Irish Tech Sector Survey 2012

new
approaches
to growth

CONTENTS

FOREWORD

The indigenous software sector is changing dramatically. Ireland's claim to be the Internet Capital of Europe has been endorsed by the arrival of leaders such as Facebook, Google, LinkedIn and Twitter. Indigenous successes like Hostelworld, Cartrawler and Globoforce are inspiring others to follow their lead.

Over the past couple of years there have been new approaches to company building coming from Silicon Valley, and indeed from the indigenous sector. As you would expect, some of this has been hype, and some has been real. Our belief was that exposure to these new approaches would help Irish tech companies accelerate growth.

Through programmes like iGAP, visits from Silicon Valley and locally based entrepreneurs and other thought leaders an increasing number of Irish internet companies have been exposed to these new approaches. With this increased exposure and learning we all raise the bar in terms of ambition and expectation that Ireland will continue to have one of the best environments for the start up, development and growth of internet businesses. The drive, commitment and leadership shown by Enterprise Ireland has been instrumental in creating one of the 'best connected' sectors in the economy.

We wanted to understand how, and indeed if, Irish companies were adopting some of these new approaches to growth. To do this, we asked Select Strategies and Turley Communications, to survey CEOs of Irish tech companies.

This report is the result of those CEO discussions. I firmly believe that applying the ideas in this report will help more Irish technologies companies grow faster.

Colm Lyon
CEO, Realex Payments & Founder, IGA (Internet Growth Alliance)

Paul O'Dea (Select Strategies) and Eric Ries (author – *The Lean Startup*) discuss these new approaches at iGAP.

Programmes like iGAP are helping internet startups apply new approaches to growing their companies.

INTRODUCTION

As the global software sector hurdles towards adoption of cloud, mobile, Internet and SAAS, the Irish indigenous technology sector is at a crossroads. The speed of launching new products, the approaches to acquiring customers and the metrics used to measure success have been altered forever.

While many of the challenges in building a technology company remain constant – the approaches to addressing these challenges are changing radically.

During the preparation of this report, we heard first hand the benefits of adopting new approaches to growing tech companies. We also witnessed first hand the struggle of companies who hadn't adapted to the new. We were fascinated by the stories and experiences generously shared by the CEOs who participated in the survey.

In this report we examine five key areas where these new approaches are happening:

1. Ways of building products
2. Size of markets being competed in
3. Finding product/market fit
4. Establishing measurable customer value
5. Change in approaches to customer acquisition

Overall, we hope the report contributes to helping Ireland become the leading 'Cloud based' sector in Europe.

DEFINITIONS

'Cloud and web-based companies' are companies who use the web for the delivery of the services/ software they offer and/or use the web as their primary channel to market. This definition includes a variety of companies who might categorise themselves as cloud, Internet, mobile and SAAS based companies and can be either business-to-business (B2B) and/or business to consumer (B2C).

'Traditional software companies' have a more traditional 'on-premises model' delivering both complex and simple applications, often using a perpetual licence model and are mainly business to business (B2B).

FINDINGS

1

RUN FAST EXPERIMENTS

There are new company leaders emerging in the sector who improve their odds of success, through running small, cheap and fast experiments. This experimental approach helps ensure they build products customers want.

2

FIND PRODUCT/MARKET FIT

Intimate knowledge of size of market opportunity and customers' intentions to buy are now mandatory. Proven market validation must pre-date full product development. Product/market fit is a requirement before significant investment in sales and marketing.

3

THE BOARDROOM SHUFFLE

The strategic importance of laser sharp marketing is eclipsing sales in the pecking order. Customers demand a 'self-service' buying process and need clear messages that cut to the chase. While on the surface this looks like good news for marketers, the research found this skill set lacking.

