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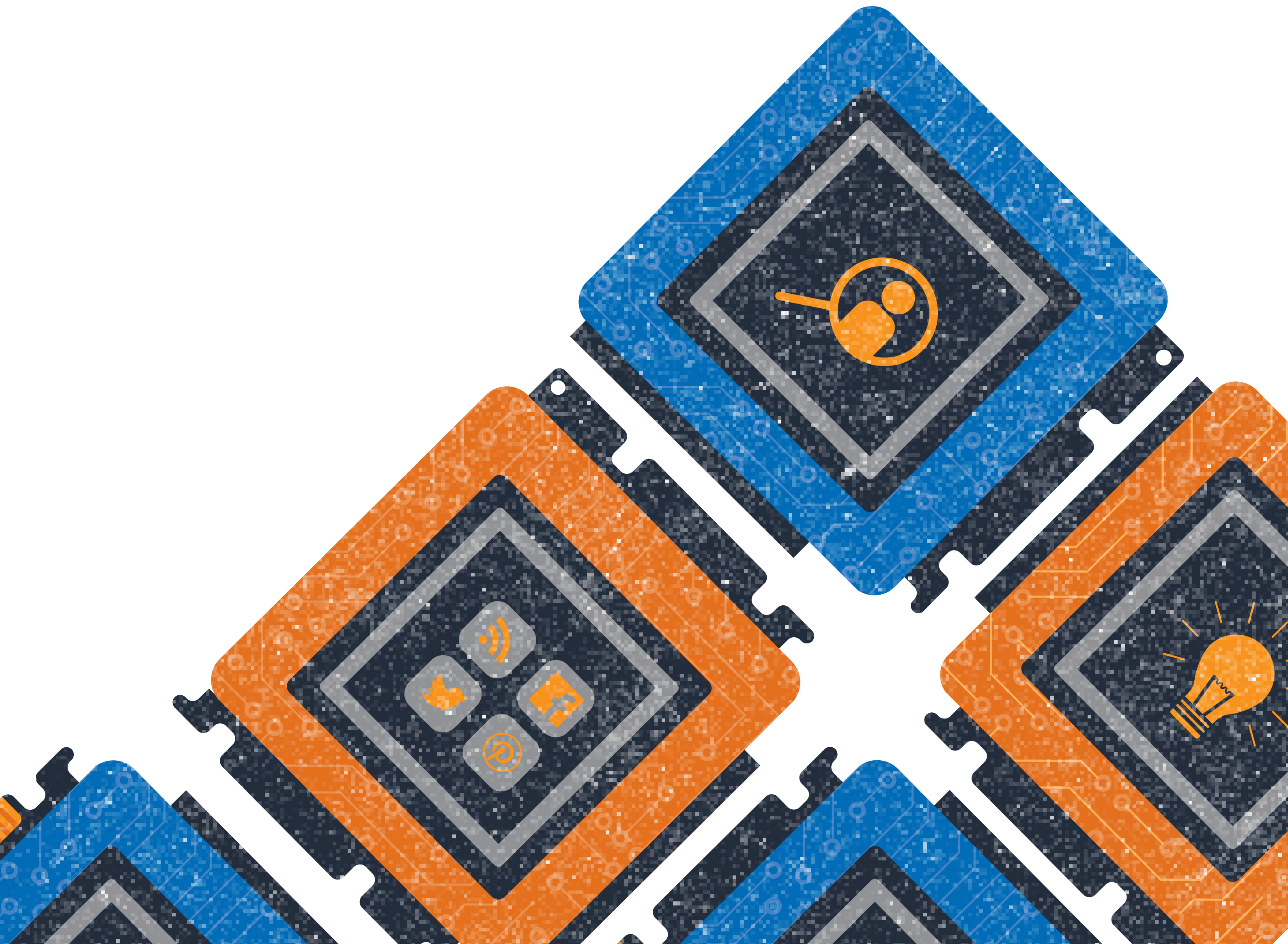
The burning tightrope

How to rapidly scale operations and teams

Extract from technology, media, telecommunication report
Building tomorrow's billion dollar businesses

#GTtech



How to rapidly scale operations and teams

Scaling a tech business is like walking a burning tightrope. The faster you go, the more you risk falling off. But go too slowly and the rope will burn through.

