In fact, aim to actively remove yourself from some. In a lot of instances, your presence simply adds another step to the process. Identify what decisions you need to be a part of and which you don't. If your team's accountable, they'll be happy to take on the added responsibility.

REWRITE THE HIRING RULE BOOK

It's easy to get lost in meaningless minutiae as your number of employees expands, and that's especially true when it comes to hiring them.

Don't ask the same questions in every interview. By now everyone knows how to prepare answers ahead of time about where they find themselves in five years, or which weaknesses can be reframed as supposed strengths. Instead, focus on finding employees with the right mindset, because hiring too many people who don't fit in with, or understand, your core values and trajectory can make or break a company.

To paraphrase American business consultant, author, and speaker Jim Collins, part of hiring has to do with "getting the right people on the bus." So bake a sense of purpose into the recruiting process every time. At Foko Retail we do that starting with the job postings, which describe not only the roles and responsibilities we seek in an applicant but how they, too, can shape and impact the business. During the interview process, we openly talk about our longer-term plans and how we envision prospective candidates being a part of it.

Steer away from questions that make them reinforce their relevant experience (most of that can be found on their resume, anyway), and instead focus on scenarios that shed light on who the person is beyond the CV.

And don't drag out the process. Allow team leaders to vet out prospective candidates, and only sit in on a select number of meetings, or the parts that apply to you. Onboarding and training a new employee are already an expensive and time-consuming process. Don't make it harder than it has to be. If the people you trust have a good feeling about a candidate, go with their gut.

PRIORITIZE WORK-LIFE BALANCE

Studies show that giving your employees flexibility over their schedule is one of the top factors in employee satisfaction. You can start by not being so strict about vacation days. Have an employee who's been putting in extra hours to get the job done? Give them some extra days off — they probably deserve it.

Try finding time in your business hours to give your team a much-deserved break. We recently started hosting weekly yoga classes to help rejuvenate ourselves halfway through the week, and already we see the benefits.

Have a new parent in your ranks? Let them cut out a bit early to beat traffic and spend some time with their family — they'll make it up to you when you need them to step up.

And, above all else, don't track time off. If someone needs a breather, let them have it. If you've been hiring people with the right mindset, they'll be honest about if they've had enough time off, and will return to work even more refreshed.

REMOVE YOURSELF FROM THE EQUATION

Every startup springs from a single idea. Over time that idea changes as more people get added and start giving their input. For someone who's been at a startup since the beginning, that can probably seem scary. Wouldn't that mean your product, or original idea, is being more and more diluted as time goes on?

Not necessarily. If you've hired the right people, instilled your company's philosophy properly, and ingrained in them a need to innovate and be accountable for their actions, your business will be able to function fine whether you're there or not, and that's a good thing.

As your company grows, it's easy to believe that more people necessitate more hierarchy, more meetings, and more rules. Above all, beware of unnecessary process and red tape. Avoiding these pitfalls allows your team to focus on doing what they do best, which is creating value for your company, not navigating the bureaucracy of endless meetings and strict company policies. As the old adage goes: Less is more. Remove the clutter from your organization to make scaling less work.

Abby Sorensen
Executive Editor
Software Executive Magazine

AN INVITE TO SOFTWARE EXECUTIVE FORUM

FROM THE EDITOR

If I could round up every subscriber of *Software Executive* magazine in one room, I'd want to pose the following question:

What's easier to manage:

- your codebase
- or your business?

The smart answer is that both are challenging. Sure, it's tough to find, retain, and afford the kind of engineering talent capable of shipping bug-free, innovative software on time. But that's just one aspect of running a successful software business.

I'd expect the majority of you would answer my hypothetical question by admitting it's really, really tough to manage a software business. The most impressive codebase in the world means nothing if you can't get your team to price it, market it, sell it, support it, and iterate it quickly and correctly.

And that's why we're hosting our Software Executive Forum event in Brooklyn on August 28. I'm inviting you to join a group of executives who want to spend a day talking to their peers about building sustainable, profitable software businesses. Even though "software" isn't typically viewed as a singular industry, we know leaders at software companies are kept awake at night by many of the same challenges. Unfortunately, there aren't enough opportunities to network with like-minded people who are passionate about the business beyond the codebase.

This isn't a massive trade show. It's not a ploy to get you to listen to vendor sales pitches (actually, we don't even let vendors on the stage). Instead, this is an invitation to network with a select group of VP and C-level executives at other software companies. Think of it as a one-day peer group, with some real-world education sessions mixed in.

The agenda at Software Executive Forum features sessions on:

- Exit Strategy/M&A
- Customer Success
- Building Indirect Sales Channels
- Culture
- Financing Growth

In-between sessions, you'll have plenty of time to swap business cards and pick the brains of your peers. Would it help your business if you could ask a dozen of your peers what they do to recruit talented developers? Or how they actively work on building their corporate cultures? Or what strategies they have for running lean businesses focused on profitability?

There's nothing I'd rather be doing — other than golfing, of course — than spending a day with software executives, hearing their answers to these questions and learning about their business challenges. I hope you'll take a day to unplug from your inbox, step out of the office, and join us in Brooklyn on August 28 to do some higher-level thinking about your software business.

A TRIO OF RESOURCES TO HELP YOU RUN A SUCCESSFUL SOFTWARE BUSINESS

This eBook is a taste of the truly helpful content we strive to deliver in print, on the web, and live at our Software Executive Forum events. It's all about bringing you in community with like-minded individuals who share goals and challenges like yours.

Software Executive Magazine publishes unbiased, thought leadership editorial that helps industry executives do their jobs better. The editorial is vertical and platform agnostic, covering all types of B2B software companies, with an emphasis on business management and applications.

SoftwareExecutiveMag.com

Software Business Growth is a digital publication designed to inform and advise growth-oriented companies on the best opportunities for success in a complex and crowded market, where simply developing killer code is not enough.

SoftwareBusinessGrowth.com

Elite conferences that address the daily challenges of navigating a long-term strategy to build, grow, and sustain a profitable B2B software company. Panel-led discussions provide answers, pique curiosities, and build affinity.

SoftwareExecutiveForum.com