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Success Story

Improving Results for Business-to-Business software companies

Company Struggles for Five Years, Focuses, Grows from $15 Million to $75 Million in Sales

Profitable 9 out of the Last 10 Years

Produces Record Revenues and Earnings in Difficult Post-Tech-Boom Era

A Success Indicator: Price Competition is Not a Factor

Keys to Prospering in the Post-Dot.Com Era: Focus on Profitability and Cash Flow, Simple, Straightforward Business Plan, Staying Focused on the Plan

Picked the Right Niche, Dominated It, Then Moved On to Subsequent Niches

Narrowed the Universe of Prospects from 1 Million to Less than 500

Stopped Trying to Sell Technology to Anybody Who Would Listen

By Tom Ingram, PMP

How can a software company survive and prosper in the post-tech-bubble economy? This case is one of a series of success stories resulting from a study that ASCO is conducting of public application software firms.

Docucorp is one of only ten public software companies in our study that have been profitable five out of the last five years. Considering the extreme difficulty of the last five years in the software business, we think there is something to learn from studying Docucorp and the other successful software companies.

Unsurprisingly, Docucorp had a difficult initial five-year start-up period. It then chose to get focused and, happily, picked the right niche to focus on the first time. Docucorp dominated this niche, then progressively moved on to subsequent niches, compiling an outstanding record over the last ten years of growing from $15 Million to $75 Million in sales and remaining profitable nine of the last ten years.

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Of particular note is Docucorp's focus on cash flow and profitability during the craziness of the Dot.Com era. Docucorp watched as other companies attained valuations of $1 Billion or more, based on nothing but hot air. They stuck to their simple, straightforward business plan and remained focused on customers, profitability and cash flow. When the inevitable Dot.Com bust occurred, Docucorp emerged as a fundamentally strong, dominant player. They achieved record revenues and earnings last year in the exceedingly difficult post-Dot.Com era. What follows are some useful lessons about Docucorp's success provided by Mike Andereck, President and CEO.

Before: (The Difficult State of the Early Years) Andereck explains the circumstances when he came on board. "The company was struggling with sales in the range of $1 Million a year and recurring losses in excess of $1 Million a year. We had a very tough initial five years. I even ended up with no salary for one year. The creditors were 'banging at the door' and we were trying to sell technology to anybody who would listen. We got lots of audiences, but no one was buying."

The Solution: (The Get-Well Plan) Andereck continues, "Immediately we realized that we needed to get focused. We chose to direct all of our energies on nothing but policy production for insurance companies. We reduced all of our attention and resources to focusing on just this niche." The core of Docucorp's technology surrounds electronic publishing, so what they were pursuing was actually a 'hyper-focused' approach to using electronic publishing and their other related technologies to improve policy production for insurance companies.

Narrow the Universe of Prospects: "Our story is similar to Documentum's story," Andereck explains. (See the Documentum Case Study at http://www.ascodirectory.com/ASCO25DocumentumSuccessStory.pdf)

"We had been trying to sell our technology to anybody who would listen, which meant we had, perhaps, a million prospect companies worldwide. We narrowed that focus to less than 500 total prospects on the planet. We focused on the larger insurance companies in the Property, Casualty and Life areas."

Got A Break – Found an Urgent Need to Buy Niche That Did Not Require Major Changes to Their Product: "We were able to get focused on this tight niche and use the existing software and products that we had. We were quite fortunate that becoming focused on this narrow set of customer needs did not require major development."

Six to Twelve Months to Know They Were on the Right Course: I asked Andereck to comment on how they knew if they were focused on the right niche. He explained, "It took between six and twelve months for us to recognize that our niche focus was paying off and we had picked the right niche. This was certainly not an easy period, and we had to have faith that we were doing the right things. Also, we had to raise additional money during this period to survive."

Some Indicators That They Were Doing the Right Things: "One of our biggest leading indicators was that we began getting, and continue to get, significant amounts of referrals from our satisfied customers. Another indicator of success is that our cash flow and business plan is based on significant recurring revenues," Andereck continued. These two success factors indicate happy customers. Happy customers tell other customers, and want you, as their software provider, to succeed. Also, happy customers continue to buy from you, including maintenance, support, consulting, implementation services, etc.

Dominate a Niche then Expand to Additional Niches: "We focused all of our energy in that crucial early period on carving out a small niche and becoming dominant in that area. We established it and expanded from there. Today our current niche focus includes four major industry areas: Insurance, Utilities, Financial Services and we just acquired a company to begin our entrance into the Health Care area," Andereck continued.

It is important to note that Docucorp's success, comprising a profitable revenue stream today of $75 Million, is the product of only a handful of niches that are effectively focused on and executed. A mistake that I frequently see software companies making is trying to attack too many niches simultaneously. The importance of focusing on one at a time, dominating it, attaining profitability and moving on cannot be overstated.

