



LESSONS FROM A DOT.COM by Rhett Sampson

INTRODUCTION

18 months ago, with over 20 years experience in IT&T implementation and sales, I joined a dot.com, a global Internet software company as VP, Australia and New Zealand, and later as VP Global Sales.

12 months later it closed its doors – a victim, like many, of a whole host of factors, but ultimately funding. This article looks at what we did right and wrong in an attempt to learn from the experience.

COMPANY FACTS:

- Developer of Internet applications.
- First application, an Internet based accounting package, sold as an Application Service via the Net.
- Channel partner strategy in operation but with its own ASP web offering as a showcase for the product and to service early customers.
- Based in Singapore with offices in Malaysia, Australia and the US.

I won't name the company so that this article can be as open and candid as possible.

ON A POSITIVE NOTE:

Unlike many, it closed in an orderly and professional way. Everyone got paid, some even got redundancy payments. The business model was sound, it had a clear path to revenue and profit. It also had a very good value proposition – once we worked out what it was. However, even this was not enough. As many have said, perhaps most notably John Doerr and John Chambers, it's all about execution. And that is where we, and many others, went fundamentally wrong.

WHAT WE DID WRONG

Ultimately, we did not get to revenue and profit fast enough. There were very many reasons for this, some of which are detailed below. Wherever you see the word "delay", read "revenue/profit/funding delay" – each one another nail in the coffin. Looking from a product and corporate perspective, the following outlines some of the "steeper parts of our learning curve."

Product

1. Limiting the distribution model.

- A "pure play" Application Service Provision (ASP) model, charged per transaction.
 - No option for clients to buy or rent the software and host it themselves.
- This forced us into an ASP sale with all its accompanying objections to be overcome. It also changed IT from a fixed to a variable cost – in the end a good thing, but it took some getting used to.
- Outcome:* Longer sale process and time to revenue, additional products and services required to overcome objections.

2. Focus too much, too early, on distribution channels and not enough on early stage customers.

- Channels take a long time to establish and even the best need resources to make sales. Customers on the other hand bring revenue and attract and motivate channels – like priming a pump.



3. Pick the wrong channels.

- Focused on the top names in the ASP distribution business in the US, which in hindsight, proved to be the wrong channel partners - not one of these closed a single customer.
- It became obvious that second tier management accountants with IT skills were much better suited to our offering. When we targeted this market they were extremely enthusiastic and contributed significant resources to establishing the partnership.

Outcome: Time in identifying partners, delayed time to revenue, less input from partners

4. Not understand early enough or clearly enough what we were selling or who our customers were

The Product:

- The company, through acquisition, had over 40 years experience in developing accounting/ERP systems for engineers and architects - our perfect target market
- The product was so good in this market it virtually sold itself - we had several features and benefits that no one else in the market had.
- Also, the ASP model was actually compelling in this market – engineers could do timesheets at remote sites, reducing time to invoice.

Problem: The period of time to identify these key assets – poor communication process and documentation.

The Customers:

- We perceived our customers to be the distribution channel partners. **WRONG.** Our initial channel partners expected us to identify the customers, the value propositions and the training. The quickest way to do this in a new product/market is to learn by the experience of direct selling.

Outcome: Time involved in identifying our core assets and exploiting their potential - poor internal & external communication process.

5. Underestimate the maturity of the market and its influencers.

Fatal - The market was not as ready for ASP as we thought.

- There were many objections to putting a company's accounts on the net and although there are many benefits, initially the objections outweighed the benefits.
- Underestimated the effect of market influencers and enablers and the effect of delay of these eg availability of high speed reasonable cost Internet access ie DSL.

Outcome: Delay in market adoption, delay in revenue and cashflow.

6. Misunderstand the nature of the buying decision.

- Our business models and plans assumed that we could sell accounting services on the Internet as a commodity - this was never going to be the case.

Problem: Accounting is a core business function and requires a complex, multi-level sale with a cycle of 6-9 months. This caused our numbers to lag the plan drastically and it got exponentially worse as time went on. It also required drastically more pre/post-sales support, that either we or our channel partners had to provide.

7. Not diversify our products and services

We should have:

- Diversified the distribution model to include sale/lease. When we eventually did this towards the end, we instantly converted a cold prospect to a hot one. This was one of the largest customers in Australia.
- Reviewed core skill set to provide complementary services to provide early and additional revenue streams eg provision of Internet software development and consulting (which are now being offered by several senior ex-managers in their new/old businesses, including the author who is definitely B2C – back to consulting!!!).

8. Review and analyse the customer.

We did not

- Build early and effective feedback process from customers to the development team.
- Produce a clear and well communicated development schedule.
- Control and prioritise (according to customer need, likelihood, size and speed of revenue) changes to the development schedule.

Result - Lack of alignment of product to REAL market need, bad prioritisation of development



Our Company and Corporate Infrastructure

Improved organisational systems and processes would have reduced or avoided some of the problems we experienced.

1. Lack of industry experience and diversity of opinion in the senior management team.

- Of the 7 senior executives, 4 had experience in the industry and 4 were related to each other. This made it effectively a family business which was short on industry experience, independent opinion and open mindedness

2. Lack of values and culture

- The senior management had not developed the values of the organisation or aligned its people with them.

