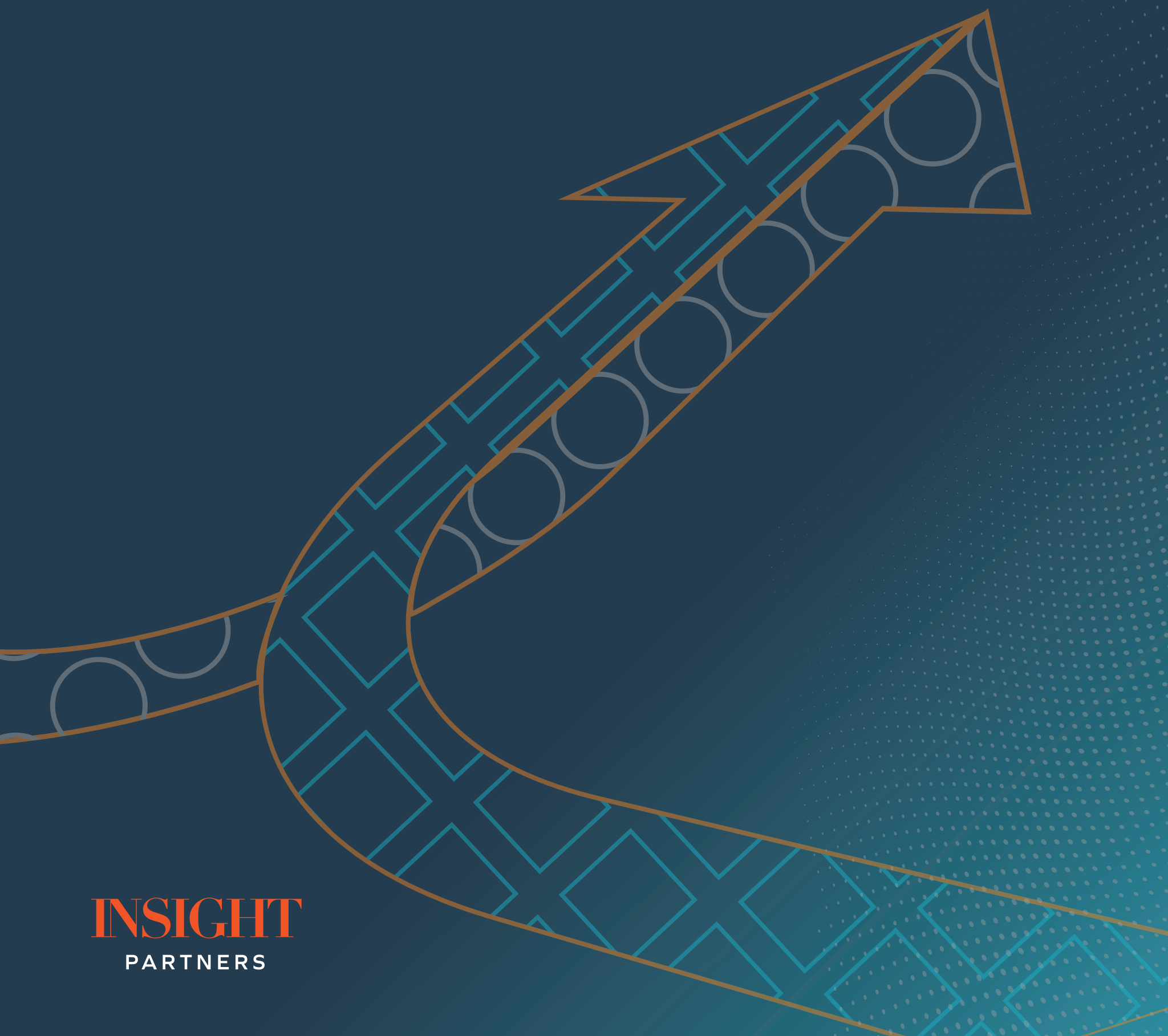
SCALEUP

STRATEGY AND M&A HANDBOOK | 2020



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Strategy is a broad topic that starts with defining a vision. A cascading set of activities arise from this vision, including strategic planning, setting objectives, and measuring progress. Insight's Strategy team supports these activities, with a focus on using data to identify and analyze the metrics that characterize successful ScaleUp companies.

In this ScaleUp Handbook, we review pricing and M&A, two components of ScaleUp strategy that can have a significant impact on growth acceleration.

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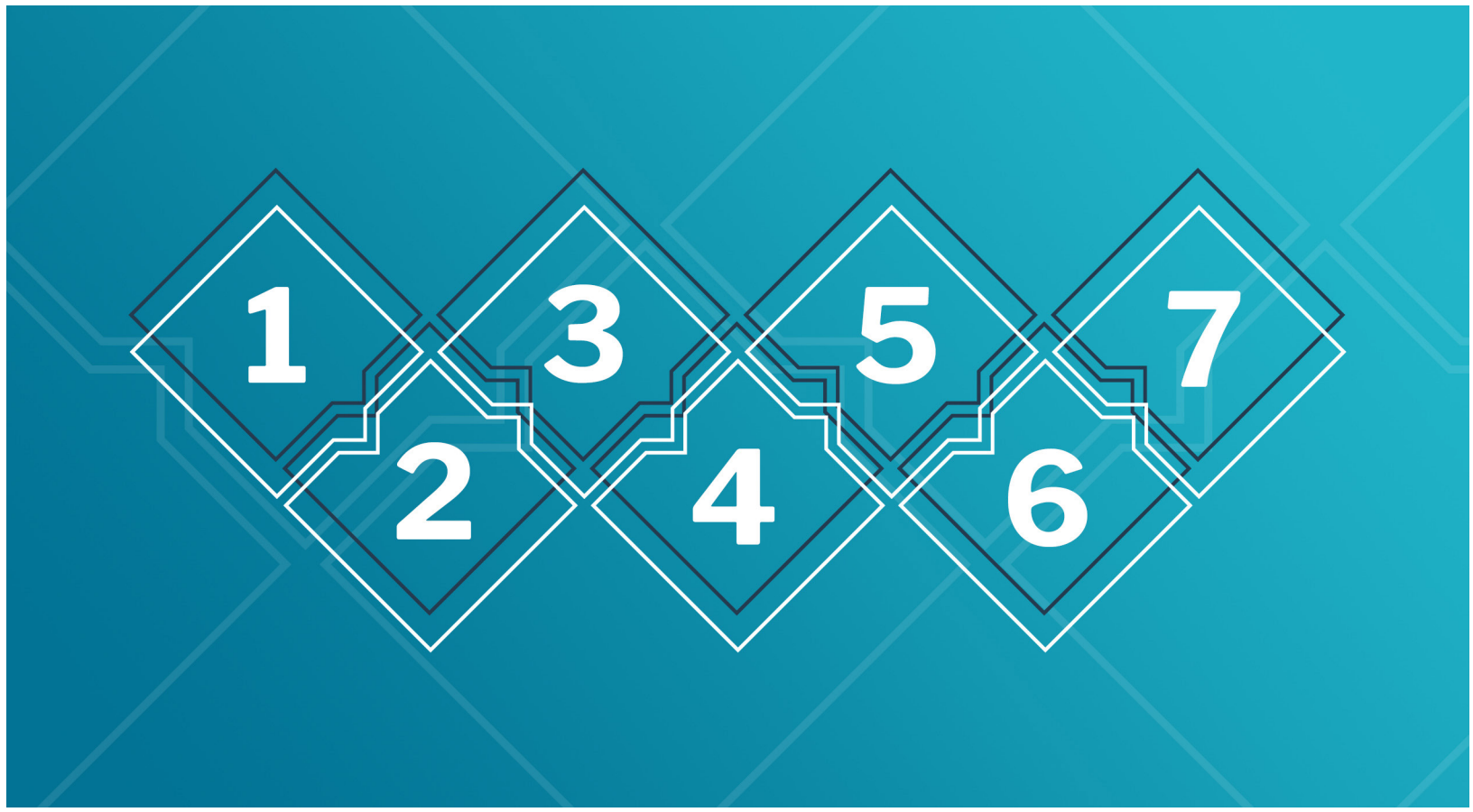
BUILDING A STRATEGIC PLAN: 7 STEPS TO SUCCESS



