

# High Impact Projects

*A Newsletter About Solutions and Creating Exceptional Value*

## Software Firm Started with \$1000, Profitable Every Quarter, Grows to \$28 Million

*Company Alters Focus from Generic Product to Narrow, Discrete Target Markets with Outstanding Results*

### The Horizontal Sales Approach No Longer Works

*By Tom Ingram, PMP*

Though the names and some of the figures have been changed, this case study is essentially true in concept and magnitude. A colleague of mine, who received some of the same training I did very early in my career, built this software business from a \$1000 investment to a very profitable \$28 million in annual sales.

In 1990 the company refocused itself as described in this paper and several other documents published by Tom Ingram and Associates. The company was profitable every quarter, had no long-term debt and was sold in the mid '90s. My colleague and I both believe that the success demonstrated in his business is not really a new model. Prior to the "gold rush" mentality of the '90s, this model was known, understood and regularly executed with varying degrees of success. Now that the tech bubble has burst, this model is reasserting itself because of its fundamental soundness.

What follows are some lessons to be extracted from his experience

**Some Background:** I will call the company XYZ Software and I will refer to my colleague as "Bob". According to Bob, "In 1990, we were forced to examine our customer base and rewrite our software to move our focus from a generic product to one of discrete, narrow

niches. This narrowing of focus was absolutely essential to our success." The company was started in 1979 with \$1000. As mentioned, it underwent a significant refocus in 1990 and greatly prospered until being sold in 1996.

**The Horizontal "Sell to Everyone" Approach No Longer Works:** Bob goes on to explain that, "There won't be another Microsoft or Oracle. Big horizontal players were able to stake out a market early and now have enough capital to protect their space. I don't see another horizontal application that a startup will be able to create and release that will allow that kind of market domination." Those of you who read my other materials know that this is a theme that I have regularly preached. The days of the "sell a product to everybody, run up the stock and cash out" are over. The only reasonable approach remaining for 95%+ of software companies is a strategy of tight focus and producing super-high customer value, solving urgent needs for line executives.

**Customers Consistently Experiencing Failed Implementations:** Bob continues to explain that a good deal of volatility in the software business can be traced to the fact that customers often do not receive the value that they paid for. "I saw a lot of failed

implementations. Companies unrealistically think that their people are 1) capable of performing the project and 2) have the time to devote to it. The software industry has matured. It's not the Wild West anymore." The customers are no longer willing to tolerate spending millions of dollars on technology with inconsistent returns on investment.

**Customer Focus:** "Just like in any business, a customer focus is critical," Bob explains. "The single most common failing that I see among software firms is focusing on 'what we sell' rather than deriving what we sell and what we do from 'what the customer needs.'"

**Software CEOs, at Present, are Generally Not Competent:** In reviewing a paper I wrote describing the reasons why most software company CEOs are not competent to carry forward in a post-tech bubble economy, Bob comments that, "[Tom] is right on with his comment on software CEOs. Not many have the skills he outlines and therefore aren't in a position to make correct decisions on product directions."

**Narrowing the Focus to a Super Tight Segment:** It's important to note that XYZ Software narrowed its focus dramatically. I like to ask software companies, "What is your universe of prospects?" I'll speculate a bit, but in the case of XYZ Software, prior to their refocus in 1990, their universe of prospects (meaning the total universe of companies or

organizations that might buy their product) probably numbered upwards of one million. In rewriting their software and narrowing their focus, XYZ concentrated only on midsize firms, in the wholesale distribution industry and, actually, in a very narrow segment of the wholesale distribution industry. This probably cut their universe of prospects from one million down to 200 total in the United States. You might want to review the other success stories and writings I've published on why this narrowing of focus is so important. It produces spectacular economies of scale and expertise – you become an expert in a very narrow field, you become very efficient at dealing with a certain segment of customers, and the value you are producing is so high, for a relatively low cost, that competitors cannot make inroads.

**Summary:** XYZ is a magnificent success story based on the repeatable process best documented by Geoffrey Moore in the landmark book, *Crossing the Chasm*. Note that XYZ did "ok" from its inception in 1979 until 1990 (simply surviving that period is a sign of a well-managed company.) Note however, that when they narrowed the focus in 1990, the business took off. This experience is consistent with the success stories I have participated in and others I have investigated and written about. Email me at the address below if you would like information on other success stories.

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Email us at [tom@tomingraminc.com](mailto:tom@tomingraminc.com) for details or contact us at 972-394-5736.