Fast Growth Businesses

Ten things I have learned growing young companies and some thoughts on applying those lessons to IBM

Bill Nussey
VP Corp Strategy
CEO of Silverpop, acquired by IBM in 2014
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#1 Mission Driven Cultures

Growth companies tap deep motivations that go well beyond financial goals

- **Fight for your life** – failure in a startup usually means death of the company. Outcomes are shared by the entire team.
- **Focus on bigger goals** – Good growth company leaders tend to frame success in terms of impact; financials are the result of the mission, not the mission itself
- T-shirts and experiences are more important than pay adjustments and benefits
- Oh… and the opportunity to get rich doesn't hurt

Creating Mission Driven Cultures

- **Extended time horizon** – many teams, especially senior leaders, assume they will work together for 5+ years
  - Average start up liquidity timing is 5-6 years (much longer if no exit)
  - Results: unusually high levels of loyalty, commitment, and camaraderie
  - Products become like "children" and teams take a deeply personal view on their success
- **Create a new definition of winning** – leaders need to re-frame goals into specific world-impacting measures

- **Pay is not in the top three priorities**– make sure pay is fair but, after that, focus resources on four E's: experience, enablement, environment and education

- **Possible Implications for IBM:**
  - Keep leaders in place longer, especially after they've gained expertise in a product line or segment
  - Keep winning teams together longer than the typical 2-3 years
  - Shift 1-2% of future pay raises towards less tangible but more important employee experiences or environments

#2 Rapid Decision Making

Moving quickly is less about organizational authority and more about these three things: team alignment, a willingness to experiment and a cultural tolerance for failure

- Being in the same physical space naturally creates alignment. This leads to a unique level of trust that is required to move quickly.

- Transparency by default means underlying facts and data are available to everyone. Consensus is more easily reached when the facts are not in dispute.

- Decision by experiment rather than decision by powerpoint or decision by committee

#3 Everything as a Service

SaaS is a forcing function that is moving the technology industry from a transaction mentality to a focus on a customer's long term success

- SaaS is driving ever lowering barriers to adopting new technology

- Customer experience, employee expertise and value-added services are re-emerging as key decision criteria

- Technology revenue streams are quickly shifting from transactional to consumption-based – *the ownership economy is becoming the consumption economy*

Five Secrets About SaaS

1 Your first contract with a new customer is little more than a license to hunt

2 Features and price are table stakes. The real competitive battleground is convenience and expertise.

3 The faster you want to grow, the more money you'll lose. There is no shortcut.

4 More customers will leave over your ability to make them successful than over the functionality of your products.

5 Agile isn't just about software. You need to continuously iterate on training, support, provisioning, services, marketing, sales, billing and the entire buying process.

#4 Leaders are experts

Passion and domain expertise are more important for top leaders than general management skills

- **Domain expertise** – leaders of growth companies are usually visible experts in the segments their companies compete

- **Content is the new marketing** – Expert leaders will create or curate provocative points of view that fill the top of the lead funnel

- Possible aplications for IBM:
  - Create leadership pairs (similar to a CEO/COO pairing) that allow general management and passion/expertise to be shared across two people.

#5 Process agility

Process innovation and organizational agility is a major area of competition

- **Small size as an advantage** - Small companies are dwarfed by the reach and resources of larger competitors so agility and responsiveness are often their only competitive weapons

- **New Business models –** SaaS has proven that customers will embrace new business models. Process agility is essential to testing and deploying new ways of doing business.

- **Failing fast** – failure can teach you even more than success, especially if you are measuring everything along the way

#6 Selling Below C-level

"CXO's are leading large transformation efforts but more and more buying is happening deeper within the department."

