



OPINION



CEO Strategies for Building Value

Leaders of young, successful software companies share best practices on innovation, funding, marketing, leading - and getting out of the way.

By Maryann Jones Thompson, Sand Hill Group

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The excitement of running a fast-growing software company is infectious. The fulfillment of creating a brand new product. The enthusiasm of the team. The satisfaction of solving customer problems. Each day brings new opportunities, challenges - and lots of hard work.

Yet this same excitement can spell disaster for an undisciplined CEO. Too often, the sheer volume of projects and influences can send an executive - and his or her company - veering off-course. Today, a number of impressive private software companies are gaining attention as the industry emerges from the downturn. These companies boast disciplined leaders who can maintain focus, drive growth and ensure customer satisfaction.

At **Software 2006**, twenty executives from these companies will detail their companies' achievements as part of the **Software Showcase**, which highlights innovative and successful vendors. SandHill.com spoke with several CEOs who will be presenting at Showcase.

- **John M. Jack**, president and CEO, **Fortify Software**
- **Bill Portelli**, president and CEO, **CollabNet**
- **Joe Salesky**, CEO, **ClairMail**
- **Srikant Vasan**, president & CEO, **StorePerform**

These Showcase CEOs shared their advice and strategies for building value in emerging software companies today.

SandHill.com: With the confluence of new business model trends and emerging technologies impacting the software industry, how do you integrate relevant pieces of these new developments while keeping your company focused on its core mission?

"This is a difficult equation. To change your business model frequently, based on perceived successes with other models, would dilute your ability to be successful in the long run. You have to commit to a set of business processes, yet be flexible enough to tune them as you understand your target markets' requirements and preferred delivery methods. It is easy to get caught up doing 'too many things' as a young company, yet the days of 'one product/direct sales' are over." - John M. Jack, Fortify Software

"Startups exist because of their ability to move nimbly and adjust to opportunities in the market. The key to retaining focus is to understand the core value that you deliver to customers and measure new business model opportunities and emerging technologies by their ability to contribute to this value and lower barriers for customer adoption. All startups are measured by their ability to get customer adoption and demonstrate measurable ROI. Using innovation to bring customers the



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shortest time-to-value is one key to success, and then making sure that your solution is easy to buy, easy to use and easy to implement allows this value to scale. In order to stay focused, it's important to measure new technology developments and business models against this simple framework." - Joe Salesky, ClairMail

How do you ensure innovation at your company?

"Customer orientation and personal ownership are fundamental to our company culture. Our product direction and innovation is driven by the people who are closest to the customers, and we empower them to take ownership of that responsibility." - Srikant Vasan, StorePerform

"One of the keys to success in the software business is human capital. The highest achievers in this industry all started with the best and the brightest and then created an environment where they thrive. It goes without saying that recruiting is extremely important. A company's ability to innovate depends on the mentality of the staff. They must fundamentally believe that there is no problem that cannot be solved, and thrive on new challenges. Building on this, a company's ability to innovate is not the result of passion alone, the team must understand the challenges that its customers are facing, and see this as the opportunity for the company to provide value and grow its value. It is well understood that necessity is the mother of invention, awareness of real customer problems and needs and a commitment to creating 'simple solutions to hard problems' is the culture of innovation that start-ups thrive on." - Joe Salesky, ClairMail

"Innovation comes from a number of sources. CollabNet drives the normal processes all good companies perform including hiring strong engineers and giving them the goal of developing great products by integrating their own ideas with the market driven needs of our clients and customers. Beyond that, we have offered our engineers an environment where they can be continually motivated and challenged to break ground in multiple technology and process areas such as the use of open source technologies, developing extremely high performance oriented SaaS based product offerings, and developing using a 24x7 collaborative processes. Beyond that, CollabNet has sponsored and our engineers work daily with multiple open source communities such as Subversion. Most importantly, our development team uses our own collaboration technology to integrate many of our clients and partners into CollabNet's product specification, development, and support life cycle." - Bill Portelli, CollabNet

What is the capital-raising climate like for software companies today and how does that impact your business strategy?