CROSS FUNCTIONAL ALIGNMENT FOR THE 2020 PLANNING PROCESS IS ONE OF THE MOST CRITICAL ASPECTS OF SUCCESSFUL PLANNING.

Imagine a dinner party where guests are asked to contribute a dish to the meal. If the host doesn't provide guidance, all guests could show up with dessert – which may make for a fun party if everyone has a sweet tooth – although it wouldn't be nutritious or necessarily satisfying. A good plan would have led to a full meal with appetizers, main dish, salad, and of course dessert.

ALIGNMENT ON A JOINT STRATEGY, VISION, AND KEY INITIATIVES IS ESSENTIAL

The same can be said about strategic planning. Alignment on a joint strategy, vision, and key initiatives is essential to the execution of your financial and other growth objectives for 2020. By having broad participation and alignment in the planning process, you can be certain that each team knows its part in the success of the company.

Here's a high-level overview: In May or early June, the executive team begins meeting to discuss core strategic questions, such as what's the market and competitive landscape, how you can win, what products to build and sell, what markets to operate in, and what customers to target. In parallel, the CEO and CFO engage with your Board of Directors to get feedback on these strategies. As the company vision solidifies, planning

starts to include functional leaders who build plans to execute this strategy across all activities like headcount growth, new initiatives, training, and operations. Once there is aligment across leaders on the core strategy and functional plans, you roll it out to the whole company to excite everyone about the opportunity and the next phase of growth. When 2020 begins, you track each initiative with OKRs and KPIs to hold teams accountable and detect areas where you may need to course-correct.

Onsite recommends Seven Strategic Planning Steps:

#1

Timing of Strategic Planning & Operating Cadence

When should you begin planning? A few companies make strategic planning part of their monthly forecasting process – continually evolving their expectations and adjusting resources as they go. This process is time consuming and requires considerable resources. For most companies a strong annual process that includes all relevant stakeholders will suffice.

Regardless of your growth stage, it is never too soon to think about strategy. Best-in-class companies begin next year's planning process in month five of the current FY, with monthly meetings that become more frequent as you approach year-end. There are a few reasons for this timing: first, waiting through the first five months allows you time to evaluate the existing strategic plan and make adjustments as the year unfolds. Second, strategy takes time, requiring research and market input – by starting seven months before the next year, you have time to gather and absorb all the research. Finally, strategic plans cascade to functional plans and resource models; if you assume that it takes at least a quarter (2-3 months) to create a functional plan and this needs to be in place prior to the start of the year, you will need to have a refined (if not final) strategy in place by the 9th or 10th month of your FY.

A crucial aspect of successful strategic planning is to identify an owner to drive the process. In ScaleUp companies this is usually the CFO and a capable team member (unless a strong strategy/corporate development function exists). The CEO is intimately engaged in strategic decision-making, but day-to-day project management is owned by the CFO and the FP&A team. Because strategic planning is a process with lots of dependencies, a senior project manager ensures that leaders are held accountable for deliverables and deadlines.

#2

Understand Your Addressable Market & the Competitive Landscape

Strategy is built on an understanding of your market dynamics and the opportunities available to you. Market and competitive analysis is undertaken prior to strategic planning so that when the strategic planning team meets to align company vision and strategy, it is able to answer the following questions:

- Who are your key competitors by product/solution and market? What's the size of the remaining white space in these areas?
- What is changing in the competitive, regulatory or technology landscape that impacts your competitive differentiation and ability to win?
- Where is your current growth coming from (product, region, vertical, team, etc.)?
- Do you expect the same level of growth from these areas in the new FY or is change likely, and why?
- Where are you winning and losing, why, and to whom?
- Are there macro or microeconomic factors that will impact your growth expectations? (Note: in 2020, this is something to consider, as analysts predict a potential slowdown in the global economy).

#3

Align on Your Company Vision & Strategy

Whether this is your first strategic plan, or if you're updating your prior plan, true strategic planning always starts by answering the questions: "Where to Play?" followed by "How to Win?"

"Where to Play" requires re-examining key strategic questions:

- What is your company's mission and purpose?
- What problem are you solving and for whom are you solving it?
- What markets do you currently compete in, and which new markets are you going to enter?
- Do you focus on specific verticals?
- What solutions do you need for new and/or existing customers?
- At what pace do you plan to expand?

"How to Win" requires a review of the capabilities required to implement your strategy:

- Are you going to grow organically or inorganically?
- From a product perspective, what are you going to build, decommission, partner, or buy?
- What are the risks associated with each strategic choice?
- What are realistic and stretch growth targets in existing products and markets?
- Do you have the right team in place to succeed?

CONSIDER WORKING WITH AN OUTSIDE FACILITATOR FOR YOUR OFFSITE

The market research you undertake in Step 2 – an understanding of competitive, customer and economic dynamics – is a precursor to answer, "Where to Play". Many companies work with an outside facilitator during one or two offsite sessions, to develop alignment on "Where to Play". This lays the foundation for identifying the "How to Win" capabilities needed to execute the vision.

#4

Build Your Organization to Support Company Strategy

"How to Win" and execute efficiently starts with organizational design. Organizational structure supports implementation of a company's strategy. As you plan for any changes to your 2020 strategy, think about the following two organizational questions:

Do changes in your strategy require you to change how your company is structured?

ScaleUp companies typically structure based on functional areas (e.g., sales, marketing, product) but as they grow, other structures may prove more effective, such as business units by solution or geography, specialist go-to-market teams, cross-functional or matrix reporting. There is no perfect structure. Every company goes through various changes in their journey along the "S" curve. Whatever structure you align on for your current journey should be able to live through 12-24 months of growth. However, once you've selected a structure, it's important that you maintain organizational consistency for a time; there is nothing worse for execution than constant "ping pong" changes in organizational structures.

Do you have the right talent to execute the strategy?

The capability of your leaders and teams correlates directly with your ability to achieve your goals. An M&A growth strategy will require a strong corporate development team. A global expansion strategy will require product changes (language, local billing, currency); sales and marketing leaders who have managed across borders; knowledge of how to expand internationally; and a finance team that can manage different tax, treasury, hedging and corporate domiciles. As your company evolves its strategy, it needs to evaluate the talent on hand and determine if additional resources are needed.