Depending on their level of business maturity, the challenge for tech companies is slightly different – but the principle remains the same: grow or die. To be the next billion-dollar technology brand, CEOs need to figure out how to scale and normalise faster than their rivals – without compromising the DNA of the business.

Tech companies that have passed the first stage of rapid growth must constantly innovate and scale new products and divisions – otherwise their rivals will pass them by. More mature businesses must also make their operations more efficient as they recover from rapid expansion and seek to make their businesses more profitable. Early-stage start-ups must scale fast simply to survive – research suggests that just one in ten companies growing at 20% per annum survive more than a few years[1].

Protecting the core

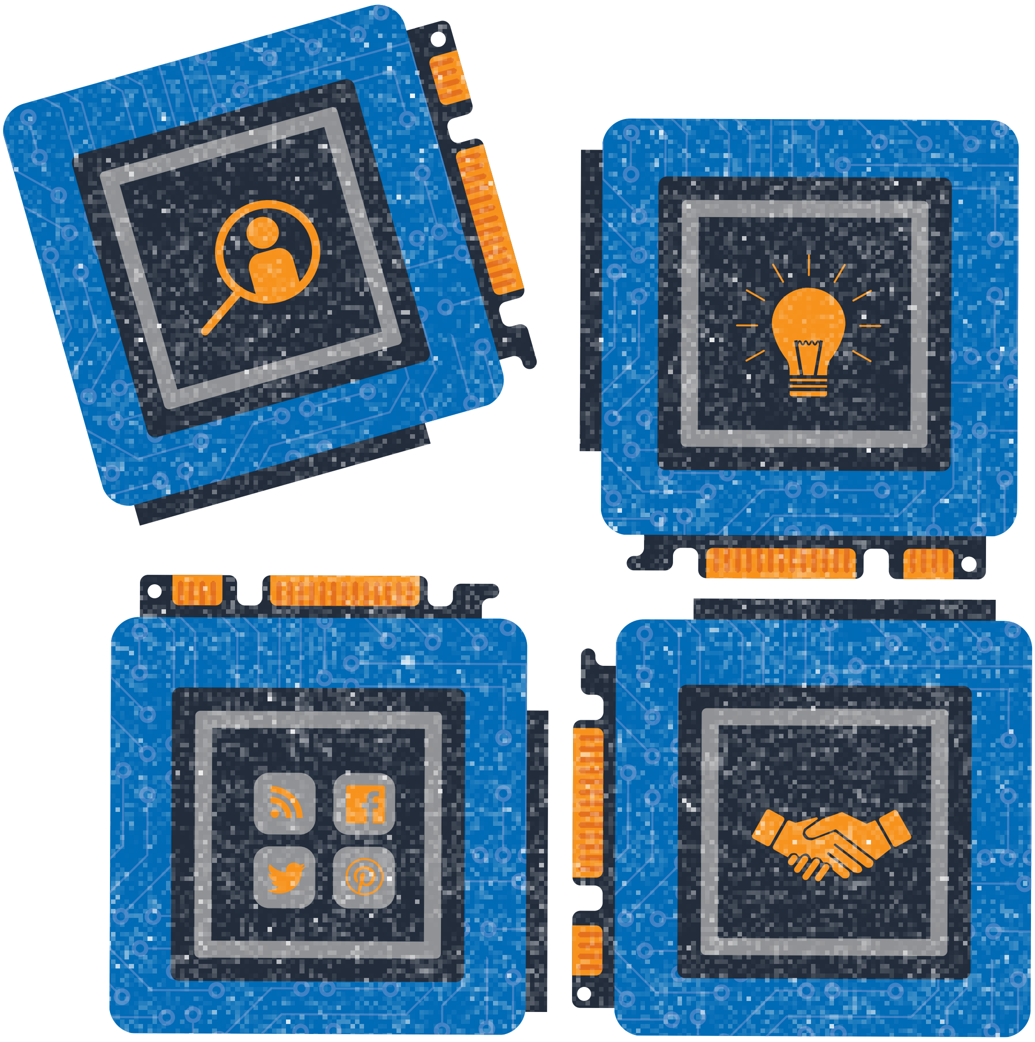
The good news is that cloud and on-demand enterprise services are making expansion cheaper and less complex than ever before. Scaling tech companies can use systematising tools like Jira to track issues and manage dispersed software builds. Meanwhile, collaboration tools like Yammer, Skype and Basecamp allow for close teamwork between decentralised teams.