"If your product offers value and meets a real market need, the opportunity will be clear to investors. It might seem counterintuitive, but the less you focus on raising capital (and more on customers), the more likely you are to gain investor interest. We had that experience in that we chose to not accept VC term sheets that were offered when we founded the company, but instead 'boot-strapped' the company and focused on meeting customer needs. Two years later, when we felt we were ready for VC money, we were able to raise the Series A round from a top VC firm (US Venture Partners) within three weeks of our first presentation." - Srikant Vasan, StorePerform

"The capital raising environment has heated up again, but it is also true that the path to an exit has become more difficult. The recent regulatory reporting requirements and costs to go public have been well documented, and as a result the venture community must ask the question regarding the likely liquidation path for a company. Current estimates to liquidation are approaching six years from a company's inception. From a company point of view, this extra time will create better and more sustainable companies as the teams will have the ability to mature their value proposition, go-to-market strategies, products, etc. Specifically for CollabNet, we raised \$9.5 million in the first quarter of 2005 which was exclusively viewed as expansion capital to infuse into our business for sales and marketing growth and geographical expansion." - Bill Portelli, CollabNet

As a young company with a compelling offering, what methods have you used to get your message heard by customers?

"Not only are we a young company, but we are also an emerging category in our market. That



means we have to focus our marketing efforts on not just building brand awareness, but understanding of the category as a whole. As thought leaders within our category, first we educate the market on the value proposition of shifting to new business methodologies, and second on how specifically we can help them succeed in making that shift. Our customer outreach efforts have been dictated by the fact that we have a pretty well-defined target market and target audience, in terms of the executives within our target customer base. This has led to a more industry-specific, direct marketing oriented approach to selecting our marketing media (which include industry conferences, analyst relations and direct marketing)." - Srikant Vasan, StorePerform

"There is nothing stronger than customers selling for you. So the first thing to do is to get real, meaningful customers and enlist them to help you get the message out. Beyond that, you have the normal channels that you have to leverage: Public Relations, Advertising and Partnerships. Consider working with other companies adjacent to your space to reach a broad audience." - John M. Jack, Fortify Software

"In addition to traditional demand creation and brand building activities, CollabNet has the advantage of having numerous open source leaders in our company to promote CollabNet within those communities, led by Brian Behlendorf, our co-founder and CTO. Perhaps most interesting is the fact that CollabNet hosts collaborative networks for the worlds largest open source and partner communities, including developer communities for Sun (OpenOffice.org, Java.net, Netbeans.org and many other Sun communities), BEA, Sybase, eBay, SKTelecom, Intel, the Department of Defense, Dresdner Kleinwort Wasserstein, Subversion, and many others. In total, there are over 800,000 users and tens of thousands of active projects, with hundreds of millions of unique monthly visits all utilizing CollabNet-based communities during the course of a month. We've relentlessly leveraged the partnerships and relationships we have with these communities to extend the adoption of CollabNet and reach out to the broader developer community." - Bill Portelli, CollabNet

Among all of your company's milestones, what is the one achievement you are most proud of?

"The use of our product in a Fortune 50 company within the first six months of our production release is one of the key achievements for our company. This customer win was not luck; it required research and thought as to finding the right business stakeholder. Then, it required building both the business relationship and trust necessary to have the opportunity to demonstrate the value of your product is critical to success. Unlike buying from the safety of a trusted brand, small software companies need to find customers with vision and an appetite for innovation to help build value in both companies and take a leadership role in their industry. Finding the right opportunity, the right champion and the steps to deliver on the promise early and with the smallest investment and risk are key." - Joe Salesky, ClairMail

"Our customer base is our proudest achievement. We decided early on to concentrate on three types of customers: financial services, large e-commerce sites, and software companies. All of these companies are at the top of the risk curve when it comes to software security. And the company has met its goals in recruiting the top customers in all these segments in just six quarters of selling our products. When your customer base reads like Fortify's does, you know you are building meaningful products." - John M. Jack, Fortify Software

What is the hardest part of running a young software company today?