Changes to key executive and leadership roles are difficult. It's not always obvious to see that an existing leader is out of their depth until they miss a target or cause disruption across the organization. Ask yourself this question: Is the team I have now the team that I will need in 6 months to get where I am going? If not, then make changes earlier rather than later. Hiring quickly to scale is also difficult in competitive markets or when you need to increase the size of a specific team. See Onsite's blog about Building a Talent Brand to assist you with this. Early planning is key to ensuring that there is no drag on activities as a result of lack of key resources.

#5

Develop Functional Plans & Budgets That Consider Interdependencies

Once the Executive Team has defined a corporate strategy, each functional team builds a plan and budget for 2020 that supports the company's goals. A few questions for each functional leader to keep in mind:

- What are the key initiatives that my function needs to execute in 2020 to achieve the overall strategy? In what priority?
- What requires scaling existing capabilities vs. building new capabilities? For the latter, can we build an MVP (minimum viable product) to test the idea before scaling?
- How much additional headcount will I need, and in what type of roles? Do we need specialists?
- Where will new team members be located? Do we need more office space and regional support?
- What non-headcount investment is needed to support your functional goals? (e.g., tools, software, training)
- What is the budget and revenue impact of the 2020 initiatives?
- What are the key dependencies with other functions? (e.g., product release dates impact hiring and training new sales people, and branding/campaign initiatives for marketing)
- Are any teams overly burdened by dependencies from each function, and how will those teams prioritize the initiatives? (e.g., HR finding more office space vs. developing training programs)

INCREASING YOUR MEETING CADENCE IS NECESSARY AT THIS PHASE OF PLANNING

As your organization moves into this phase of the planning process, you will need to increase your meeting cadence and the number of people involved. Accounting for dependencies is one of the most important parts of the planning process. Starting in Month 9, we recommend scheduling bi-weekly meetings with functional leaders (e.g., Product, Engineering, Marketing, Sales, etc.) to discuss and align on any interdependencies. The case study below illustrates "functional dependency" questions as an example of what to consider during the planning process:

FUNCTIONAL DEPENDENCY QUESTIONS ARE PARAMOUNT TO SUCCESSFUL PLANNING

Case Study: *Company Rocketship plans to launch a new product in 2020*

- Are detailed product requirements available so that Engineering understands what is required to build the product?
- Have beta customers been identified and spoken to? What is the ideal beta customer? Has customer success been engaged to validate the appropriateness of the customer selection if you're targeting existing customers?
- When is GA (General Availability), so that Marketing can provide messaging to sales and customers?
- Who decides pricing and product bundling?
- Have the Sales and Marketing teams mapped out the white space or initial customers to target?
- Is Marketing ready and able to provide additional leads?
- Is Sales trained and appropriately incentivized to sell the product?
- Does the new product require specific Implementation and Customer Support?
- Are new legal contracts or addendums required?
- Is Finance able to bill the product and are systems prepared for the new product?
- Are the teams (including HR Recruiting) prepared to hire and onboard any new resources that are required to execute the plan?
- Do you have seating arrangements for new resources; does IT have laptops and equipment for new hires?

It's easy to fall into the trap of building a 2020 plan in a silo and failing to consider the impact on other functional areas. Clear communication and engagement from all departments in the strategic planning process is vital for a smooth and effective strategy rollout.

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#6

Establish a Processes for Managing Strategic Planning, Investments & Ongoing KPI Tracking

To ensure success, all major initiatives need a project plan, owners, and documented next steps and deliverables. Functional leaders should review progress on a bi-weekly basis and use metrics to track output and outcomes. Any new investments should be justified by an expected ROI and prioritized, not only within a function, but across the company. The company should invest in those initiatives that have the highest ROI across the business, rather than one initiative per function.

The overall company plan with budgets, dependencies, dates and timelines is owned by the CFO and FP&A team. They are responsible for collecting the data that shows progress against goals and ensuring that all parties are engaged.

As we all know, circumstances change throughout the year which will require course correction. If you're tracking effectively, it will be easier to pivot because you'll have early warning signals. Metrics and accountability are as important as the strategic planning process itself so you can get a sense of how well you are executing on your plan. Be prepared to meet as a team, adjust your strategy, and re-prioritize your initiatives to ensure you hit your goals.

#7

Board & Company-Wide Communication and Launch

It's essential to keep the Board of Directors appraised of your evolving strategic plans and any interdependencies. During the strategic planning process, you must carefully manage the Board's expectations. One tactic is to brief each Director before Board meetings to get each comfortable with your plans and growth targets. This way, there are no surprises on the day of the Board meeting. Your Board ultimately signs off on your plan and supports your budget and resourcing requirements. Alignment begins at the top and cascades to the rest of the company.

Once revisions and Board input are finalized, company leadership will enter 2020 aligned around the strategy and how you'll get there. The kick off to the new year is a great opportunity to excite the broader team about the journey ahead and how each person can make a meaningful contribution to the company.

Energizing your company requires effective communication, mid-level management buy-in to the plan, all-hands meetings, and internal marketing to ensure that everyone is aligned behind the opportunity. Be transparent

LIKE A FEAST, STRATEGIC PLANNING IS WORTHWHILE IF DONE RIGHT.

BE TRANSPARENT THROUGH REGULAR UPDATES AND SHARE PROGRESS

through regular updates that share progress against goals and discuss both key wins and challenges. All of this will keep your entire organization aligned and excited about accelerating your current growth.

We also suggest that you leverage OKRs – Objectives & Key Results – as they are an effective mechanism to cascade responsibility and tasks into your organization. Our Insight blog provides further details on how to leverage OKRs within your organization.

Going back to our dinner. If you follow **Onsite's 7 Steps to a Successful Strategic Plan**, you should be ready for a feast. Each guest will prepare the right course and for the right number of people. There will be a carefully planned menu that considers nutrition, taste, texture and smell alongside hors d'oeuvres, starters, entrees, desserts, and wine. The outcome: satisfied guests and a successful evening.

Like a feast, strategic planning is worthwhile if done right.

2

PRICING FOR GROWTH: TOP TO-DO'S AS COMPANIES SCALEUP

PRICING IS THE FOUNDATION OF ANY COMPANY'S REVENUE MODEL. IT ALSO HAS DEEP LINKS INTO EVERYTHING FROM PRODUCT STRATEGY TO SALES ENABLEMENT AND CUSTOMER SEGMENTATION.

Because it's a complicated topic, companies frequently ask Onsite how they should tackle pricing. Our answer depends on what growth stage a company is currently in. Smaller companies have a massive opportunity to use good pricing structure to accelerate growth, while larger companies have a greater need for bundling and sophistication, along with the ability to execute multiple pricing strategies.

We've outlined the top three success factors for each stage of growth.

Early Stage (~$3-15M ARR) – Set the Foundation

As a company emerges from seed stage to early stage, it typically has product-market fit, and is evolving from experimentation mode and a grow-at-all-costs mentality. Pricing has been one-size-fits-all. The next step is to build a pricing strategy and scalable go-to-market motion.

BUILD A PRICING STRATEGY AND SCALABLE GO-TO-MARKET MOTION

1) Define and test your value equation

By this point there is a loyal base of customers that love your product. You need to understand why they love it. Set up interviews with customers to ask what drives value for them and where they get their return-on-investment. These interviews often uncover benefits you never knew your product offered!