4

BUILD A CUSTOMER ACQUISITION MACHINE

For cloud based companies, new customer acquisition is a life or death issue. Building a customer acquisition machine, led by world class digital marketers is the only route to scale. There are lots of tools to help, but selecting the right ones and using them properly is a competence that companies need to acquire fast.
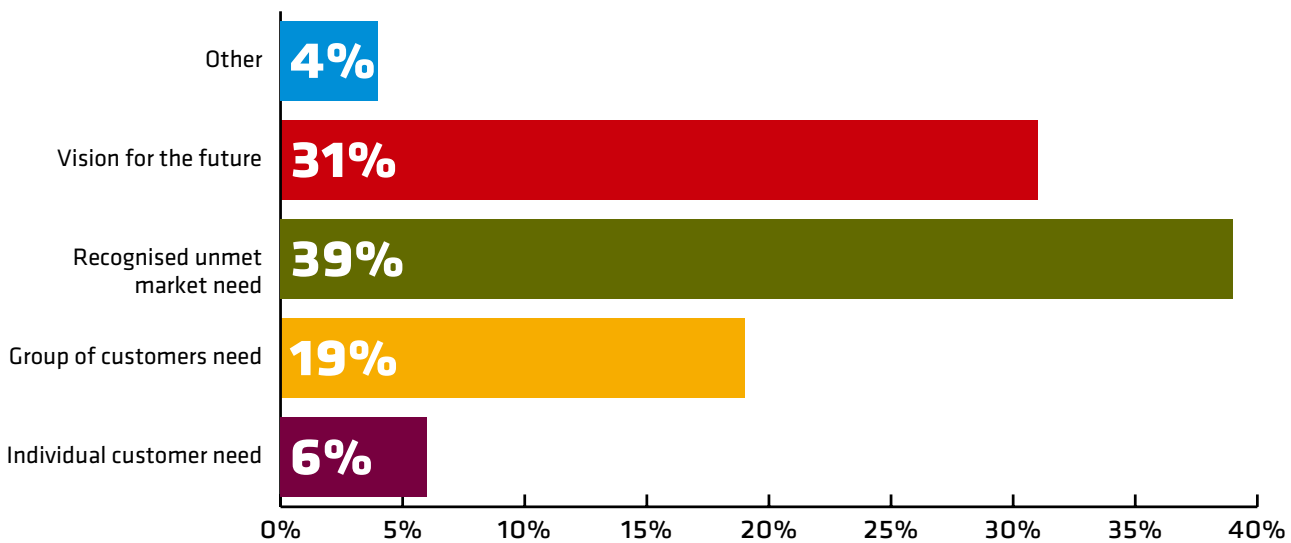
5

USE THE *RIGHT* METRICS TO MEASURE PROGRESS

Cause and effect is now highly visible in the customer acquisition and retention cycle – everything is measurable. This is driving unprecedented levels of transparency and new depths of accountability. Some companies in our research embraced this – gaining traction faster – but others feared it.

1. BUILDING PRODUCTS IN A SMARTER WAY

70% of respondents cited, 'unmet market need' and 'vision for the future' as main impetus to develop their product.

Impetus to develop product/service

Category	Percentage
Other	4%
Vision for the future	31%
Recognised unmet market need	39%
Group of customers need	19%
Individual customer need	6%

COMMENTARY

We applaud the level of innovation amongst respondents, but interviews show that some companies are too focused on building software rather than testing to see if the market wants what they have got. Products only become alive when used – if they stay in the lab too long they are dead on arrival.

However, there is a new generation of company founders emerging, who have an iterative approach to product building. They understand that the route from product idea to paying customer is fraught with uncertainty. They develop prototypes and run experiments on shoe-string budgets to get customer feedback. They learn by doing. They understand that their assumptions of a customer's unmet needs must be validated.

They test their assumptions in a rigorous way. Newer 'cloud/web based' startups have been quicker to adopt these approaches. However, they are equally valid for more traditional software companies.

One approach used is the concept of Minimum Viable Product promoted by Eric Ries. MVP is the smallest set of features that solve the core customer problem and demonstrate the product's value. Companies who had taken this approach were able to lower the risk involved in their start-up by "getting out of the building quicker", and engaging with customers. Many cited that the strength of their product today had come from the iterations and feedback from early customers.