- Small companies sell below the CXO – few small companies can afford the long, expensive sales cycles of C-level selling

- Small companies are creating an industry-wide shift away from the CXO – this has been accelerated further by SaaS

- Line-of-business execs buy very differently than their CxO bosses
  - IT is actively excluded
  - Convenience and complete solutions outweigh integration and long term stability

#7 Employee Productivity is King

The best way to create employee engagement is to limit distractions and let people devote all their energies to doing great work

- Processes designed to streamline and minimize administration

- Employees pick their own tools. Like a great chef, the tools and the techniques are often as important as the recipes.

- Possible applications for IBM:
  - Layered IT systems where IT runs core systems and "citizen developers" can rapidly innovate on the platform for individual and small department needs

Making It Easier To Do Great Work

Example #1: Netflix

"Good" versus "Bad" Process

- "Good" process helps talented people get more done
  - Letting others know when you are updating code
  - Spend within budget each quarter so don't have to coordinate every spending decision across departments
  - Regularly scheduled strategy and context meetings
- "Bad" process tries to prevent recoverable mistakes
  - Get pre-approvals for $5k spending
  - 3 people to sign off on banner ad creative
  - Permission needed to hang a poster on a wall
  - Multi-level approval process for projects
  - Get 10 people to interview each candidate

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Example #2: Salesforce

- Salesforce.com measures the % of time their sellers spend in front of customers and aggressively invest in processes and systems that increase this number every year

#8 Talent Rules

Growth companies go to incredible lengths to attract and retain their most talented employees.

- Growth companies build their organizations around extraordinary people
  - This requires difficult trade-offs with the weaknesses and challenges that often accompany these people
  - It can often lead to resentment from other employees
- Far more than pay, super talented people want recognition and a sense that their contributions matter at the highest levels
  - But beware, pay is often the only objective way they can find to measure how much they are valued

The Case for Top Talent

Productivity between the best and worst programmers can easily be 10x or more[1]

- How big is the pay difference between these two groups?
- How much more are your competitors willing to pay for top people?
- Could the 10x theory apply to other domains besides sales and programming?

1. Curtis 1981, Mills 1983, DeMarco and Lister 1985, Curtis et al. 1986, Card 1987, Boehm and Papaccio 1988, Valett and McGarry 1989, Boehm et al 2000

#9 Grow or die

Starts ups invest heavily in growth to drive market leadership and high valuations.

Going "horizontal" is one step from being dead.

- Early stage growth companies invest at or below break-even (IBM's software group achieves 35% profit)

- Capital availability is efficiently linked to start up company performance (start ups require multiple rounds of financing and VC's only fund the most promising companies)

- Large or small, companies need to make big bets to grow. Agility and measurement allows for rapid course corrections and long term market leadership

#10 Data Driven Execution

The essence of execution is having an unobstructed view of reality. Data-centric operations elevate decisions above anecdotes and opinions.

- Instrument everything
- Operate transparently
- Data aligns perspectives
- Easy decisions become obvious
- Hard decisions get streamlined
- Employees understand the context for decisions and become more engaged.

- Applications for IBM:
  - Decisions by experiment; not decisions by committee, conference call or PowerPoint
  - Avoid the HIPPO

#11 Compensate for Performance

Incentives and compensation tap deeper motives

- Equity is the ultimate motivation
- Pay for performance
  - measurable goals that lets A players know they are achieving
  - Variable pay that reflects individual performance

Three levels of execution

1. Pulse
2. Steady State
3. Strategic

- **Pulse = Chasing the puck**
  - Constantly reacting to internal and external factors, frequent mistakes, costly re-work and root-cause analysis

- **Steady state = Driving the puck**
  - Predictability, closed loop metrics, understanding of cause and effect on most major deliverables

- **Strategic = Skating to where the puck is going**
  - Deep understanding of deliverables, predicting problems and mitigating issues before they arise, game-changing innovations

Thank You

Bill Nussey, IBM VP Corporate Strategy
Twitter: @bnussey
Personal Blog: NusseyNotes.com
IBM Blog: ibm.biz/NusseyIBMBlog
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