Use this information to feed into your marketing and sales messaging, align features with packages according to the use cases they support, and test the limits of your customers' willingness to pay. If a customer is reporting a 20 times ROI on your product, it's an opportunity to push price higher for future customers with that same use case.

2) Set the right pricing metric

A pricing metric is the primary unit of value by which you charge customers. In the B2B software world, this is typically a per-user price (our research suggests that 51% of Insight's software portfolio price this way). To ensure that your pricing metric sets you up for the next phase of growth – test out alternatives early.

IT IS A LOT EASIER TO CHANGE YOUR PRICING METRIC AND MIGRATE CUSTOMERS WITH A SMALLER CUSTOMER BASE.

In addition to choosing a metric that reflects the value that customers receive, choose a metric that can be accurately tracked, and one that sales and customers are able to predict at time of purchase. If your customers don't see a logic for the way they are charged, they are less likely to accept paying by it. In Onsite's experience, no metric perfectly ticks every box. We recommend weighing your available metrics and choosing the best metric available to you.

3) Don't limit upside

A common challenge for ScaleUp companies is "unlimited" deals. Often, a young company will sell early customers an 'unlimited' deal. As the product features expand, it can be painful to watch that deal stay at the same price while new equivalents sell for a much higher ARR.

Take a firm look at your product packaging and contract limits to ensure that in every deal there is a way to upsell the customer later as your product becomes more valuable.

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BUILDING A BASE OF GOOD CLEAN DATA REQUIRES TIME, THOUGHT, AND INVESTMENT IN SYSTEMS TO CAPTURE INFORMATION. HOWEVER, THE EARLIER YOU CAN MAKE THIS INVESTMENT, THE BETTER YOUR PRICING DECISIONS WILL BE AS YOU SCALE.

Later Stage Growth (~$20-50M ARR) – Perfect the Model

At this point, your fundamental pricing model should be driving growth and be well matched by a growing go-to-market machine. The next pricing strategy is to ensure you can develop a repeatable model for capturing future value.

1) Invest in pricing data

Informed pricing decisions rely heavily on using all possible data about your customers and your product. Your data analysis should focus on what is happening in your orders (who bought what, at what price, versus what they should have paid) and your usage (of the features and metric levels they bought in their contract, what is a customer actually using?).

This data is used to ensure that your price levels and price model are optimized for selling, and your features and packaging are optimized for continued customer usage and growth. Building a base of good clean data requires time, thought, and investment in systems to capture information. However, the earlier you can make this investment, the better your pricing decisions will be as you scale.

2) Include pricing and packaging in product decision making

PRICE AND CUSTOMER PURCHASE BEHAVIOR NEED TO BE FACTORED INTO PRODUCT DEVELOPMENT

Price and customer purchase behavior need to be factored into product development. Think about your offering as a portfolio of features. Understand how customers think about using your products and individual features together, and maximize their willingness-to-pay by bundling features into integrated packaged solutions. This is the first step in pricing differentially (e.g., by feature, use case, and customer type). If bundled correctly, customers will get more value from what they buy and end up buying more.

In addition, as you begin to develop a second product, incorporate a view of willingness-to-pay early in your development cycle. Don't get to general launch, or even beta, without a good idea of how much customers are likely to pay if you add the product to the portfolio.

3) Upsell, upsell, upsell

Your pricing model, packaging and product development should be designed to propel most customers into upsell conversations. Many SaaS companies operate on some form of a land and expand model. With a carefully thought out price metric and packaging structure, a large proportion of customers (at least 30%) should be coming back to ask for more of the products they buy currently, or to buy additional products.

For customers who are satisfied with their current products, we recommend a minimum 5% annual price increase. To do this effectively you need to target price increases based on analysis of each customer segment's willingness to pay, and selecting a pilot group for any larger increases. To aid in execution, specifically incentivize your renewals team to ensure that price increases and upsells are executed.

At-scale growth (~$50+M ARR) – Optimize and refine

If all has gone well in the previous phases, you now you have a scalable revenue model that is consistently able to capture value, with pricing that can stand up to scrutiny. The next step is to professionalize your pricing processes and sales enablement to adapt to your (probably now quite large) go-to-market organization.

1) Invest in pricing operations, and a dedicated pricing owner

By this point in your company's growth, monitoring and maintaining the data, keeping pricing updated and working with the myriad of sales, product, customer success and financial stakeholders is a significant task. As you scale further, you will need an owner for each of the activities below, and ideally a dedicated pricing resource to help tie everything together.

- Measure and monitor key data and KPIs on packaging (cross-sell, upsell, product usage) and pricing (discount %, ASP, gross retention, metric usage, conversion and win/loss)
- Work with product owners to perform willingness-to-pay analysis and voice-of-customer research to identify and validate pricing and packaging opportunities
- Monitor competitive price levels and value
- Develop and maintain price lists, metric definitions and packaging rule books
- Develop sales and channel partner enablement for pricing topics
- Run order management / deal desk to ensure enforcement of pricing principles
- Manage discount approval and exception processes, and provide in depth support to sales on strategic deals
- Maintain, update and optimize CPQ

2) Push toward price maximization

Many earlier stage companies price their products at lower than their true market value, by design, because logo growth is key. As your company, product offering, and sales motion becomes more mature, it's time to further capture the true customer value you are delivering. Use the data you've collected, along with customer research, to track opportunities to make sensible price adjustments by segment.

It's particularly important to track the before and after effects of a price increase. If it hasn't significantly impacted your conversion rates (i.e., your product is price inelastic), then you know you can push a little bit higher to maximize revenue.

3) Improve sales enablement around discounting

Once you have a sizeable sales organization, the potential for lost revenue through discretionary discounting is high. Discounts are not a bad thing; they allow for differentiation that cannot be covered through list price alone. However, without the right guidance and controls, sales will leave more money on the table than necessary.

HOW ARE YOU INVESTING THE TECHNOLOGY RESOURCE?