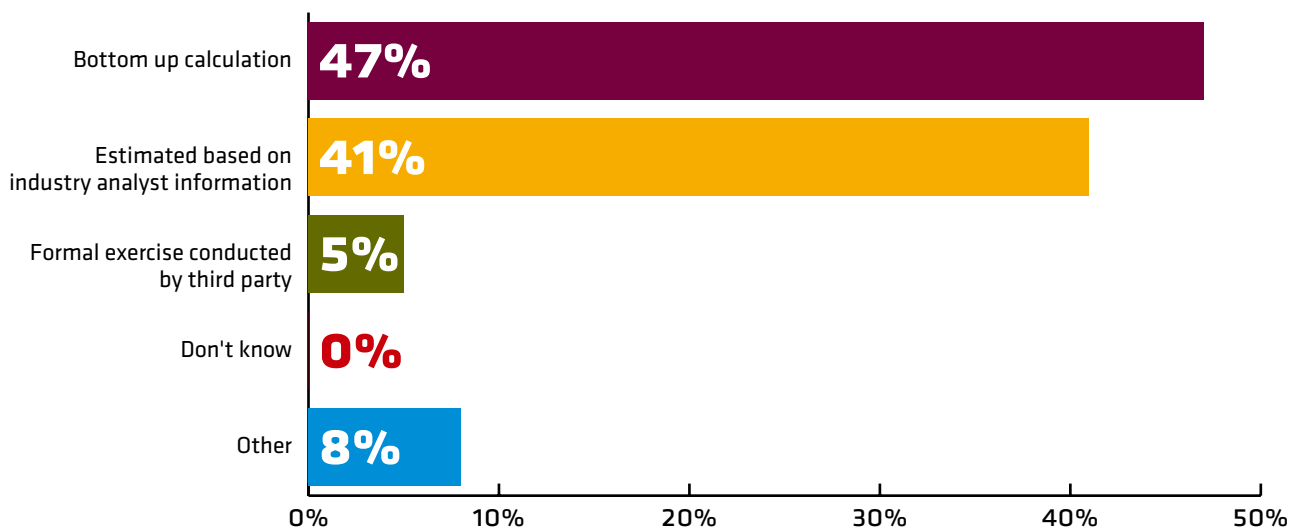**Mick's Garage**, the car part experts:
They went on gut instinct – and their experience of the industry in the early days. Their market entry was low risk – a front end website and €50 ad-word budget plus some PR to get the brand out. Now things are much more systematic. They rigorously monitor what people are searching for and use this to help decide what product to launch – it is consumer real-time research.

2. DISCOVERING BIG ENOUGH MARKETS

47% of online survey respondents cited 'bottom up calculation' as the method they used to size the market.

Method of calculating market size

Method	%
Bottom up calculation	47%
Estimated based on industry analyst information	41%
Formal exercise conducted by third party	5%
Don't know	0%
Other	8%

COMMENTARY

The most important factors in a company's success are market size and growth rate. Good products and good teams deliver growth in big markets. In small markets, even great products and great teams can't deliver growth.

Yet we found that many companies paid lip service to quantifying market size. Many rely on investors to challenge their estimates. This lack of disciplined market sizing results in wasted effort and missed larger opportunities. A better market understanding might increase their ambition, or encourage them to change to a new sweet spot.

Traditional software companies could afford to defer detailed market sizing as they competed in big-ticket markets with slower customer acquisition needs. Cloud/web-based companies have global competitors from the start. They need to understand the size of their markets to ensure they have the required resources to compete.

WhatClinic, who provide better online ways to find a medical clinic, used both bottom up and calculations from analyst reports to assess market size. This revealed a sizable market opportunity.

However, when the company began more formal market testing they found no correlation between market size and propensity to buy. In short they had a large market with low interest. As a result the company switched to a segment of their original market – focusing on clinics not hospitals, on cosmetic procedures not medical services. WhatClinic then focused its sales and marketing efforts on the right sweet spot.

3. FINDING PRODUCT/MARKET FIT

27% claim to use some formal method to conduct 'customer validation' prior to launch, with Cloud/web-based companies more likely to do so.

Methods used to validate 'likelihood to buy'