But tech companies cannot grow effectively if they do not also look after their core structure, processes and functions. George Kadifa, managing director, Sumeru Equity Partners, says this is something that growing companies can downplay – only to run into serious difficulties further down the line. “A lot of entrepreneurs are not interested in that side of the business,” he explains. “But the risk of not putting those processes in place is that you will get to a point where the business will suffer.

> “The head of engineering at a global software company describes some of these CEOs as babies with loaded guns. They’ve all this power but they don’t know what they’re shooting at. You have to get these very smart technical people to the point where they can grow the organisation.”

Bob Sutton
Stanford University, Professor of management science and engineering and author of *Scaling-up Excellence*

1 ‘Grow fast or die slow,’ McKinsey and Company, April 2014



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George Kadifa
Managing Director, Sumeru Equity Partners

In the early nineties, for example, IBM was built in a non-scalable model. Every country had its own structure, capabilities, systems and processes. When the mainframe business slowed down, IBM was close to bankruptcy.”

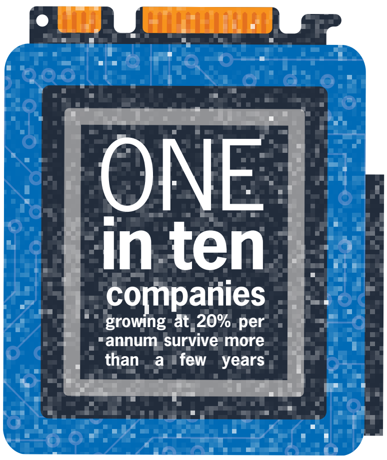
Investing in a strong core is not just about maintaining operational reliability. It can also open the door to future growth. “Once you have reached a baseline level of stability in your business operations,” says Steven Perkins, global leader of technology, media and telecommunications at Grant Thornton, “you are in a stronger position to rapidly scale, or to support the next quantum leap to secure additional financing.”

Fortunately, rapid change in the underlying architecture of core enterprise software tools is helping. Whereas companies busy scaling up used to invest in physical mainframes or client-server infrastructure, they can now simply sign up for cloud-based enterprise software services, such as finance and human resources tools like Workday.

Looking beyond initial markets

After their initial taste of success, tech companies are invariably hungry for more. But frequently there is only so much room to grow in the local market. Moving into new areas quickly becomes an imperative, especially if they are based outside the US. And, if they don't move fast enough, someone else might copy their idea. In Germany, the Samwer brothers have built a successful business based on 'cloning' the ideas of US technology companies[2].

As they look to new markets, tech companies have several approaches open to them. They can sell direct to overseas customers from their home market, work with established intermediaries or partners with local knowledge, or relocate the business altogether. Selling direct may appear more lucrative at first, but it saddles the company with local compliance, licensing and auditing issues – which could be handled more effectively by a local partner. For others, opening a presence on the ground may seem the best option – but there are several different ways of doing it (see following page and Netcomm case study on page 30).



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Noam Schwartz
Head of Innovation, Similarweb

Innovating the product mix

Technology and innovation are inextricably linked. If tech companies are not prepared to rethink and enhance their existing offering, they are unlikely to reach the next stage of growth. But they also face what appears to be a stark choice. They can continue to add new features to ensure their product remains competitive against their rivals. Or they can focus on providing better performance by making incremental improvements to the product's existing features.