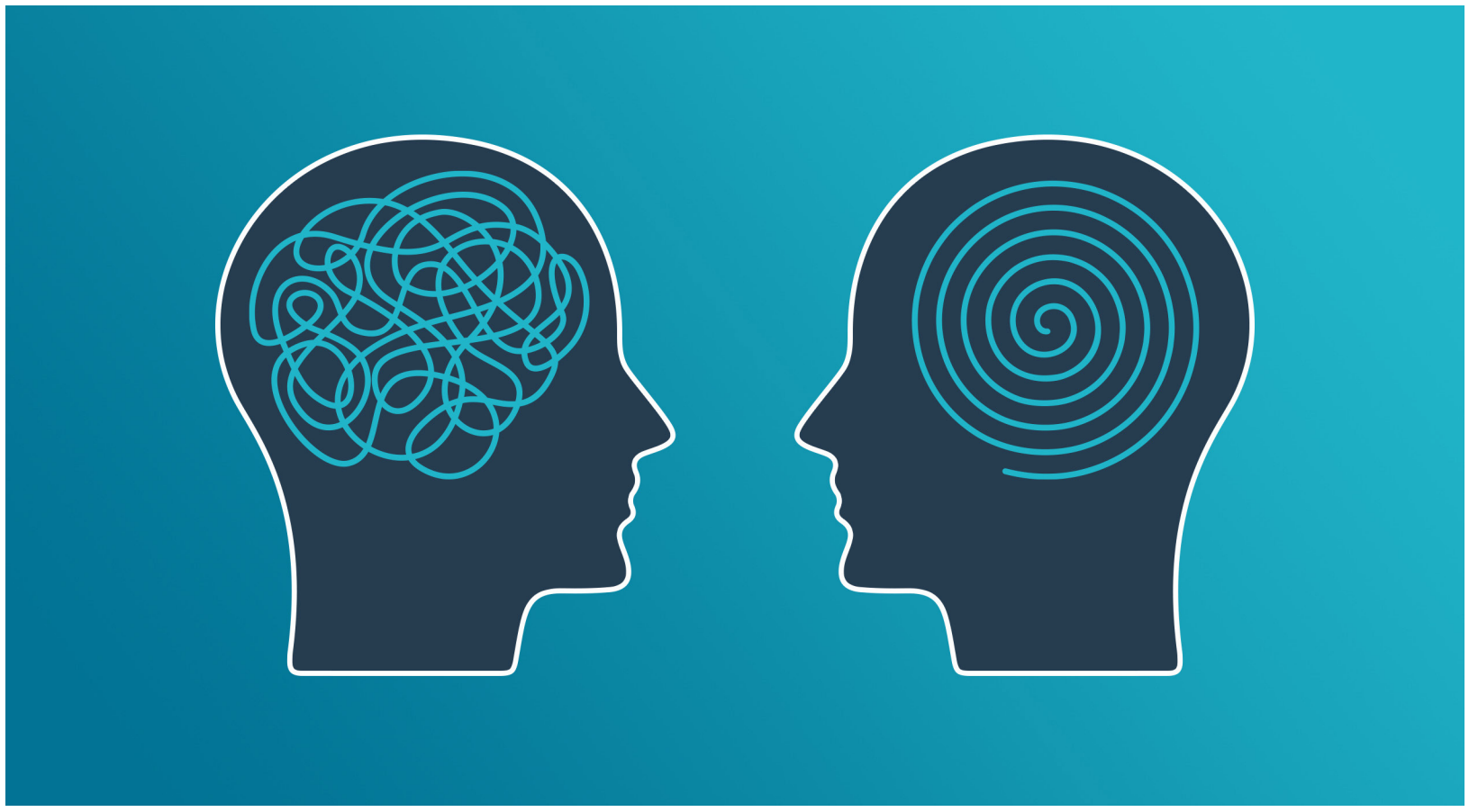
WHAT ARE THE RISKS OR VULNERABILITIES THAT WOULD IMPACT THE COMPANY'S ABILITY TO ACHIEVE ITS STRATEGIC OBJECTIVES?

The ideal state for discounting is one where discounts are tied to specific customer traits, or drive customer behaviors. For instance, you may have a specific discount for mid-market customers due to an aggressive competitive environment, a discount tied to certain strategic accounts, or a discount allowance for customers who agree to provide a reference. Once you determine the ideal discount levels, you can design approval processes and incentives to ensure the desired behavior within your sales team. With the correct structure in place, you will maintain (or regain) control over your discounting process and reduce the amount of revenue lost.

Along with product satisfaction, pricing is the next most important lever to accelerate growth. Pricing to value, collecting data and bundling for different segments is fundamental to land and expand customer accounts. These activities require focus and an internal owner.

3

INORGANIC GROWTH: EMBRACE M&A TO ACCELERATE GROWTH AND REDEFINE YOUR CATEGORY



GROWING YOUR BUSINESS OFTEN DEMANDS CHANGE – AND SOMETIMES THAT CHANGE IS MINDSET.

For growth-focused software founders and CEOs, there's often a temptation to spur growth by continuing to invest in-house, adding people and skills to build out new functionality. After all, this drove success in the first place. There's just one challenge: the tech market moves so quickly that industry and customer needs may have changed by the time you've created new functionality. What worked to "land" may not work to "expand." It also may not be fast enough.

In today's fast-moving market, M&A activity could hold the key to helping high-growth companies sustain momentum and gain an edge over the competition.

With this backdrop, we asked Adam Berger about his perspective on M&A activity for high-growth companies. Until 2017, Adam was CEO of Digital Room Inc. (DRI), an Insight Venture Partners' portfolio company that he grew to be a multi-hundred million revenue entity. Under his leadership, DRI executed more than a dozen acquisitions. Adam subsequently joined Insight as a Managing Director to be the chairperson of several companies within our portfolio. In turn he helps these companies embrace M&A to accelerate growth and redefine their future.

> THE CHALLENGE FOR ENTREPRENEURS IS TO GROW AS LARGE AND AS FAST AS POSSIBLE IN ORDER TO RETAIN AND EXPAND CUSTOMER RELATIONSHIPS, CREATE SUSTAINABLE ADVANTAGE, AND CONTROL THEIR DESTINY.

Why Is M&A Activity So Important Today?

Founders are typically builders and M&A is not their "go to" muscle. But M&A empowers businesses to keep up with rapid change and fiercer competition. Adam puts the situation in simple terms:

"The challenge for entrepreneurs is to grow as large and as fast as possible in order to retain and expand customer relationships, create sustainable advantage, and control their destiny."

Berger continues, "it's natural for founders to believe that if they just had more resources and time, they could build something unique and different from their competitors." At some point, technology companies need to come to terms with the idea that to continue rapid growth there simply isn't time to build from scratch. Changing to an M&A mindset can provide an adrenaline growth shot and create competitive advantage through scale and capability expansion. Doing this requires businesses to overcome a few real challenges, including:

Overcoming a mindset: "If we didn't build it, it won't be good enough". There's often a belief that there's more risk when buying from other people. While the risk is real, this perception underestimates the inherent risk in building software in-house, where in-house developed solutions can miss key milestones or miss the market altogether. At the startup stage, you can take that risk. As a more mature company, missing a promised delivery date can permanently damage your reputation and credibility. To maintain high growth, you're often better off acquiring an already stable and bankable product.

Taking full advantage of the "Land and Expand" mentality. In the first instance, landing a customer is expensive and challenging enough. Once you've landed a customer, you need to either develop new products at a rapid rate or own enough products to expand that relationship. As such, sustaining growth hinges on nailing the expansion phase of the relationship. M&A activity makes it easier to expand your product offerings and get more value out of the relationship. It helps you acquire the products you need faster and with less risk than building it yourself.

In most cases, expansion challenges start to pile up when it comes time to operate at scale and "grow up". Essentially, businesses at this adolescent or teenage stage are racing to overcome high costs in areas such as R&D, sales and marketing or G&A costs to get to adult scale. Scaling via M&A is a faster route to growing your business that provides a vital blend of stability and profitability.

M&A in Practice: Examples of Redefining the Future

USING M&A STRATEGIES FOR GROWING YOUR BUSINESS CAN BE VALUABLE IN CHANGING HOW YOU GROW

Using M&A strategies for growing your business can be valuable in changing how you grow. Berger highlights a few examples as success stories: one focused on **capability expansion** (E2open) and another on both **in-line expansion** and capability expansion (Diligent).