42%

8%

6%

12%

17%

15%

- No validation done
- Formal market research
  e.g. web survey, third party research etc.
- Feedback from industry watchers/ analysts
- Formal client feedback via usergroup,
  focus group etc.
- Informal feedback from clients and prospects
- Other
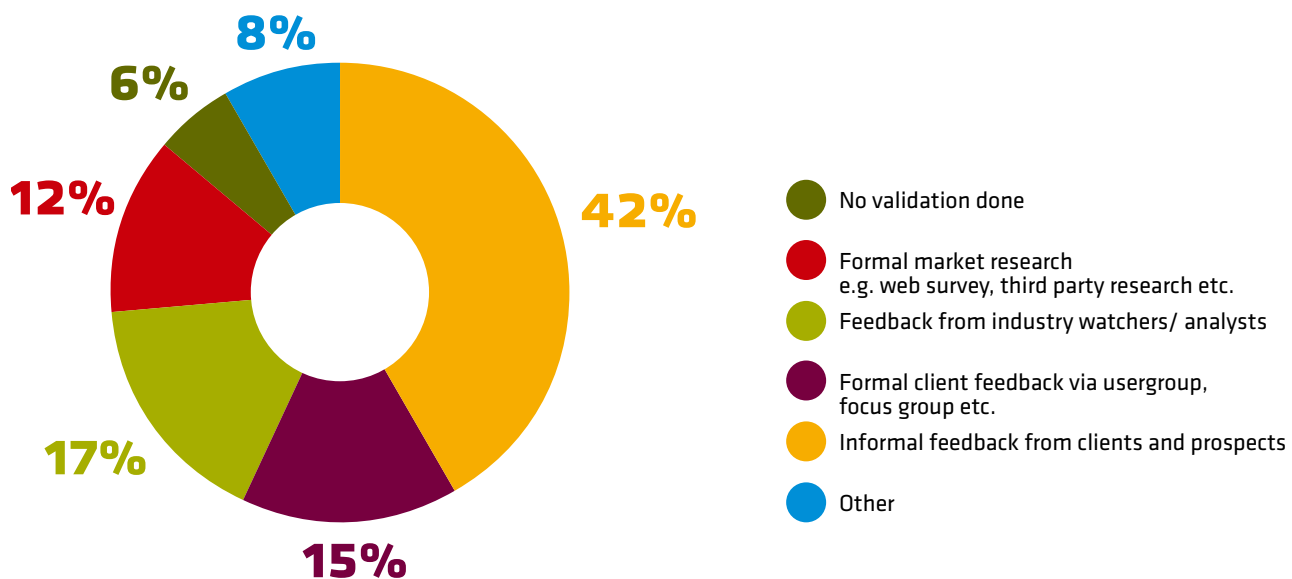
Product/market fit occurs when you have evidence that you are in a good market with a 'must have' product. Stanford Professor Steve Blank defines it as having a repeatable and scalable sales model. Until a company has achieved product/market fit, the smart companies keep cash burn down and use low cost experiments to try to get towards product/market fit.

COMMENTARY

Finding fit is one of the key factors in accelerating growth. The survey results suggest that Cloud/web based companies are more focused on finding product/market fit. Traditional software businesses often have big-ticket deals and can 'farm' accounts to buy time. However, they can't grow beyond founders and scale, until they find product/market fit.

Cloud/web-based companies need to find product/market fit earlier in their development. Without it, they can struggle to win enough paying customers to survive. Their challenge is to conserve cash until product/market fit is established; and post product/market fit to ramp up sales and marketing.

The savvy CEO interviewees could smell when product/market fit wasn't happening. They talked about long sales cycles and product trials not converting. They alluded to existing customers not quite getting the value and word of mouth not spreading. They were obsessive about product/market fit.

More experienced cloud/web-based interviewees reported using metrics to measure product/market fit, like:

- Strong product usage within early adopter customers (e.g. number of active users, usage time, follow on sales)
- Sean Ellis's (CEO, CatchFree) test for cloud/web-based companies. ie: If 40% or more of your users would be *"very disappointed if your product no longer existed"* then product/market fit has been achieved.
- Rate of conversion from free to paying customers.
- Rate of customer churn.
- Net promoter score *'how likely is it that you would recommend us to a friend or colleague?'*

We reviewed two participant company's 'product/market fit' tests, both of which used simple online surveys:

Company A
- Over 82% of participant company A's users said they would be *very disappointed if their company no longer existed*.
- They accelerated their investment in sales and marketing.

Company B
- Participant company B had only 21% of their users saying they would be *very disappointed if their company no longer existed.*
- They changed to a different market segment.

Most companies needed several iterations to secure product/market fit – none we spoke to got it right first time. Traditional software companies could consider adopting and apply some of these concepts.

Paddy Power recognised the exponential growth in the smart phone market. They also were seeking to win over UK male betters in their twenties and thirties, many of whom had never set foot in a traditional betting office. They assumed that the iPhone/iPad would encourage more betting and tested their assumptions. Paddy Power were first to market with easy to use betting services on the iPhone/iPad and achieved product/market fit winning over 30% of the UK transactional mobile betting market.