"The hardest part of running a small fast growing company in the technology industry is managing through the constant changes you will encounter as you grow from stage to stage, all of the time working to ensure alignment, innovation and client satisfaction. Managing change requires constant focus and attention. The need for consistent and open communication is paramount to managing through this growth. Changes will inevitably be made to a company's business strategy, business model priorities, team members, products and services in response to external market and competitive conditions, all happening as a company drives through the start up phase to an early stage company to an emerging company and finally to a mature one. Managing change to drive growth is the hardest part of running a young company, but also perhaps the most satisfying as a company continually grows and matures, employees grow, cultures emerge, and value is provided



to its clients." - Bill Portelli, CollabNet

"Moving the company from a posture of a few people easily communicating and nimbly moving forward on key tasks to a company with 30 to 50 people that clearly understands the objectives and plans of the company yet retains the small company passion and efficiency. As you grow and blend on-shore and off-shore resources needed to optimize the use of capital, it becomes increasingly critical to formalize plans and work hard to ensure that a growing and distributed team is pulling together towards company objectives. One of the greatest challenges faced by a growing company is the ability to continue to build momentum while retaining the energy, spirit and nimbleness of a start-up." - Joe Salesky, ClairMail

"If you are an enterprise software company, the selling model is the hardest part today. The idea of organically growing a direct sales force and reaching profitability in a reasonable time doesn't work anymore. The sales cycle leverage is on the side of the enterprise. The enterprise buys less, takes longer and works vendors harder on price than ever before. And, most of these enterprises have a stated goal to reduce the number of vendors they buy software from. Figuring out a sustainable, profitable, predictable selling model is the biggest challenge." - John M. Jack, Fortify Software

"When we started the company, the leadership team's focus was to get the job done, whether it was sales or product development or customer implementations. Now that we've grown beyond the 100-person mark, those same hard driving individuals have to step back and focus their efforts on empowering our people to succeed. It's a difficult transition for any entrepreneur." - Srikant Vasan, StorePerform

What lessons would you would share with other executives running young software companies today?

"Figure out how you are going to bring a product to market as part of the design process. In order to be successful today, you need products that cover the entire range of delivery options: enterprise sales, channel sales, distributors, resellers, and so on. Build a company that works in a multi-channel, multi-product world." - John M. Jack, Fortify Software

"Stay focused on satisfying your customers and everything else will fall into place." - Srikant Vasan, StorePerform

"The one lesson I would share is to focus on the shortest path to value. Building on this, find a way to prove that value in the shortest time without having to 'build it all.' Also, I cannot emphasize enough the importance of getting the product into people's hands. Find a customer as you start to build, and do whatever it takes to make sure that those customers help you prioritize your earliest capabilities and prove they will use the product and value it. Make sure that your bridge funding gets you to three customers and validates your solution." - Joe Salesky, ClairMail

"It might sound trivial, but make sure your team has a single-minded focus, and is completely aligned for the mission of your company. Make that mission is something the employees can be passionate about because that passion and your focus will carry you through the inevitable highs and lows of building a great company. Ensure your team is completely aligned around your vision and mission, and articulate your corresponding set of core values to guide your daily decisions. Make sure your entire team understands your strategic imperatives and strategic objectives to achieve that mission, and honestly measure your progress against a stated set of metrics. Surround yourself with a team made up of individuals better than you are, lead them, help them, and then get out of their way." - Bill Portelli, CollabNet

Maryann Jones Thompson is editor of SandHill.com. Hear more from these and other CEOs of fast-growth software companies at the [Software Showcase](#) during [Software 2006](#).