E2Open is a clear example of how M&A can transform a business. The company is part of the Insight Portfolio, and when we invested, it was a public company that had a unique and powerful point solution. E2Open provided supply chain visibility for large manufacturers of discrete products – chips and disk drives for example. It had the rich functionality needed to land a customer in the first place, and a logo roster that would be the envy of any enterprise software company. The company focused on the growth of new logos and industry verticals in the short term with the long-term promise of expanding those relationships. E2Open was thus an inch deep and a mile wide, creating the risk of churn since the point solution-based customer relationships were not comprehensive. If one or two large customers fell away either due to their own uncontrollable M&A or competition that offered a broader suite, the company could stumble. That is almost exactly what happened. Two customers stumbled and E2Open's stock stumbled, too.

Insight acquired E2Open in 2015 in a take-private transaction. Since then, we've partnered with the new CEO and leadership team to acquire eight companies. The company now offers not only supply chain visibility, but also:

- Supply chain management for process industries (parallel to discrete)
- Demand sensing
- Demand planning
- Supply & Demand matching
- Ocean and truck logistics.

As a result, E2Open provides an end-to-end solution for major manufacturers, across multiple industry segments with a full suite of products – a process that would have taken 15 or more years if the company were building all this in-house. E2Open's transformation has resulted in Gartner creating a new magic quadrant for Multi-Enterprise Supply Chain Business Networks and placing E2Open in the "upper right" for completeness of vision and ability to execute.

Another example is Diligent, a company Insight took private in 2016. At the time of investment, Diligent had a very good, albeit narrow, vertical solution that helped aggregate and secure board documents and meeting minutes. While many saw the company as a glorified PowerPoint reader, Insight and management understood the strategic importance of a precious 100 square inches of business real estate: a board directors' iPad. Access to the board of directors provides the ability to support the most strategic and important business and governance initiatives of an organization.

ACCESS TO THE BOARD OF DIRECTORS PROVIDES THE ABILITY TO SUPPORT THE MOST STRATEGIC INITIATIVES OF AN ORGANIZATION

Prior to going private, Diligent was spending heavily on a new collaboration product that, upon further analysis, was going to be perpetually behind more focused competitors. Post investment, Insight and management scrapped the new product, eliminated the R&D spending and redirected efforts and capital to an M&A program. In less than two years, through over 11 acquisitions – many of which were inline or "closely adjacent" competitors – Diligent has greatly expanded its total addressable market by opening new customer segments beyond Fortune 500 companies (e.g., into education and nonprofits) and opening or expanding into new geographies. In the process, the company has significantly increased its revenue and earnings.

Perhaps the biggest transformation the company has made is moving from a "board presentation reader" to becoming the creator and enabler of the "governance cloud." Diligent has expanded beyond the board portal vertical to become a total governance package by adding entity management and director information products. With this shift, the company has a vast opportunity to expand beyond what was once a tight vertical tool to be the leader in a new software category. All of this has been made possible through M&A.

Both E2Open and Diligent showcase how evolving from a build mindset to a buy approach can accelerate growth and strengthen a company's role in the marketplace. Achieving this kind of success begins by approaching M&A activities with the right thought process.

Ground Rules for M&A Success

It is vital that organizations analyze their specific goals and circumstances to identify if a tactic will be right for them. With years of working on M&A projects, Berger has come away with some clear ideas of what really matters when it comes to identifying the right time to pursue an M&A program. Here's a look at his advice:

Don't get hung up on scale: There isn't a single blueprint for M&A success. There isn't a specific format you need to follow. Every deal is different. This is particularly true in terms of scale. It doesn't matter if your business is small or large; what does matter is that you take a strategic, targeted approach to the M&A process. Small companies are good acquirers and revenue size should not be an impediment to M&A success.

Understand the investment thesis behind the M&A: Do you want to acquire new customers? Do you want to broaden your services? Do you want to enter an adjacent market? You should have a clear goal for your M&A program.

Establish a team to guide your process: Due diligence is vital to the M&A process, but it's about more than financial analysis. Financial due diligence is standardized but being intentional and focused on aligning the M&A activities to your company's core goals is much more difficult. Building a management team to guide this process is critical to both creating a clear vision and to executing on that idea. Ultimately, Berger believes that M&A is most successful when it moves from being a one-time event into being an ongoing capability of your company.

Take a hands-on approach as the executive team: When M&A is successful, the entire senior management team of the acquiring company is highly engaged in the process and own it. If the CEO, CFO and Head of Corporate Development are doing this on their own, failure is high, particularly in smaller companies earlier in their evolution.

Benefit of an Experienced M&A Equity Partner

A strong company vision for M&A is critical, and it's almost impossible to outsource the process effectively. But, this doesn't mean you have to do M&A on your own. When you're working closely with an equity partner, an executive team can get strategic assistance and tangible resources to navigate the process, access M&A experience and get leverage to move more quickly.

Berger describes his experience as a portfolio company CEO when DRI worked with Insight. At the time, the business didn't have M&A capability. As a result, Berger leaned on Insight to:

- Source acquisitions and build a pipeline of qualified potential targets.
- Field a full-time M&A resource to help build a financial model for the acquisitions and a post-merger operating plan.
- Navigate and introduce financing sources to execute the deal.

EQUITY PARTNERS CAN STEP IN TO FILL GAPS DURING THE M&A PROCESS

In simplest terms, an equity partner can step in to fill gaps during the M&A process. If you lack key roles, they can provide experts. If you lack skills, they can offer training. The potential gains are considerable.

