Grow or Sell Your Information Technology Company

- A Crossroads Decision –

Are you thinking of taking your information technology company to the next level with a major marketing campaign or by hiring additional sales resources? These are decisions that can impact your company's future. It might be time to consider the alternative of selling your business.

We are often approached by business owners of software and information technology companies who are at a crossroads of taking their company to the next level. The decision in most cases is whether they should bring on the one or two hotshot sales people or channel development people necessary to bring the company sales to a level that will allow the company to reach critical mass. For smaller companies with annual sales below $5M, this can be a critical decision.

Let's look at what might be a typical situation. The software company is doing $7.5M in annual sales, has a good group of loyal customers, produces a nice income for its owner(s) and has a lot more potential for sales growth in the opinion of the owner(s). Some light bulb has been lit that suggests they need to step this up to the next level after relying on word of mouth and the passion and energy of the owner(s) to get to this stage.

The natural inclination is to bite the bullet and bring on those expensive resources and hope your staff can keep up with the big influx of orders. The reality is that in most cases the execution was a very expensive failure. Below are several factors that you should consider when you are at this crossroad:

- The 80/20 rule of salesmen. You know this one. 80% of sales are produced by 20% of the salespeople. If you are only hiring one or two, the likelihood is that you will not get a top performer.

- The president of the company and decision maker has no sales background so the odds of him making the right hiring decision are greatly diminished. He will not understand how to properly set milestones, judge progress, evaluate performance objectively, or coach the new hire.

- To hire a good salesman that can handle a complex sale requires a base salary and a draw for at least 6 months that puts him in a better economic condition than he was in on his last job. So you are probably looking at $150,000 annual run rate for a decent candidate.

- If you have not had a formalized sales effort before, you are probably lacking the sales infrastructure that your new hire is used to. Proper contact management systems, customer and prospect databases, collateral materials, sales presentations, sales cycle time frames, milestone objectives and a developed competitive feature benefit matrix will need to be developed. Current customers are most likely the early adopters, risk takers, pioneers, etc. and are not afraid of making the buying decision with a small more risky company. These early adopters, however, are not viewed as good references for the more conservative majority that needs the security of a big company backing their product selection decision.

- Your new hire is most likely someone that came from a bigger information technology company and may be comfortable performing in an established sales department. It is the rare sales person that can transform from that environment to developing the environment while trying to meet a sales quota. Throw on top of that the objection that he has never had to deal with before, the small company risk factor, and the odds of success diminish even further. Finally, this transformation from a core group of early adopters to now selling to the conservative majority elongates the sales cycle by 25% to as much as double his/her prior experience. If you don't fire him first, he will probably quit when his draw runs out.

With all this going against the business owner(s), most of them go ahead and make the hire and then feel, *"Yes, we brought on a sales person two years ago who said they had all the industry contacts and in nine months, after they hadn't sold a thing and cost us a lot of money, we fired them. That really hurt the company and we have just now recovered. We won't do that again."*

What are the alternatives? Certainly strategic alliances, channel partnerships, value added resellers are options, but again the success rate for these arrangements are suspect without the sales background in the executive suite. A lower risk approach is to outsource your VP of Sales or Chief Marketing Officer function. Our Business Advisory division has a great track record of working with our clients on a consulting basis to help establish a sales and marketing infrastructure and guide them through the staffing process. That may be a good option for you.

An option that one of our clients chose when faced with the six points to consider from above was to sell his company. This is a very difficult decision for an entrepreneur who by nature is very optimistic about the future and feels like he can clear any hurdle. This client had no sales background but was a very smart subject matter expert with an outstanding background as a former consultant with a Big 5 accounting firm. He did not make the hiring mistake, but instead went the outsourcing of VP of Sales function as step 1. When their firm wanted to make the transition from the early adopters to the conservative majority, the sales cycle slowed to a crawl. Meanwhile their technology advantage was being eroded by a well-funded venture backed competitor that had struck an alliance with a big vendor.

They engaged our firm to find them a buyer, but then we encountered the valuation gap. Our client thought his company was worth a great deal and that he should be paid with cash at close for all the future potential his product could deliver. The buyer, on the other hand, wanted to pay based on a trailing twelve months historical perspective and if anything was paid for potential, that would be in the form of an earnout based on post acquisition sales performance.

With a well-structured earnout agreement and the right buyer, our client was able to exceed his transaction value goals. His earnout was based on future sales, but his effective sales force was increased from one (himself) to 27 reps. His install base increased from 14 to 800. Every one of the buyer's customers was a candidate for this product. The small company risk had been removed, going from a little known start-up with $3.5M in annual revenue to a well-known industry player, publicly traded with a market cap of $2.5B.

He avoided the big cash drain that a bad sales person hiring decision would have created and he sold his company before a competitor dominated the market and made his technology irrelevant and of minimal value. When an information technology business owner is faced with that crossroads decision of bringing on a significant sales resource that will be faced with a complex sale and the executive suite does not have the sales background, a company sale may be the best outcome.

About Flatirons: Flatirons Capital Advisors, LLC (www.flatironscap.com) is an investment banking firm that helps privately held companies sell their businesses, acquire other businesses, and raise capital. Our services include accomplishing mergers and acquisitions, obtaining financing, sourcing loans for distressed or bridge finance situations, and financial restructuring. Our unique business model affords sell-side advisory clients the ability to improve their company's performance, earnings and effectiveness in the short-term, while simultaneously increasing their market value for a future sale. Flatirons has offices in Colorado and Texas.

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