OPINION

Growing from Startup to Grownup

Transitioning from a good, small software company to a great big one takes vigilance and willingness to experiment. Here are five strategies for success.
By Greg Gianforte, RightNow Technologies
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Editor's Note: In the Software Pulse *newsletter distributed yesterday, we inadvertently sent you the wrong introduction copy to this opinion piece. In the second paragraph of the introduction to this story, we incorrectly attributed to Greg a statement about his company's 2005 revenue run rate after its latest quarter. We received no information from Greg or anyone else at RightNow about its revenue run rate or performance in its latest quarter. We apologize for this error and have posted the correct article introduction by Greg below. The corrected article accurately reflects the information provided to us by Greg.*

$100 million. It is a big number any way you look at it. But in the software industry, it represents a significant threshold. Crossing $100 million in sales means a company has grown up.

I'm speaking from experience. At RightNow Technologies, our 3Q05 quarter puts us at over a $100 million annual bookings run rate. That's on top of being named one of the top most appreciated technology IPOs in 2004.

Going from startup to grownup is a major transition that not all software companies are fortunate enough to make. It impacts everything from culture to development to marketing. Here are five strategies that assisted our transformation to adulthood.

1. Invest Incrementally
It is important to embrace a philosophy of continuous experimentation. By incrementally experimenting, companies avoid the "Big Bang" approach. The "Big Bangers" spend all of their resources constructing a single massive initiative, take it to market and watch it sink or swim. The problem is that it sinks as often as it swims. "Big Bang" is very high risk.

At RightNow, we are constantly trying new initiatives that are on the fringes of our business. We look for the adjacent "low hanging fruit" opportunities which can easily be plucked and leveraged. This results in a much lower risk to business expansion. You experience some success, some failure; but you're never placing one major, potentially fatal bet. And the business expands on the initiatives that float.

Actually, this is a philosophy that we have always espoused. It comes from our bootstrapping roots (see ***Bootstrapping: The Secret to Entrepreneurial Success***). The bootstrapping ethic requires constant attention to detail and consistent execution. And as we grew towards a $100 million run rate, incremental experimentation became even more important because it ensured us potential for new growth in the future.

2. Reinvent & Expand the Business
When companies get started, they pursue certain niches of market opportunity. As the company grows, those niches tend to get saturated. That's why it is critical to continually expand the scope of the solution set your company offers to ensure future growth.

For example, RightNow started out doing e-service: helping our clients help their customers over the Web. We soon developed a dominant position in that market. We used the incremental investment approach to identify a new area of opportunity, the call center. Expanding into the call center space significantly increased the size of our market opportunity. As we continued to experiment incrementally, we saw the CRM opportunity. As we moved into CRM our market opportunity significantly increased again.

This process reinvented the company each time. We went from helping our customers with their Web site FAQs to offering the broadest suite of CRM products available in on-demand, according to Forrester Research.

Another area ripe for reinvention was distribution. This is an area which has trapped many software companies. We started as simple purveyors of product. We soon learned that as our clients saw our products as more important, they wanted to buy business value, not products. They were seeking "a lower cost of operation" or "an improved quality of service" not another software package.

This caused us to shift from a telesales model to a field-based sales organization. The field salespeople were required to become true consultants to our customers. They could sit down and walk through each customer's business requirements and propose appropriate solutions.

We changed from simply product purveying to solution-oriented, transformational consulting which created a vision with our customers on how to improve their customer relations. This shift was as fundamental for the business as the shift from e-service to CRM.

3. Grasp the Strategic Transformation
When software companies are small, they approach their market by soothing a specific "pain point" for their customers. As the breadth of capabilities expand, that relationship transitions from tactical to strategic, from sweeping up a mess on the floor to improving our customers' competitive differentiation.

For example, when RightNow started, companies were getting too many customer emails and they looked to us to help manage that volume. Now they see us as helping them provide a better quality of service which improves their competitive advantage in their respective markets - so much so that we've handled more than one billion interactions for our clients in the past two years.

Our systems have become part of the fabric that builds the bridge between our clients and their customers - and often helped make the difference between profitability and failure. For example, we work with gaming clients that charge $9 to $15 per month to subscribe to a particular online game community. However, if the customer calls the company with just one question, it costs the gaming company $18 - now the company has lost money on that subscriber that month. But not answering the question might send the customer off to a competitive gaming company.

RightNow worked with these clients to integrate customer experience software right into the game environment. For example, if a gamer is in a dungeon picking out a sword and needs help, our system can tell them how to do it and offer options. By helping the customer help themselves the $18 phone call is avoided, so they retain their customer and their profit. Transformational consulting enables us to address these business needs and satisfy our clients.

4. Be Deliberate About Innovation
It gets much harder to innovate as a company grows larger. One problem is that the threshold

goes up dramatically for a new idea to get backing. When a startup only has $1 million per year in revenue, a $100,000 idea represents a significant opportunity. But when the company hits $100 million in revenue, it needs to come up with a $10 million idea to make it worthwhile.

This higher threshold tends to kill new initiatives before they've had time to germinate. That's why so few genuinely new innovations come from the very largest software vendors these days. Yet without innovation any technology firm will die.

Therefore, it is critical to be deliberate about innovation. At RightNow, we've created a separate applied research group to focus on innovation. These individuals are mostly PhDs. They spend their time reviewing all of the new research which comes out of universities worldwide. The result? We now have 18 patents, granted or in process.

True, we still kill off most of the new ideas before they see the light of day. But the research group enables us not only to find new ideas, but to make risk taking and innovation part of our company culture.

5. Find Scalability & Incubate It

It is nice to identify new opportunities, but as a startup grows, it can only take on so many new things. By necessity then, new initiatives must have a significant impact on the company's top line. There must be specific criteria and thresholds of performance which separate the experiments from the new initiatives that will scale and make sense to institutionalize.

For RightNow, one example of these opportunities is voice self-service. We identified a company doing some interesting things with voice automation. Although the offering was embryonic, it succeeded in passing our threshold for attention. Here's why.

We recognize that our mission is to help our customers better serve their customers. Although we were providing great solutions to manage and automate electronic interactions, 60 to 90 percent of all customer interactions were still occurring over the phone. Yet this area of voice automation had received little attention or innovation.

We entered into a partnership with the firm and created a separate group - a "skunkworks" - in the company to develop the voice self-service offering rather than integrating it into the main business. These individuals were responsible for making the product succeed - and they were compensated based on its success. Indeed, when the technology was deployed in the in the marketplace, the results were tremendous. Plus, we were granted a very broad patent for our innovation.

However if we would have mainstreamed the initiative from the beginning, it would likely have floundered. That's because the tolerance for risk-taking in the main business is lower than in the skunkworks. The separate team basically provided us an in-house incubator in which to hatch the new concepts.

Growing from a startup to a grownup is a fascinating process that continually evolves. Software startups that embrace a culture of experimentation and a willingness to reinvent themselves will be the most likely to grow to adulthood.

Greg Gianforte is CEO and founder of ***RightNow Technologies*** *and author of* Bootstrapping Your Business.