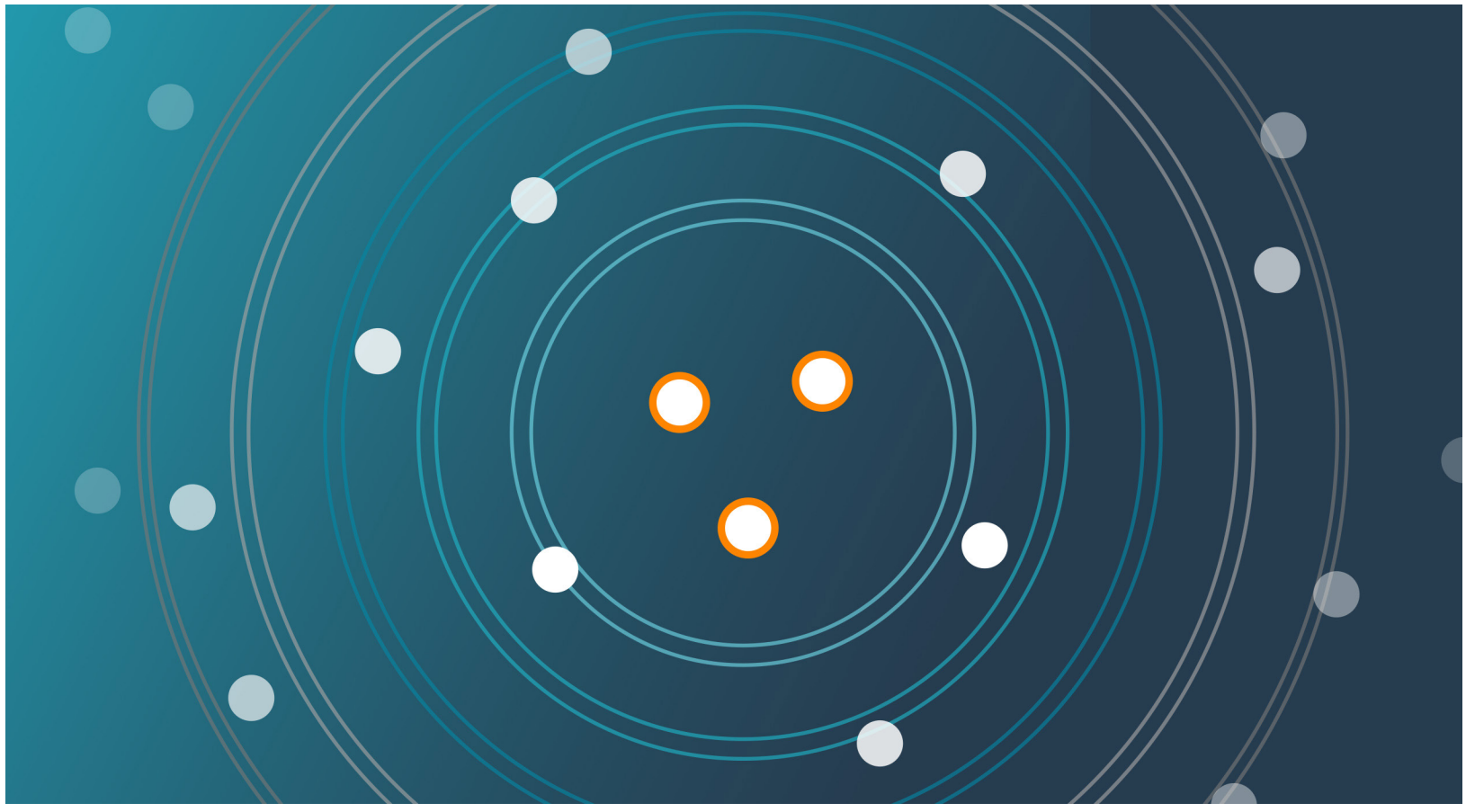
Final Thought

Pursuing an M&A strategy can be intimidating; Berger offers one overarching tip to guide your efforts:

"Don't be afraid. Embrace the possibility. Be methodical and cautious, but don't be afraid. Apply the same bold mindset to change the world that you had when you started your business. Don't be afraid to take the business you've poured your life's work into and radically evolve it by adding on M&A – even if it is a foreign object to you."

4

M&A EXECUTION: BUILD A PIPELINE OF TARGETS



EVERY M&A STRATEGY REQUIRES A RICH PIPELINE OF TARGETS (POT). A COMPANY FOCUSED ON M&A NEEDS TO BUILD AND PRIORITIZE A TARGET PIPELINE BASED ON THE COMPANY'S STRATEGY AND PRODUCT NEEDS.

Rachel Geller, MD at Insight, interviews Peter Segall, former CEO of HealthcareSource about his experience building and executing a POT. After selling HealthcareSource in 2015, Peter joined Insight as a managing director to mentor and coach executives of Insight's portfolio companies. Many engage in M&A and build POTs to do so.

Rachel: *Could you explain why M&A was a critical part of the strategy at HealthcareSource?*

Peter: When Insight invested in Healthcaresource, it was a single product company, a hospital staff applicant tracking system for small to mid-size community hospitals. We had aspirations to build a broader talent management platform. Our goal was to expand our Total Addressable Market (TAM) and sell more to our customers; at the same time we needed to minimize risk by executing on our product and go-to-market strategy.

With M&A we could maximize the upside. To accomplish this goal, we began by methodically evaluating targets using a POT decision framework that we created jointly with Insight.

Rachel: *Many teams and entrepreneurs find themselves aspiring to this type of M&A strategy but are not sure where to start. Could you give us more details about this process and framework?*

PRIORITIZE PRODUCT CATEGORIES THAT CAN ACCELERATE BUSINESS GROWTH

Peter: The first step of the POT process was to build a 360 degree market map, a comprehensive view of all the product categories that were adjacent to the core product, and to look at what companies were playing in these product categories. We then applied a set of criteria to narrow this market map to a list of 50 to 60 targets. We prioritized the categories based on which ones would accelerate HealthcareSource's business growth the quickest, and could be executed smoothly. To give you a bit more detail, the criteria fell into two categories:

Performance metrics to assess target's attractiveness to us: product capabilities, market leadership, and financial profile, and

Risk mitigation considerations to ensure ease of integration: natural technology fit, similar buyer profile, and suitable product bundling for our current GTM model.

We worked with Insight Onsite to prioritize companies in the market map using these criteria. This was our POT. Insight's sourcing team then reached out to the POT to help us create a shortlist of targets.

Rachel: *What was the overall impact from these transactions?*

Peter: We completed three acquisitions during Insight's investment period. These three inorganic growth additions, along with organic product development, enabled HealthcareSource to expand our value proposition from a point solution to a full talent management platform.

M&A contributed materially building company valuation. Through these acquisitions, we expanded our addressable US market by eight times and grew the business significantly over the course of a few years. The inorganic activity contributed approximately half of our growth. The thoughtful process of market mapping, setting criteria to build a POT, and collaboration with our equity partner worked well for us. The results were self-evident.

Rachel: *This is impressive and since I was part of your extended Insight team, I remember how exciting it was to partner on these initiatives. Could you talk a little bit about how to prepare your organization for M&A?*

Peter: M&A is an ongoing function in the company with no determinate beginning and end. Day one in the job, the management team ought to be discussing the goal, strategy and ecosystem. These are always iterative because customer needs change quickly. Six months after I joined HealthcareSource, we started to think about target categories for acquisition and expansion. We created our POT and we would regularly sit down with the board and review the results of our outreach. Our POT evolved as we learned more and as the market evolved. M&A requires an ongoing mindset in a business and teams must build that muscle early on.

Rachel: *That is helpful advice. How would you advise CEOs or founders who are at the beginning of this journey and trying to figure out how to execute on market mapping and prioritizing a POT?*

Peter: Understand the ecosystem. You may need to go one, two, three dimensions away from what you're currently selling. To achieve this, management teams should be deeply immersed in their customers' worlds via meetings, conferences, journals, and other means to understand how their products fit into the broader ecosystem.

* UNDERSTAND THE ECOSYSTEM. YOU MAY NEED TO GO ONE, TWO, THREE DIMENSIONS AWAY FROM WHAT YOU'RE CURRENTLY SELLING.

Have a long-term vision for the business. Many times, you're just trying to survive the day. It's important to stick your head up and ask, "What are we playing for here? What's the five-to-ten year moonshot or bold idea that we're trying to accomplish?" An understanding of the ecosystem and the market map, gives you a window into creating the bolder vision that you can work towards.

Apply heavy doses of practical realism to this process. A lot of factors can make a transaction unattractive. For example being far removed from your current purchasing decision maker, a vastly different company culture, or significant operational issues. These can make M&A risky. On the flip side, a similar or related buyer, a similar or related culture can make the acquisition easier. Many M&A integrations fail because the buyer only focused on the growth profile of the target, and not the other components of what yields good outcomes.

Be ready and willing to walk away from deals. We walked away from a lot of deals even after they passed our first and second sniff test. You can't go into this with happy ears. You must be disciplined, do strong due diligence and have a deep knowledge of your long-term plans with an awareness of the changes in your ecosystem.

Rachel: These are valuable suggestions and I know that you apply your experience to the companies that you mentor now. Thanks for discussing them with me.

