Emerging Companies: Points of Inflection

In my previous paper, Emerging Companies: The Scaling Challenge, I discussed the three areas where Emerging Companies typically experience growing pains and face business challenges as they scale. I continue to have conversations with start-up executives and serial entrepreneurs to identify the inflection points that occur during growth and when they discover they lack the internal expertise or skills to address these growing pains or business challenges.

We have developed what we call the Emerging-Established Company Roadmap & Architecture below to help identify these points of inflection and frame the discussions around these points of inflection as a company goes from Start-up to Established. We define the typical seven stages companies go through from Start-up to Established, as: Ideation, Funding, Start-up, Product Development, Go-to-Market, Scale and Established. Each has their own focus areas, strategic and operational objectives, funding strategy, risk and infrastructure needs. In addition, each stage has specific needs in terms of experience and skill sets where external expertise may be necessary.

Stages 1 & 2: Ideation & Funding

The core founding team will typically drive the first two phases of Ideation and Funding where they define the product or service, value proposition, identify the market and potential customers, develop the business plan and secure initial seed or angel funding. Infrastructure needs are low and costs are minimal, primarily consisting of email collaboration and perhaps a laptop based prototype environment. During this time,

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Emerging Company Roadmap & Architecture

Stage[3]	Ideation	Funding	Start Up	Product Development	Go-To-Market	Scale	Established
Focus	Problem/Pain Point Customer Value Proposition Addressable Market	POC/Prototype/Demo Structure Management Team	Product Development Team Board of Directors (BOD) Infrastructure	Product Engineering Product Roadmap Product Initial Niche	Market Niche Initial Customer/Validation Marketing	Revenue Market Penetration New Market Segments	Growth IPO M&A
Differentiators	Idea Addressable Market Business Plan	Management Team/CEO Business Plan Time to Market	Management Team/CFO/COO Product Engineering Recruiting	VP-Engineering Beta Customer Extensibility/Integration	Customer Adoption/Reference Partners Viral Marketing/Buzz	Revenue Growth Multi-Function/Industry Add-On Product/Service	Growth Customer Base Growth Profitability
Strategic Objectives	Envision Product Define Opportunity Define Vision/Opportunity	Compelling Value Prop./Pitch Target Customers Exit Strategy(s)	Focused Product Development Expand Potential Offering Establish the Business	Engineering Excellence Customer Relationship Develop Revenue Plan	Marketing Reference Customer Customer Funded Product Build	Growth Rev./Profit/Size Additional Revenue Sources Additional Functionality	Market Share IPO M&A
Operational Objectives	Define Problem/Pain Point Identify Potential Customers Size Market	Secure Funding Build POC/Prototype/Demo Inventor(s)/Founder(s) + 1	Management Team/CFO/COO Cost Containment BOD/Advice/Connections	VP-Engineering Target Beta Customer Niche Engineering Focus	General Availability Product Successful Implementation Customers	Multiple Customers Add-on Sales Professional Services[2]	Operational Excellence Attract/Retain/Develop Robust Balance Sheet
Funding	$0	$500K+	$5M - $10M+	$10M - $30M+	$30M +		
Funding Rounds	None	None	None	A-Round	B-Round	D-Round/None	
Funding Sources	Self	Angel, Seed Investors		VC		None	
IT/Infrastructure	None	Basic Operations – Email, Website, Finances, Payroll		Development Environment	CRM, Hosting, Support		
Revenue	None	None	None	None	Revenue	Revenue + Profitability	
Business Risk	Very High			High		Medium	
Prof. Svcs. Value Add[4]	Business Plan Market Analysis Roadmap	Funding Pitch Customer Pitch	CFO/COO Secondment Process "Administructure" Infrastructure	Management Product Management Product Roadmap	Go-To-Market Interactive Marketing Customer Implementation	Implementations Partner Strategy Improvement	M&A Portfolio Management Professional Services

1. Similar perspectives can be found in startup blogs and other disparate sources. However we feel it is important to present a holistic view of the Emerging-Established company roadmap and architecture
2. Many Emerging and Established Companies are product only companies without a professional services need. Where appropriate we see this as an important source of revenue and include it here
3. Most of the factors addressed here are additive as the company move from stage to stage
4. The Prof. Svcs. Value Add is tailored to Kenny & Company only
5. Funding sources and amounts vary significantly and are presented in this perspectives as a rough guide only

founders may seek expert advice on the development of the business plan, including market analysis, roadmap, funding pitch and customer pitch. They meet with and leverage the insight from other entrepreneurs as well as participate in events sponsored by organizations like SVASE and TiE that specifically help start-ups refine their concept and messaging, develop a solid business plan and network with investors.