40%

Survey your customers.
If more than 40% say they
would be very disappointed if
"they could no longer use your
product", you have achieved
product/market fit.

Sean Ellis
CEO, CatchFree & former VP Marketing, Dropbox

4. ESTABLISHING MEASURABLE VALUE

48% of companies reported that sales still need to engage in face to face meetings with prospects to communicate the value.

Ease with which customers understand the value we deliver

- They seem to value what we offer
- Prospects clearly understand the value without face to face explanation
- Sales need to engage in face to face meeting with prospects to communicate the value
- Product visionary/founder needs to engage in face to face meetings to communicate value
- Other
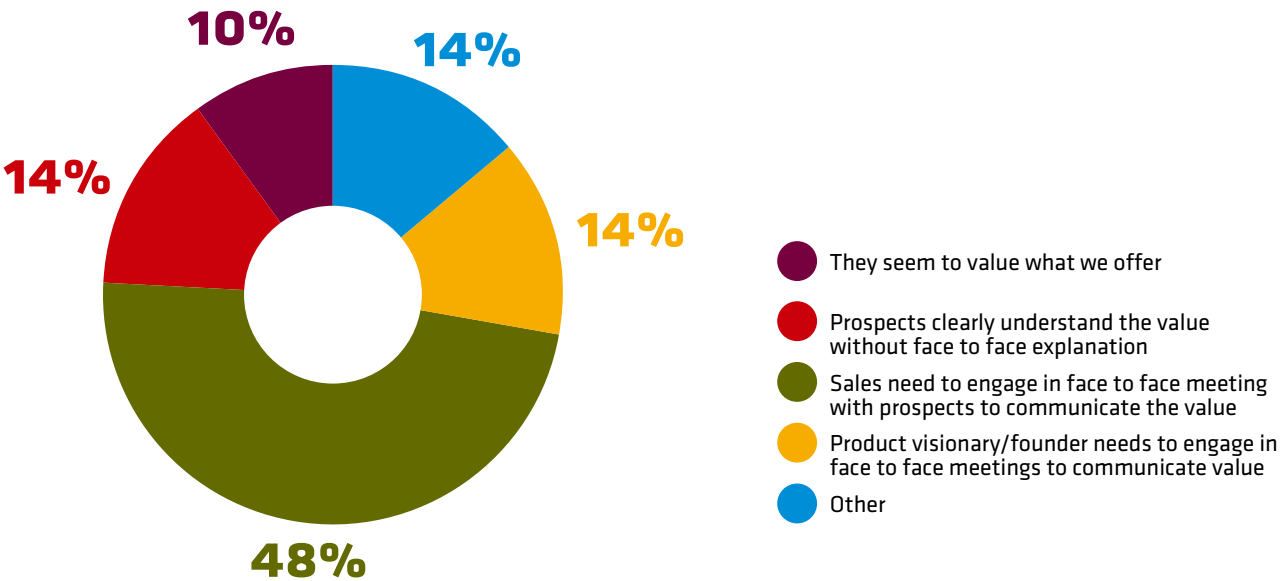
COMMENTARY

Increasingly it seems the customer chooses the channel because they want self service. Indeed many customers don't want to engage with a salesperson at all. Traditional methods of selling have changed and the importance of having a clear and compelling value proposition is more critical than ever. Value should be intuitive from marketing communicatons. Problem is – it's often not.

Savvy companies reported validating and testing their value propositions through:

- Online customer testing of alternative marketing messages and value statements.
- Testing alternative web designs to optimize visitor conversion rates, using tools like, **Unbounce**.