5

POST-MERGER MANAGEMENT: INTEGRATING TWO CULTURES

SEVERAL YEARS AFTER THE FAILED AOL-TIME WARNER MERGER, FORMER AOL CEO STEVE CASE SUMMARIZED HIS PERSPECTIVE ABOUT THE DEAL BY SAYING: "VISION WITHOUT EXECUTION IS A HALLUCINATION."

Like most mergers, AOL and Time Warner made sense on paper. Leaders had planned out the strategic and financial ways the two entities could thrive together. Did the quickly-changing Internet space make the partnership challenging? Sure. But, one of the most frequently cited reasons for the AOL Time Warner failure rested on an often overlooked dimension of mergers: culture integration.

CULTURE CLASH IS A LEADING CAUSE OF M&A FAILURE

Culture clash is a leading cause of M&A failure—and not just in mega deals like AOL Time Warner. In a Bain study, **executives who managed through a merger listed culture as the leading reason why a deal failed to meet its true potential.** The scenario is common. Two entities arrive with years of norms, values and behaviors that are tried and true. Uncertain about the future, employees are reluctant to abandon what has made them successful. Suspicion – of change, the "other side", of the deal itself — starts to fester. Tribal behavior takes shape. Disrespect follows. Workers get frustrated, leave, or lose productivity. As the business sputters, synergies that leaders hoped for slowly dissipate.

What is Corporate Culture?

Academic researchers say that a positive culture can account for **a 20%-30% performance increase over average companies.** But, corporate culture is hard to define, let alone create, even when leaders have a good sense of the type of culture they want. When asked to define their company culture, many employees will cite a mission statement or a slogan. However, culture runs far deeper than catchphrases.

A 2013 Harvard Business Review article by John Coleman cites 6 components of corporate culture:

Vision: a corporate statement of purpose that describes what value the company offers and what it stands for, often in the form of a mission statement (e.g., Hilton's vision is "to fill the earth with the light and warmth of hospitality).

Values: a set of words or phrases that are guidelines of how the company wants its employees to behave (e.g., Google is famous for their value "Don't be evil". Whole Foods has eight value statements including: "We satisfy, delight, and nourish our customers" and "We support team member excellence and happiness").

Practices: concrete company practices that reinforce cultural value. These practices must run through every facet of the company – from recruiting to marketing and experience design.

People: ambassadors of the culture starting at the top and reaching throughout all levels of employees (e.g., Tony Hsieh, CEO of Zappos, tells the story of a customer service agent who ordered pizza for a hungry customer. Though Zappos hinges on delivering shoes (not pizza), the agent embodied the value of "delivering happiness").

Narrative: the story of a company, which informs where it came from and where it is going. Like families, companies have a history which reinforces company identity.

Place: the physical environment in which a company operates must support corporate values and desired action (e.g., office location, building architecture, floor layout, interior design, hardware and desk choices – all facets of "place" must support corporate values and desired action).

USING THIS FRAMEWORK OF CORPORATE CULTURE IS A GREAT WAY TO THINK AND ANALYZE CULTURE WHEN EVALUATING MERGERS AND ACQUISITIONS. AS YOU DELVE INTO THE BELOW ACTIONS, USE THE ABOVE FRAMEWORK TO HELP GUIDE YOUR EFFORTS.

Top Tips for Avoiding the Post-Merger Culture Clash

Our experience suggests 5 actions that will help to avoid any potential issues:

#1

Make culture a part of due diligence. Assessing potential cultural obstacles in a structured, focused way should be as much a part of M&A due diligence as product forecasts, data rooms, and strategic brainstorming. Spearhead the cultural assessment with a team of HR executives, team leaders, and line employees from both companies. The goals: a) understand differences in the two cultures – including motivations, values, work methods, and social behaviors, b) identify key cultural "leaders" to retain and enlist in post-merger activities, and c) create a blueprint for cultural values that will define the new entity.

#2

Spend time together ASAP. Day 1, get on the plane. C-level executives and senior team leaders should interact in person – setting an example for both organizations. For the next year, leaders should plan frequent off-sites with the dual goal of business planning and fostering cultural cohesion – helping to build relationships and identify common values. Companies with large remote workforces beware: virtual meetings will not cut it. Virtual participation will solidify differences borne from distance and the absence of social cues.

#3

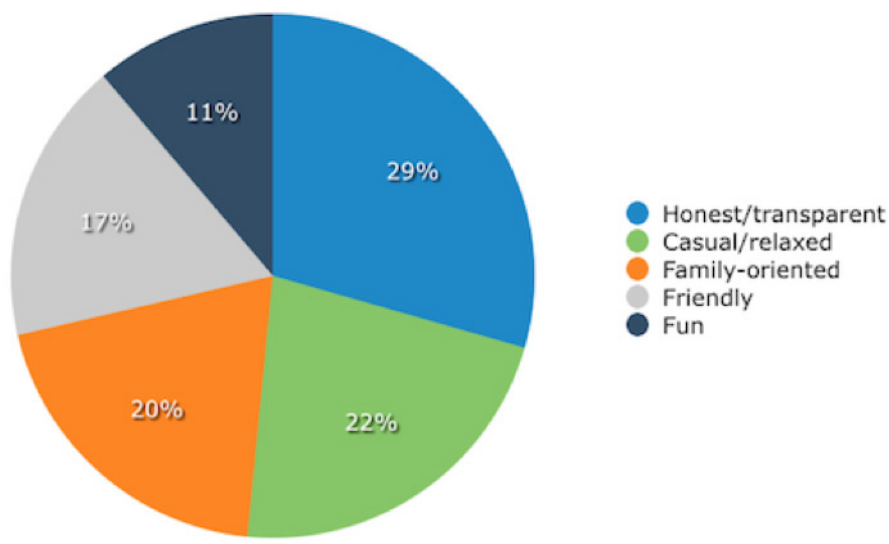
Be explicit about setting culture. An explicit outcome of these initial offsite workshops should be for the combined company to agree on cultural values. This plan should be as detailed and heralded as the strategic, financial and product plans. A laundry list that simply combines both sets of company values won't suffice. The plan should include a streamlined set of values the company can realistically uphold and is willing to invest in by way of incentives, training, and systems.

#4

Monitor frequently. Shaping culture is not a one-time activity. Companies should engage in ongoing activities to assess cultural health. We suggest surveying employees every 2 weeks for the first 3 months after a merger is completed – across all departments — tracking opinions of the new company, job satisfaction, and soliciting ideas for improvement. Leaders should publish survey results openly and devise concrete actions to improve problem areas, enlisting employee ideas every step of the way. Engagement platforms like CultureAmp can be useful tools to solicit feedback.

#5

Be transparent and decisive. Throughout merger integration, executives should be transparent and decisive as they address cultural assimilation. Whether mixing the best cultural elements of each company or creating a new culture, honesty is the most preferred cultural attribute for employees. But that needs to be combined with sure footedness so that employees feel confident that their leaders have a path forward. In light of the suspicion and nervousness that often accompany a change in ownership, honesty and confidence are even more paramount during the post-merger integration stage.



Source: Greatplacestowork.com

For the majority of portfolio companies at Insight, the cost and investment associated with people is by far the largest part of their P&L. Therefore, getting culture right to make sure people can thrive and be productive is critical to success.