Stage 3: Start-up

As companies officially launch as a Start-up, there is more emphasis on solidifying the management team, establishing a formal or informal Board of Advisors or Directors and recruiting top engineering and product development talent. Start-ups have either boot-strapped, obtained seed money or angel funding to support establishing the business, brand creation and product development. Infrastructure investments needs are still fairly low cost and basic with the addition of payroll and financials as well as development environments, all of which can be either managed in the cloud.

Stage 4: Product Development

Once companies reach the Product Development phase, they've typically developed the initial product concept and may already have an Alpha release with signs of validation from the market. Companies focus on securing A-Round funding and start increasing product engineering capabilities to add more functionality to a Beta release. If the product is more complex business application as opposed to the next iPhone or iPad Application, companies build out their product strategy and roadmap then hire Product Managers and Product Engineering

leadership. This stage of growth is where we also typically find the first major point of inflection where Emerging companies need to scale product development capabilities beyond the initial core team and founders. Within Product Management, there are specific skills required that go beyond technical and engineering expertise to build a product. As my colleague Will Yen outlined in his blog "Product Manager or Project Manager – Do you Know? Does it Matter?", Product Managers further define the product's lifecycle, manage product feature development and testing, build out the optimal distribution channels, and continue to meet the customer/consumer wants and needs.

More often than not, good Product Managers that know the market, technology and industry are hard to find and take time hire the one that is right for the company. Since time to market is crucial, companies at this stage may leverage external support to provide the skills and expertise needed as the Product Management team is constructed. Given that this stage can typically make or break an emerging company, great emphasis is on product quality, user experience and usability. There are often breakdowns as companies try to build on their initial momentum and ramp up development where the team is bombarded with a consistent stream of enhancement requests, all of them being high priority. What's usually lacking is an intake process for enhancement requests, validation of requirements, prioritization, planning and execution based on resource capacity. There is also a lack of development methodology since every resource is churning as much code as possible, as fast as possible. Emerging companies would benefit at this stage by leveraging experienced Product Managers who bring more

rigor, structure and process to the development lifecycle as well as mentor the existing team. Companies may also find great value in implementing an Agile Scrum development methodology to support the fast paced and dynamic flow of the business. This is also an area that's usually beyond the company's existing experience and skills and where companies can leverage experts in Agile Scrum to help transform the development process and mentor the existing team.

Stage 5: Go-to-Market

Similarly to Product Development, an Emerging company's ability to execute their Go-to-Market strategy is another major point of inflection that can lead to success or failure. Companies at this stage have initial product and market validation with Beta customers and look to officially take product to market. At this stage the leadership team has a good understanding of where their product or service fits in the broad or niche marketplace and who their competition is. The Go-to-Market focus is customer adoption, satisfaction and retention. Depending on the product and if there is a revenue stream from initial customers to support Go-to-Market execution, companies may wait to pursue B- Round funding. However, if part of the Go-to-Market strategy is to hire an initial sales leader and team and/or develop a partner program and support overall customer delivery, then additional funding may need to be pursued to establish these functional operations.

While the Go-to-Market strategy is in place, the ability to execute the strategy to create market awareness and penetration on a day to day, tactical level is sometimes missing. This includes being able to understand product usage, customer satisfaction and retention. Also, the ability to gain meaningful metrics on Go-to-Market results and change the approach when needed requires another layer of insight and flexibility that may be gained through the unbiased perspective that an external view can provide. Some leaders may be emotionally attached to their creation and may lack the flexibility to know when and how to change course.

A great example of this is ability to change strategy is when Dropbox decided that traditional marketing and customer acquisition approach was far exceeded the revenue generated from their product. They spent between 2.5 to 4 times more on customer acquisition than their product cost, so they changed strategy and achieved great success. Having meaningful metrics that can help an emerging company make key decisions during these inflection points are critical for survival and success and is

another area where external expertise can help them going in the right direction, in addition to building the operational infrastructure, team and operations for the longer term.