They tested and refined their messaging to help the customer adopt a self-service approach to buying. They understood each buying step the customer was taking online and made the next step easy and frictionless.
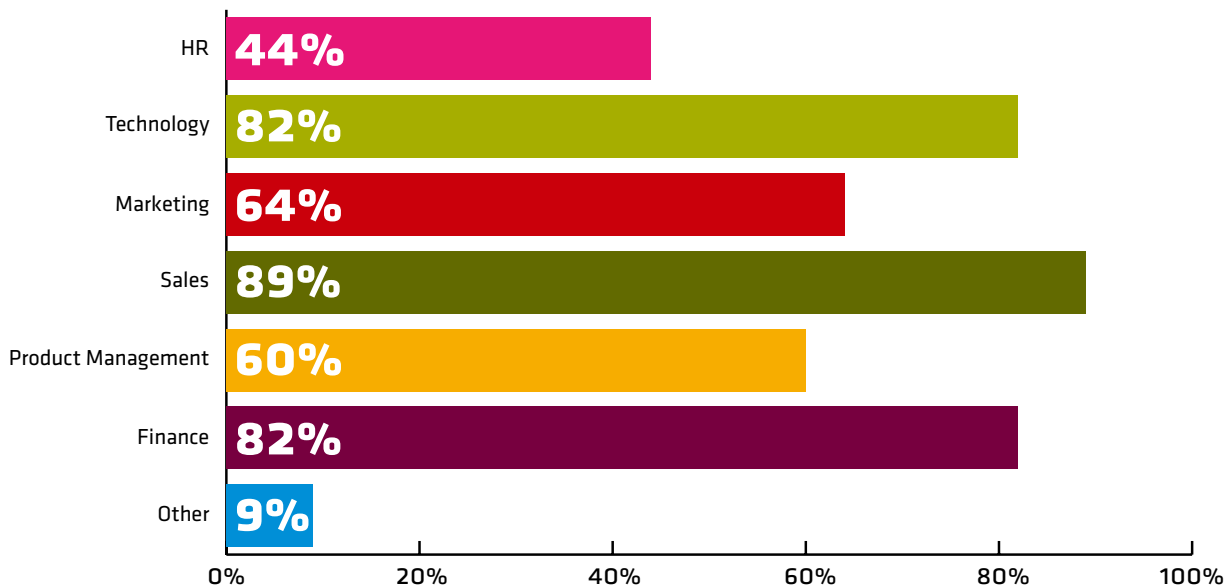
HostelWorld, home to the world's greatest hostels with over 27,000 properties, took a very simple view on the customer buying process. They simply couldn't afford to touch a booking – as each transaction was on average $10 – the value proposition had to do the work. Every phone call or email communication with a customer meant the transaction was unprofitable. From the outset, there was a relentless focus on testing and refining the proposition and messaging to enable the customer to serve themselves.

Traditional software companies also must sharpen how they communicate online as their buyers are self serving during the early, part of the buying cycle. Employee recognition company **Globoforce** provide a great example of how to do this on their website. It is clear, compelling and allows the buyer to self-serve their way through much of the buying cycle.

5. ACCELERATING CUSTOMER ACQUISITION

89% of companies include sales as part of the senior team, only 64% include marketing.

Functions which form part of senior team

Function	Percentage
HR	44%
Technology	82%
Marketing	64%
Sales	89%
Product Management	60%
Finance	82%
Other	9%

COMMENTARY

Traditionally companies relied on sales to communicate value face to face and marketing to support it with documentation. As buyers research and consume information virtually, the role of marketing in orchestrating consistent messaging via websites, blogs, social media, demos, free trials, PR and trade events has become more central.

While the number of channels and voices has exploded the fundamental principal of delivering valuable, relevant and compelling content remains unchanged. A key challenge for today's marketers lies in understanding what channels are right for what messages and actions. The role of virtual 'word of mouth' and the word of the online influencers rather than the marketing department is key.

The good news for Irish companies is that this increased reliance on self service marketing makes it easier to get their message out. However the marketing skills required to get their message consumed and acted on are in short supply – there is a shortage of 'strategic digital marketeers'.

Many interviewees cited direct email marketing to a database of prospects as an effective means of raising interest from new prospects and gaining repeat business from existing customers

Amongst the Cloud companies interviewed, there were mixed views on the effectiveness of search engine optimisation as a means of customer acquisition. Some were concerned about the impact of search engines, like Google changing the rules and drying up their customer acquisition channel overnight.

The speed of marketing has altered. Interviewees reported ignoring six month marketing plans. Many adopt a mindset of 'build, measure, learn' to shape and build their customer acquisition strategy on the go.

Three metrics – **committed monthly recurring revenue, customer acquisition cost and customer lifetime value** are key measures of Cloud/web-based business performance. Some companies in our research found this transparency and accountability liberating and embraced it to drive change and act fast. Others were intimated by it fearing what the numbers will tell them.

