MidMarketCapital,Inc.

Do Your Company's Sales Match the Excellence of Your Product or Service?

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For many entrepreneurs, technology based companies or healthcare companies, the answer to that question is a resounding, NO! There is an exception to this with the rapid rise of the new economy, new media, highly scaleable companies like Google, U-Tube, Ebay, PayPal, and MySpace. In their case, their prospective customers highly value their newness, their breaking the mold, their non-establishment approach. They are viewed as doing what they do far better than the technology establishment stalwarts. The notable exception to this is Apple who has been able to transcend old establishment and be accepted as both old and new economy.

But I digress. Back to topic. Most companies that sell to other companies, or B2B companies are evaluated by their potential customers in a traditional risk reward analysis. Or using computer terminology, their buying decisions are made using a legacy system. It was once said that no one ever got fired for making an IBM decision.

Let's look at this legacy buying model and see exactly why your company's sales do not match the elegance of your solution.

One of our healthcare clients insisted that we read CROSSING THE CHASM by Geoffrey Moore to give us greater perspective on his company's situation. By the way, if you are a smaller technology based or healthcare company selling in the B2B space, this should be required reading.

Our client was a two year old company selling a cutting edge, on-line nurse shift bidding and self scheduling system to hospitals. This is a great product. The ROI's were easily quantifiable. The handful of installed accounts loved it. Most importantly, it had a positive effect on the nursing staff's morale. This alone could justify the cost of the system.

Our client had some very encouraging early success selling his solution to some of the more progressive hospitals. They received some outstanding early PR. After that initial success, however, our little edgy technology based company hit the wall. The sales cycle went from six months to beyond twelve months. Cash flow became an issue and, to top it off, a generously funded venture backed competitor with well-known industry executives was aggressively developing this new market.

What was happening? Our clients were very smart people and figured out what was happening. They knew that they would have to make some difficult and dramatic decisions in short order. Turns out the majority of hospitals are legacy buyers and make buying decisions based on a risk avoidance paradigm. Our client's early success was realized as a result of selling to the small minority of early adapters in their industry. These are the pioneers that don't mind the arrows in their backs from heading out West with new products or new vendors.

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Legacy buyers, however, do not value references that are early adapters. They are known to have a much higher risk tolerance than the traditional majority. Below are some buying criteria from these legacy buyers:

1. Big is good. Bigger is better. Buying inferior technology solutions from a blue chip publicly traded company wins most of the time.
2. Old is good. There is no replacement for experience and the grey haired company beats the gelled hair Tech Wizard company more often than not.
3. Industry Cred means everything. If you are a company that adapted your product from success in another vertical market and you are entering our space, the old familiar face carries the most weight.
4. Will the little guy be in business next year? The failure rate for the sub $ million company is a thousand times greater than for the $ billion company. This change in technology is painful enough. Do I want to risk having to do it over again in a year?
5. If I have problems, the big guy can fill the skies with blue suits until my problem is solved. The little guys cannot appropriately respond to my problem.

This is a punishing gauntlet for the small companies and it is amazing that any new companies survive in this environment. Let's look at a few of the "crossing the chasm" strategies that have been effective in swaying legacy buyers decision making in favor of the smaller provider with superior technology.

A. A well-known executive from an established healthcare company is put at the helm of the new company. The thinking from the buyer is that if he did it once, he can do it again.
B. Get an industry-recognized authority to endorse your solution or, better yet, have them join your board or advisory council.
C. Close a deal with a conservative, well respected customer and make them your marquee account with all the trimmings – i.e. a contract with a favored nations clause, the technology or computer code held in escrow with specific instructions if you go out of business, case studies and Public Relations glorifying the progressive decision maker, and providing an equity stake in your company are some examples.
D. Forging a strategic alliance, joint marketing agreement or resellers agreement with an industry giant. All of a sudden your small company risk factors have been eliminated and it has only cost you 30%-50% of revenue on each sale they make.
E. Sell your company to the best strategic buyer. Sometimes the best solution is to sell your company to the best strategic buyer for your greatest economic value. This is the most difficult decision for an entrepreneur to make. Below are some of the market dynamics that would point to that decision. Note: several of these factors influenced our entrepreneurial clients to ultimately sell their business to an industry giant.

   You see your window of opportunity closing rapidly. You may have great technology and the market is starting to recognize the value of the solution.

However, you have a small competitor that was just acquired by a big industry player. The bad news is you probably have to sell to remain competitive. The good news is that the market will likely bid up the value of your company to offset the competitive move of the big buyer.

The strategic alliance is with the right company, but the sales force has no sense of urgency or no focus on selling your product. The large company lacks the commitment to drive your sales. An amazing thing happens with an acquisition. The CEO is out to prove that his decision was the right one. He will make his decision right. All of a sudden there is laser focus on integrating this new product and driving sales.

You have created a strategic alliance and poured your company's resources into educating, supporting, and evangelizing your product. Whoops, you have counted on this golden goose and it has not met your expectations. Also you have neglected your other business development and sales efforts while focusing on this partner.

Many large healthcare companies now employ a try it before you buy it approach to M&A. They find a good technology, formalize a strategic alliance, dangle the carrot of massive distribution and expect the small company to educate and integrate with his sales force. Often this relationship drains the financial performance of the smaller company. If you decide to sell at this point your value to another potential buyer has been diminished.

Do not despair. If you have demonstrated a cultural fit and have helped your products work in conjunction with the big company's product suite, you have largely eliminated post acquisition integration risk. This can often more than offset any short-term profit erosion you may have suffered.

It is not easy for the smaller healthcare company to reach critical mass in this very competitive and conservative environment. Working harder will not necessarily get you where you need to be. Step back and look at your environment through the eyes of your buyers. Implement some of these strategies to remove the risk barriers to doing business with your company. Now you have created an opportunity for your sales to match the elegance of your technology solution.

David Kauppi and James Brennan are principals with Mid Market Capital, Inc. MMC is a private M&A Advisory firm specializing in providing corporate finance and intermediary services to entrepreneurs and middle market corporate clients in healthcare and information technology. The firm counsels clients in the areas of mergers, acquisitions and divestitures, private placements of debt and equity, valuations, corporate growth and turnarounds. Dave began his high tech Mergers and Acquisitions practice after a twenty-year career within the information technology industry. Jim brings a broad background including telephony, information technology and healthcare.