Stage 6: Scale

As emerging companies continue to build momentum and have success establishing a presence in the market, the focus then turns to scaling operations with emphasis on revenue generation, further market penetration, additional functionality or services, and entering new markets. They're also defining and building the operational areas by hiring the leadership and resources needed to support growth. These operations include Sales, Finance, Human Resources, Professional Services, Channels, Customer Service and IT. Since revenue is the main focus, defining the right method to acquire and retain customers is crucial. For product companies, should a company bring on a rock-star VP of Sales to build a large sales organization? Should they develop and execute a Partner strategy and rely on their Channel Partners to drive and close opportunities and support customers? For internet companies, do you invest heavier in traditional marketing or leverage social media and interactive marketing for the more viral approach?

The answer usually is a combination of several approaches and understanding the cost of customer acquisition for each and how to best gain the return on investments. All of this takes some level of industry benchmarking and analysis which the product and market visionaries that founded the company may need additional expertise combined with a broader external perspective to do comprehensively. Similarly for Professional Services for customer delivery and Customer Service & Support, what is the right organizational model that makes sense? From an IT perspective, how does the IT Strategy align with the Business goals and needs for the short and long term? These are all areas that need focus during this time and where external expertise may bring value in analyzing and understanding the company objectives to help make these in addition to implementing the organizational and technology infrastructures.

The result is that multiple business or technology initiatives aimed to drive and support growth are identified. These initiatives typically require expertise or skills that reside outside of the organization or are only required for a designated period of time and is where external services are often leveraged for project leadership and execution.

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Stage 7: Established

As companies enter this stage, it's after several years of hard work and effort sustaining changes in the market, overcoming the growing pains and likely seeing changes leadership. The focus continues to be sustained growth and profitability and it's a time when some companies are considering their exit strategy and either positioning to go through an IPO or M&A so that the founding team and investors can reap the financial rewards from their company, technology and assets. The acquisition of 3Par by Hewlett-Packard is a good example. The founding team may start all over again with a new product or solution as many entrepreneurs do. If the focus is continued growth whether as a privately held or public company, there is usually a changing of the guard where industry veterans from larger companies take on leadership positions, focused on achieving the next level of growth to Mid-Market or Enterprise. Even as companies become Established, they are constantly improving and optimizing their Go-to-Market and Product Development strategies and capabilities as well scaling operations to support growing the business. Since the focus is growth and profitability, companies typically initiate programs to optimize their Sales & Partner capabilities and delivery, Customer Delivery and overall Operational efficiency.

Companies continue to define and execute their Portfolio of Programs & Projects for each year, all aimed at growing or driving efficiency into the previously mentioned areas. Many of these programs can be global, large scale, multi-year transformation initiatives and are designed to reshape or redirect the company's future. This is where large consulting firms who can allocate a significant number of resources and manage the programs and projects from multiple levels can help their clients during this change. It's also a time when smaller, specialized firms with specific expertise or experience can be leveraged to bring specific value and help drive program results.

Conclusion

We believe our seven stage Emerging-Established Company Roadmap and Architecture helps identify these points of inflection and frame the discussions as a company goes from Start-up to Established. Recognizing the stage the company is in and the appropriate focus areas for that stage is essential, as is understanding when is the appropriate time to seek external expertise. Each of these seven stages and the numerous points of inflection along the roadmap of and Emerging to an Established company is a point where failure can occur or the foundation for further success can be laid.

About the Author

Peter Daheb has spent his career delivering consulting services and technology solutions to executive level clients at Fortune 100, Small and Medium Businesses, and Emerging Companies. Peter has 14+ years in business development and consulting experience with Oracle, SageLogic Software, Informatica, Tangent Computer, Synnex and Slalom Consulting and has a broad range of technical expertise in the areas of Business Intelligence, CRM, ERP, Telecommunications and Cloud Computing. As an entrepreneur Peter has successfully launched two companies, is an active member of the Silicon Valley Association of Startup Entrepreneurs (SVASE) community and has published multiple perspectives on the startup and emerging company space.

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