The talent bottleneck

For many growing tech businesses, the biggest obstacle is a shortage of talent. In the US alone, demand for software developers is expected to grow by 20% per annum to 2022[3]. This shortage is not just driven by the tech sector – all sectors are looking for digital skills.

In the UK, Australia and India, tech companies are struggling to recruit talent with backgrounds in Science, Technology, Engineering and Mathematics (STEM) subjects – despite government efforts to boost such knowledge. And it isn't just standard issue STEM skills at a premium: there is growing demand for 'smart creatives', who combine bold ideas with technological and commercial knowledge.

New, multifaceted roles are also in high demand. Today's cloud technology specialists are expected to be part technology broker, part cloud integration specialist and part user experience designer.

Making matters worse, there is often significant external pressure to speed up recruitment. "When you're growing there's a lot of pressure from the market and from investors to start ramping up your sales floor," says Noam Schwartz, head of innovation at Similarweb. "It is very easy to hire ten new people, but it's extremely hard to hire ten amazing people, and it's very difficult to fire people."

2 'Germany's Samwer brothers to become billionaires with rocket internet IPO,' Forbes, July 2014
3 'Employment projections program,' U.S. Bureau of Labor Statistics, 2015

Relocating your tech business: three main options

1 IP holding regimes and regional hubs

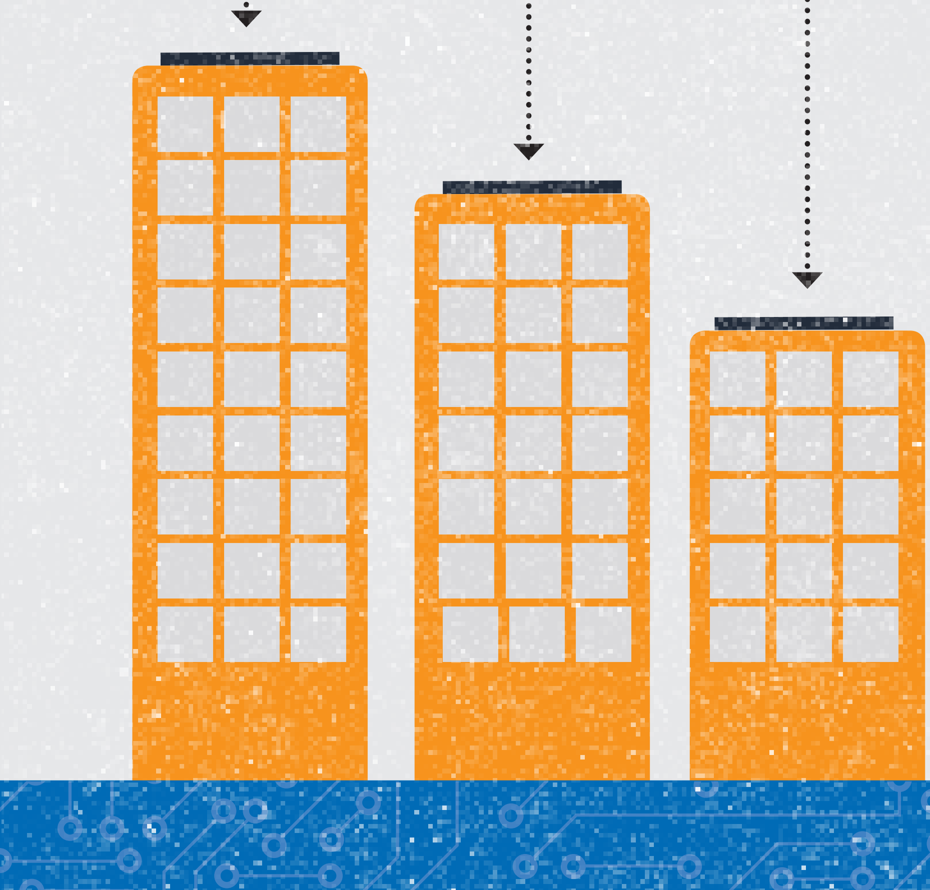
Through Intellectual Property (IP) holding regimes, the holding company retains IP rights but gives the trading company a license to use the IP as part of its daily business operations. The trading company pays an up-front license fee and ongoing royalty payments for the duration of the license. Given the importance and value of IP protection, tech companies are considering where best to locate IP assets to ensure protection and manage tax efficiently.