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Dot.Com, Post-Tech Bubble Era: "Things are quite different after September 11th," Andereck explains, "but we have maintained our focus on growth, profitability, customer satisfaction and shareholder value."

"During the Dot.Com boom we also stayed focused on profitability and cash flow. We had a simple, straightforward business plan and we stuck with it. As a result, when the bust occurred, we emerged in a very strong position in the midst of a host of weak competitors."

Investing in Developing the Management Team: "When we reached about $10 Million in sales, I realized that the company was too dependent on my individual contribution as the 'entrepreneur'. While I enjoyed the entrepreneurial role, it became clear that we needed to implement some of the professional management disciplines that I had learned earlier in my career by focusing on enhancing our management team and internal leadership," Andereck told me.

Selling Solutions Instead of Products: "One of our transitions along the way was to move away from a 'product, feature, benefit, price' sales mind-set to a true solution selling mind-set. A leading indicator that we've made the transition to solution selling is that we find that we almost never compete on price," Andereck continued.

Ensuring Quality and Customer Satisfaction: Andereck explains that Docucorp has built a significant internal professional services group. "We do not rely on third parties to deliver and implement our solutions for customers. Even though there is a significant cost to maintaining our professional services group, we believe we produce significantly better customer satisfaction. Our professional services group is, of course, a source of revenue and it is also an important source of leads that helps us grow within individual accounts."

"Since September 11th, much of our revenue comes from existing customers. It has been tough to sell new accounts, but our emphasis on customer satisfaction and high levels of service and results for our customers have paid off with increasing sales to our existing clients."

How Do You Get Your Technical, Administrative and Customer Service People to Help Sell? "We have built a company and a culture that people are proud to be a part of. They are pleased with the contribution we make to our customers and what we do to earn our paychecks. We have also instilled a mentality within our organization that everyone needs to sell in order to help the company stay viable. This allows us to take care of both customers and employees over the long term," Andereck shared.

"We also moved some services people into more sales-related roles. They retain responsibility for following up on internally generated leads." [Editor's Note: One of the most significant reasons I have seen that internal technical and customer service personnel do not assist with the sales process is that they have forwarded leads to the sales department in the past, with no results or feedback on the status of the lead.]

Andereck continues, "From time to time, we have put some bonus plans in place to incent our people to help the company sell, but we have found that this is not a dominant factor. What seems to be most important is that the people believe in the company, are proud to work here, and believe in the value that we provide to our customers. Our people want our company to be successful."

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Success Measure – Billability and Profitability of Individual Service People: "Understandably, we need our professional services people to be billable a high percentage of their time and we need to make a profit in order to keep them on the payroll. They have come to understand that by helping the organization sell new software licenses, it generates additional work for them and helps them remain billable and profitable."

Sustaining the Focus, Walking Away: Andereck also mentioned that Docucorp is willing to walk away from things that would them pull them outside of their primary focus areas.

Doing Acquisitions Right: Emerging from the Dot.Com bust in a healthy financial position has enabled Docucorp to take a look at many acquisitions from a position of strength. I asked Andereck to comment on how they have managed to do acquisitions and avoid the missteps that many companies seem to make. "We are very picky. We require the acquired entities to show that they will be cash flow positive in no more than 18 months. We also only look at them if it is a strategic fit with our business. We work hard to stay disciplined on our acquisition choices."

Only One Acquisition in the Last Five Years: Andereck continues, "Over the life of our company, we have done a number of acquisitions and about 75% of them have turned out very well. In the other 25%, we at least were able to extract some value, so I consider our record to be very good. I will note, however, that we have only made one acquisition in the last five years."

[Editor's Note: I think this is particularly noteworthy because of the strength of Docucorp's financial position in the post-Dot.Com era. Docucorp was almost certainly offered dozens and dozens of acquisitions that could have been bought at bargain prices, yet they remained disciplined and only chose one out of, probably, hundreds of deals.]

"We have watched as our competitors and others have gotten hurt substantially by bad acquisitions."

Comments on Shortening Sales Cycles: Andereck responded to my questions with, "I'll take any help I can get with shortening sales cycles. This is something that we are continually watching and always striving to improve. I'll mention some of the things that have helped us."