At **The TAS Group**, the sales performance improvement company, a strong focus on metrics has driven the use of marketing channels. They created a YouTube channel to showcase products and a self assessment index to evaluate sales performance. Both LinkedIn and Twitter have been useful referral sources. Their blog had 220,000 visits in 2011, and according to CEO Donal Daly, many commercial conversations start with "I read this on your blog…"

Usability testing featured far higher in Cloud companies. Customers will often trial a product before buying, so their user experience is a huge driver behind the decision to convert from free trial to paying customer.

APPENDIX A: METHODOLOGY

APPENDIX B: PARTICIPATING COMPANIES

Select Strategies and Turley Communications carried out this survey on behalf of the Internet Growth Alliance in late 2011 and early 2012.

The leadership of Irish Tech companies, with whom we have been engaged over the past 5 years, helped influence the hypotheses behind the design of this survey. Some of this was in workshops, consulting assignments and through discussions with industry representatives.

Our objective was to report on the degree to which Irish Tech companies are adopting new approaches to building products; product/market fit and sales and marketing, as buyers move towards a more cloud/web centric environment.

The online survey was distributed to the indigenous Irish software sector, as well as to other interested stakeholders. We received 57 responses from 53 companies, the vast majority of whom chose to be named. The survey analysis that follows has been based on the response of the most senior executive – usually, the CEO – in each of these companies and from one to one follow up interviews.

The following is a partial list of the companies who contributed to this report. Some companies have asked not to be listed. We are extremely grateful to all for the time and effort expended in their participation.

3Dissue	Mertech Data
AccountsIQ	Mick's Garage
Adest	Nathean
Aonta	Newbay
Brandvis	Ocuco
CampusIT	OpenMind Networks
CarTrawler	Orcawise
Cathx Ocean	Quest
Clarigen	Realex Payments
Cloudmover	Reddar
Crème Global	Risaris
Danutech	Rockall Technologies
Datahug	Roomex
Decisions IT Consulting	Service Frame
Delta Solutions	Socowave
Emydex	Storm Technology
Ergo Group	System Dynamics
Fineos	Tekelek
Globetech	The TAS Group
H2Compliance	TunePresto
Intact	Version1
Ircona	Wedding Dates
Macalla	WhatClinic
Mapflow	Zarion

APPENDIX C: SELECT STRATEGIES PUBLICATIONS

REPORTS

Creating a World Class Environment for ICT Entrepreneurs
(ICT Ireland 2003)

Irish Software Industry Outlook
(Irish Software Association 2004)

Barriers to Growth – Opportunities to Scale
(Irish Software Association 2005)

Creating European Sales and Marketing Organisations
(IDA/American Chamber 2006)

The Product Management Minefield
(Irish Software Association 2008)

BOOKS

Select Selling Sales Fieldbook
(OakTree Press 2005)

The Business Battlecard
(Oaktree Press 2009)

APPENDIX D: AUTHORS & COMPANY PROFILES

Paul O'Dea
Paul has co-founded and help build several international companies, three of which exited to public companies generating returns of 4–5 times for investors. Since making the switch from 'entrepreneur to business advisor', his passion is helping ambitious companies make a step change in international growth. Paul serves on the Boards of several investor backed companies and is author of The Business Battlecard (2009).

Emer O'Donnell
Emer has over ten years professional services and product management in international technology companies. In addition to client consulting projects, she is programme manager for Enterprise Ireland/Internet Growth Alliance's, iGAP Programme. Emer is co-author of The Product Management Minefield (2009).

Rosemary Turley
Rosemary has over 20 years hard won experience in the field of international software marketing with great expertise in helping build successful start-up organisations. She has worked with many indigenous Irish organisations – in the US, EMEA, UK, North America, Asia Pacific and Australia – and is passionately committed to delivering marketing strategies which measurably impact revenue and profit.

Select Strategies
Select Strategies helps ambitious companies who are striving for growth. We provide international strategy development and execution services. Clients include Expedia, Hewlett Packard and multiple early stage companies.

Turley Communication
Turley Communications is a boutique marketing consultancy that provides hands on, practical and results focused marketing services. We have a passion for helping new software companies gain market traction faster.

iga Internet Growth Alliance

Select Strategies

Jurley Communications