2 Offshoring

Offshoring is the overseas relocation of support functions. In recent years, offshoring has been extended to value-add functions, such as R&D and treasury. These centres may be moved to locations where there is a wealth of skilled talent, efficient tax arrangements and incentives to encourage investment.

3 Full migration

This involves moving the headquarters or the holding company or both. If you are based in a jurisdiction with a complex tax system, then full migration to a different jurisdiction may prove the most efficient approach. And yet, while the benefits can be significant, there are exit costs to consider. Increasingly, there are also reputational issues to bear in mind. In today's climate of enhanced tax scrutiny (see chapter 3), tax avoidance is an unwelcome brand association.



To overcome the talent bottleneck, growing tech companies can explore their options:

- opening shop in talent-rich areas: teams no longer have to sit together – nor do they have to live in the same city, country or continent. Firms can build dispersed 'virtual teams' that draw on a new wave of collaboration tools. Growing tech companies may find that opening offices in Asian markets will give them access to skills that are harder to come by in more mature markets;
- moving to talent-friendly parts of the city: some growing companies are renting office space in different parts of their home cities to be closer to where the most talented developers choose to congregate. They also recognise that talented people tend to choose vibrant, fast-moving and innovative companies. As a result, many CEOs drive active policies to maintain the firm's founding culture, morale and values;
- buying teams off the shelf: acquihiring – used extensively by Facebook, Google, Yahoo! and Twitter – is a popular weapon in the war for talent. Growing companies explore M&A around fast-moving start-ups purely so they can bring on board their smart teams and leaders. They have much less interest in the businesses themselves;
- innovative employee offerings: tech companies should explore carefully how they can develop advanced stock and compensation-based incentives that are more appealing than those offered by their competitors; and
- the freelance economy: companies can limit recruitment to a core of critical functions, using freelance workers to fill gaps – a trend supported by marketplaces like Freelancer, Elance, Upwork (formally o-desk) and Airtasker.

CASE STUDY

Sláinte Healthcare's bold path to growth

Sláinte Healthcare is Europe's fastest growing healthcare technology company, providing software to help hospitals become paperless. The business initially specialised in software for electronic health insurance claims. When the company began gathering momentum, founder and CEO Andrew Murphy started to scale the business by expanding into the Electronic Medical Record (EMR) market.

"Seeing significant usability and adoption gaps in the EMR market we looked at designing something disruptive," he says. But rather than sell the new product – called Vitro – to existing clients and prospects, the company decided to launch it in a foreign market so it could test the software out first. The company chose the UAE. "It was far enough away that it wouldn't affect our potential in any other market if we failed," says Murphy. It was also a convenient market to test Vitro's international capability, such as its multilingual functions.

After experiencing initial success in the UAE, Sláinte next launched Vitro in Australia – a market it thought it could get moving quickly. "We hired someone with credibility across the healthcare system in Australia and won our first site within three months," says Murphy. Testing and refining the product in the UAE and Australia meant Sláinte could approach bigger markets with a proven product. The company has subsequently launched Vitro in Ireland, the UK and a range of new markets.

Sláinte's international expansion followed a considered and well-planned process. After Sláinte secured its fifth Vitro client, Murphy continuously sought professional advice on strategy, tax and regulations – while building organisational structures and processes to support a globally expanding business. As he likes to point out, "some people think of entrepreneurs as being risky. But those risks are usually very calculated, with a strong bias to the safe side."

Key questions: scaling operations and teams

- If we wait too long, will someone steal our lunch – and how can we stop them?
- What are the big trade-offs we need to make when choosing to scale rapidly?
- How do we preserve and expand our culture as we scale?
- How do we attract, retain and remunerate talent as we expand?
- When is it time to look beyond our initial market – and what should we prioritise when the time comes?
- What approach makes the most sense for our business when it comes to protecting our intellectual assets?

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