**Capsule Background –
Mike Andereck, CEO of Docucorp**

- **Graduated from the University of North Texas**
- **Early career with KPMG on the Audit side**
- **Came to a predecessor of DocuCorp in 1984**
- **Helped raise money**
- **Became CFO, helped take the company public and promoted to CEO in 3 months!**
- **His rapid rise in responsibility was precipitated by some extreme difficulty that the company was in. While the outcome has been pleasant, he does not recommend that other people follow a similar path of "jumping into a frying pan" so quickly. It was a tough ride.**

"Before September 11th, our average sales cycle was around six months. In the post-September 11th world, the average sales cycle is nine months. However, we have seen a range from as short as two months to as long as ten years. Some things that we have done to shorten our sales cycles:

- **Provide a clear and compelling ROI:** This helps keep the deals from getting killed down the road by the finance department or some other department that doesn't believe the project is justified.
- **After September 11th, we added more sales and marketing people to our organization.** This was expensive, but it helped us put enough business into the pipeline to keep our revenues up. We knew things would be tougher after September 11th and this decision has paid off.
- **Focus on existing customers:** We knew that, post-September 11th, selling to new customers would be tougher and take longer. We decided to redouble our efforts on pleasing our existing customers and finding ways to help them with additional products and services. This has really paid off.
- **Industry focus:** We packaged what we were doing into industry-specific solutions. This helps us maintain our focus on a narrow set of customers and improve our ability to solve important problems for them.
- **Stopped selling to IT:** Today, we make sure that we focus on selling to a business executive with a problem and a budget. We have to work with the IT Department, and they ultimately have to support the project, but our primary focus is on finding an important business problem and working with senior line executives."

"We have watched as our competitors and others have gotten hurt substantially by bad acquisitions."

Final Advice and Comments: I asked Andereck to provide his thoughts to others who are facing circumstances similar to the tough five-year period that he faced initially with the company. He responded with several items.

- **You need to have a good plan and a good idea.**
- **You need a strong leadership team.** A particular advantage of investing in your leadership team is that the CEO is able to

spend less time on sales and more time managing the strategic and critical issues of the business.

- **You need good people.**
- **Managing cash is critical.**
- **Recurring Revenues:** Docucorp has really worked to establish recurring revenues from its sales efforts. This provides a reduction in risk because the company is not so dependant on the large dollars from big new licenses sales.
- **Don't take bad business:** By focusing on recurring revenues and incremental sales to existing happy customers, Docucorp has found that it is able to walk away from bad business. Firms that can survive only by the large cash injections received from selling big, new software licenses are particularly at risk. They often take on business that they cannot profitably deliver. When you are in the position where you have to have the money to meet payroll or this quarter's numbers, you are in a very difficult situation. Accepting one, or two, or three of these bad deals creates a downward spiral that can devastate your company.
- **Diversification:** Docucorp has found that by having its niche focus spread across multiple industries, focusing on recurring revenues from happy customers and adding an outsourcing component to its business services, it has been able to substantially reduce the overall risk to the business.

Missed the 1990's Wave – Not Sorry: Andereck comments, "We watched a number of companies, one in particular, achieve a $1 Billion valuation during the peak of the Dot.Com boom. Our valuation at the time was approximately $50 Million. We were producing happy customers, cash flow, and profits and were doing so with a contained risk profile. It was very disheartening to watch the insanity of these valuations and the money that people were making."

"Of course, it turned out to be an illusion and the bubble burst in a devastating fashion. We were left in a very solid position, at the head of our niches and with a stable, profitable company. No regrets."

Some Results: Docucorp's last ten years have seen a rise in revenues from $15 Million to $75 Million. It has been profitable nine of the last ten years, and would have been profitable all ten years except for a merger-related write-off.

The most recent difficult year has shown record revenues and earnings. Docucorp is listed among the Forbes Top 200 Small Companies in America.

Docucorp enjoys much lower employee turnover than the average company in the software industry. Andereck comments that the biggest reason people stay with Docucorp is that, "The people who work here like and respect each other." Docucorp pays its people roughly comparable to current industry averages, but not substantially more. It does not pay its people to stay, and the fact that they do stay is a significant leading indicator of a healthy, effective company.

A Customer Service Story: I asked Andereck to comment on something he was proud of, and the answer was a bit unusual. "We walked away from a sale where our competitor had convinced the client of some things that we believed were not true. The competitor convinced the client that their problem could only be handled in a certain way, which happened to be the only way the competitor's product could address the problem. We were capable of addressing the problem in the same manner, but we knew the customer would not be happy with the outcome. We had a better solution. We withdrew and are confident we will have another chance to work with this customer when they realize the consequences of what our competitor has done."

Summary: The great lessons to take away from the Docucorp Success Story are focus on niches, focus on customer satisfaction, focus on cash flow and profitability, discipline regarding acquisitions and the recurring revenue streams provided by happy customers.

Hopefully these lessons from Docucorp will be useful for the software companies you are involved with.

Need further information?

Call us if you would like more success stories, have questions or would like more information. This case is written as a teaching tool and is not intended to fully describe exact details or dialog.

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