



## The Start-up Software Company

### How to avoid becoming Road Kill

Most new businesses have to overcome huge difficulties in establishing themselves in the market place. If you intend to set up a software business you will probably face more problems than most. You will be asking to replace a trusted way of processing data and your new technology will be regarded as suspect. Just competing on price, even if you can, does not work. My view is that to compete as a start-up you should follow the now famous “crossing the chasm” model. I personally reckon there are three main stages all based on differentiation then superiority. If you are lucky your business will travel through to the market place through all three but if you only get to the first or second you will be road kill. If you haven’t heard of crossing the chasm then go to see the entry in Wikipedia as a starting point and do it quickly!

The first phase is selling to early adopters. You don’t necessarily have to be better at anything to get their interest - you just need to be different. If you hit an innovative spot you can usually find someone who will want to play. They find their own applications for you. When they have worked out for you what you are ‘better at’ they may buy (and more importantly they may tell you what it is you are better at). They might not actually want to pay you in cash (believing their contribution as an early user to be hugely valuable already), they certainly won’t want to pay enough and definitely they will want better service than the price they pay entitles them to. The great thing is early adopters all hate Microsofts, the ‘Big Blues’ along with all the other ‘establishment’ models and they love the new kid on the block. However, carry on selling to them too long and your business will fail. They buy for all the reasons the mass market doesn’t buy. You need to use early adopters to develop some applications where your new offering is differentiated from market leading solutions. Whilst software businesses are often based on groundbreaking innovation, usually you are following a trend of innovations led by various holy grails. Your new application is probably pretty close to something already developed or about to be developed by someone else. Thus differentiation is the key.

In phase two you have established a differentiation perhaps even have a “Killer Ap.”. When you have you need to avoid selling head-to-head against dominant players. They are dominant because they tick boxes and not because ‘they are crap from which the world has been praying for you to save it’. It will help if you realise your potential customer will have to be crazy to buy from you unless your solution is differentiated and you can truly turn a unique feature into a benefit he or she needs. Learn to turn your back on me-too sales opportunities. You must concentrate on situations where you can make the case “no-one else can do that”. It is referred to in the original “Crossing the Chasm” text as finding a beachhead.

Ideally there will truly be benefits associated with those unique features, but, hey, this

is not a perfect world – make use of what you have. Often the buyer will not admit they need your unique feature, anyway. You will fight for every sale at this stage. The person you are selling to wants to buy the safe option but thinks, for whatever the reason, he needs a unique offering that you have and will want you to sell it to him based on that unique offering. You have to recognise it. The plus factor for you is that the market leader will be as renowned with these buyers (and possibly you) for the things they cannot do, and the bugs they have, as much as for the things they can.

If you play it right you can achieve some great margins come through in this second phase. Do not get too excited. They will be consumed by increases in your back office costs running ahead of sales. It will seem like swimming against the tide. This is the Chasm. Every sale you make creates a valuable customer you need to nurture. But your application is immature and they will find the holes in it. They will demand and you will be crazy not to provide first class service. You are creating a brand good or bad and you will be remembered for it. The rub is that every customer generates unforeseen work and often each customer generates different work. Instead of sales increasing you are so busy they fall back and the Chasm sucks you down. Stay focused on delivering best of breed to your beachhead and your invasion into maturity will succeed.

If you make it to the third phase you will then have a brand! It is not a choice. It is the first phase in which realistically you can hope to make a real profit even though margins will begin a downward slide. People will choose you against the bigger competition because your brand identifies you as the no-brainer choice or, at least, an equal option. Your brand will initially still be restricted to that one beachhead. Your success in getting to this point will have been dependent on your ability to differentiate and then maintain focus on that differentiation – as that will be at the heart of the brand you build. Rolling out the brand across different markets is true business development. To get there is the dream but it is just the next beginning.

So whether you started out as a techy or not you now are a business manager. What lessons should you have learnt to keep things moving forward? (1) Differentiation, though, has to represent at least a paradigm shift to succeed big time. Potential investors will, need to look your technologists in the eye and believe that they can stand on tiptoes and look over mountains. It is up to you to decide whether the places they see have enough market pull to provide differentiation. (2) In doing so remember a product is about technology mixed with market position, including the differentiation you have to build upon. Writing code does not create a product. Users will criticise that code, and force you to adapt it into something different to that which you set out to deliver. You need to manage these iterations with some kind of stage-gate methodology to ensure you develop the correct focus. (3) However avoid the pursuit of excellence beyond where the market demands. Software authors are often driven by a desire for perfection in their work. If you are selling to people who expect that they will not become great customers. They distract, underpay and want changes. You need to focus on brand development in order to tame customers' expectations for personal service.

The ultimate goal is to sell to non-technologists in your target customers, people like finance directors! To do that you need an organisation; a coherent and broadly

based management team. Get there and you truly have a business.