3. Lack of systems – Both processes & IT

- Lacked a published production schedule or balanced mechanism for modifying it based on customer demand. This caused uncertainty in the field and often resulted in broken promises when senior management would arbitrarily change production priorities.
- Lacked shared information systems that would have greatly improved communication and organisational sharing of knowledge.

4. Poor communication – Both Systems & People

- Relied entirely on email and web chat tools – useful but not nearly enough in a globally distributed fast growth company.
- Did not meet face to face often enough for planning
- Needed to adopt a “who needs to know” communication culture.

5. Tyranny of distance

- Exacerbated by poor communications and lack of systems.



WHAT WE DID RIGHT

1. Focus on a vertical market with deep expertise in that market

- We had the deepest expertise in our market and, when we focused on it, it showed. Customers bought.

2. “Finish” the product and release a working version.

- This is critical. No product, no customers.
- Despite management thinking that it was a production release, we only got what was effectively an Alpha release, and that was late. But we got something. With thorough application testing (which we didn't do) we could have got it to Beta and then to production with early adopter development partners. As it was, we sold an Alpha product as production and lost vital early stage orders.

3. Targeted early adopter customers in our core market [Eventually]

- Sold direct and at focused, targeted trade shows.

4. Targeted the right distribution channel partners [Eventually]

- Partners who wanted what we had and were prepared to contribute resources to the partnership.

Unfortunately, this was all too late. The delays in getting to revenue caused the founders to withdraw and we ran out of money, like many others. Because of the delays getting to revenue, we could not self-fund. Boom. End of story.



LESSONS LEARNT – The Dot.com Epitaph

There was no doubt that the premise and the value proposition had appeal. We were a little early but could have done things to produce revenue and survive until the mainstream market arrived. But we didn't. So what could we have done? Here are some lessons:

Revenue Revenue Revenue \$\$\$ Profit Profit Profit \$\$\$ Quickly Quickly Quickly.

- Do whatever it takes as fast as you can to get revenue and profit in the door.
- Make anything that delays this a red flag priority for the whole organisation to fix.

Understand what you are selling, who your customers are and why they buy.

- Requires deep and thorough understanding, reviewed and fine tuned constantly.

Constantly review the business and its strategies and plans against performance and what's happening in the market.

- In a fast moving market like the Internet bubble was, review weekly. As the market is a dynamic entity, it follows that corresponding strategies should also be dynamic and fluid in nature.
- Pay strict attention to what your customers and the market are telling you. They are NEVER wrong. Executives OFTEN are. Ignore at your peril - we did – we no longer exist.
- Note that the market includes ALL markets – customers, competitors, comparables and capital.

Find and close early stage customers directly – they are your key to success

- Early stage customers provide:
- Revenue and profit to fund the business and attract further investment. Validate the strategy.
 - Provide invaluable feedback on product quality and development.
 - Well chosen early adopter customers become development partners. And they are the ultimate incentive to potential distribution channel partners, especially if they are going to become a source of revenue for them.

Develop a direct marketing and/or sales machine [regardless of whether you have a distribution channel}

- Channels need a lot of help, and you will starve if you rely on them in the early days.

Listen to your customers

- Also listen to their champions within the organisation ie sales, support and product personnel who work with customers on a daily basis.
- [This sounds like motherhood but I have seen this ignored by management, who thought they knew better, time and time again. Not a single one of those companies exist today. Microsoft, on the other hand, goes from strength to strength. They have one of the best customer feedback systems in the industry.]
- Start listening as early as possible in the production cycle – before you start if possible. We developed an excellent product that was fortunately about 80% of what was needed, mostly due to the input of highly experienced product specialists (who had to fight "management" every inch of the way). We could have fine tuned the last 20% very quickly by working with key customers in target market segments.
- Be receptive to change – Our management refused to change or were incapable of changing what they thought the product should be. The product and the company no longer exist.



Sell What You Have

- First - Find people who want what you have.
- Provide realistic appraisals of the strengths and weaknesses of your product and realistic commitments to deadlines.
- Be honest about the state of development of the product.
- Customers (especially early adopters) are remarkably pragmatic, understanding and co-operative and **being open and honest** builds trust, respect and true partnerships.

Diversify the product and service offering.

- Expand existing products and look at core skills to develop additional, complementary service offerings.
- Focus on products and services that shorten up the time to revenue ie that can be sold and implemented quickly.



My Last Word

We had a good product and value proposition. We were a little early for the market but could have diversified our products and services to shorten time to revenue and survive until the mainstream market arrived. But we didn't.

And therein lies the rub – if you don't focus on at least most of these things, you won't survive. There are no guarantees that this is enough, but it probably would have minimised enough risk for us to survive, obtain more funding and keep going to revenue and profitability.

The fundamental trick – Be open and receptive to identifying new risks as they emerge and addressing them.

If I could sum up our shortcomings in one word, it would be ego. You need some to even attempt a startup, but too much is fatal. As with all things in life, balance is essential. If you are open and receptive to the issues that the market throws up, listen, talk to and heed your customers, your people and the market and respond quickly and proactively, then you at least start with an even chance. And the very best of luck to you.

I hope that this article has been helpful in identifying some of the pitfalls in any technology startup and that the experience and advice prove useful. It isn't easy, but then if it was we would all be rich!!

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