WAKEFIELD

The ScaleUp Revolution: A Force Multiplier of Economic Growth

Startups need to graduate.
ScaleUps are the true driver of economic growth, employment security, and tangible innovation.

FEBRUARY, 2021

INSIGHT PARTNERS

About Wakefield

Wakefield Research is a leading, independent provider of quantitative, qualitative, and hybrid market research and market intelligence. Wakefield Research supports the world's most prominent brands and agencies, including 50 of the Fortune 100, in 90 countries. Wakefield Research's work is regularly featured in the media.

The purpose of this research is to provide insight related to specific topics requested by Insight Partners about the rise of ScaleUps, with a focus on software companies. This report, conducted by Wakefield Research, is based on three phases of research: secondary research (utilizing existing data sources) and two phases of primary research (quantitative survey and qualitative interviews) with the goal of obtaining insights not available through secondary research.

The primary research consisted of a 300 software CEO survey representing startups, ScaleUps and later stage companies, as well as 10 in-depth interviews with ScaleUp CEOs.

To learn more, visit **wakefieldresearch.com**

Executive Summary

Startups have long been lauded for their job creation and their role as a foundation for innovation. Yet, far less attention has been paid to the next stage in the company lifecycle that successful startups graduate to: ScaleUps. While most startups fail, companies that reach ScaleUp status are a proven entity: only 1 out of 200 startups reach the ScaleUp minimum threshold of $10 million in revenue by their fifth year.[1] To enter this phase, companies must demonstrate that they are robust, with the ability to survive challenging conditions and sustain high growth.

Having already navigated the pitfalls that bring down most startups, ScaleUps are highly resilient, particularly in times of economic stress. Past recessions have shown that ScaleUps have an outsized impact on job creation when it is needed most – and this has proven to be true once again within the current economic environment and public health crisis. ScaleUps reacted quickly to the COVID-19 outbreak with policies aimed at securing revenue, with most maintaining positive growth outlooks into 2021.

A strong startup ecosystem is necessary for ScaleUps to play their vital economic role. However, as the following research shows, ScaleUps require a distinctive support system to progress into mature, high-value enterprises. The unique characteristics and impact of ScaleUps remain underappreciated by the global business community despite the vast attention on startup culture.

To better understand the role of ScaleUps, Insight Partners commissioned Wakefield Research to conduct multi-phase research, including a quantitative survey of 300 global software leaders, in- depth interviews with ScaleUp executives, and secondary research into the ScaleUp landscape.

The research shows that software leaders recognize scaling up as a huge challenge – even more demanding than the starting up or maturity phases. Leaders encounter an array of critical obstacles that can derail scaling, including scaling a go-to-market capability, product development to maintain growth, and developing robust functions to scale hiring and culture.

Investment capital plays a crucial role in overcoming these obstacles. But ScaleUps demand benefits beyond monetary funding – they need strategic resources across business areas, access to networks, and a problem-solving partner to provide guidance as the business evolves.

ScaleUps play an essential role in the economy, but their sustained growth must be nurtured. They experience unique challenges not faced by startups or mature legacy companies. Specialized resources and education are needed to address these impediments and ensure that ScaleUps are empowered throughout their journey.

Key findings and deeper reporting are explored in three sections:

SECTION ONE
Resilience is a Defining ScaleUp Characteristic

SECTION TWO
The ScaleUp Challenge

SECTION THREE
The Critical Role of Investment Partners

Key Findings

1

SCALEUPS HAVE A VITAL ECONOMIC IMPACT

ScaleUps are highly resilient and punch above their weight when it comes to job creation, even in the most challenging economic conditions. During the 2006–2009 period, when the U.S. unemployment rate was skyrocketing, ScaleUps represented less than 2% of all companies yet created 35% of all gross job gains from companies that survived and hired over this period. ScaleUps are displaying similar resiliency during this year's economic uncertainty – reacting quickly with customer-focused strategies aimed at securing revenue, while also continuing with new product launches. Many have also seen tailwinds from the changing environment, with some benefiting from shifts in online shopping habits and increased remote work.

2

SCALING DOES NOT HAPPEN OVERNIGHT

High growth is common among software startups, but that alone is not enough for long- term survival. As companies transition from startup to ScaleUp, scaling their business to support sustained growth becomes a number one priority. But scaling is easier said than done. CEOs are much more likely to say scaling up (42%) is the most challenging phase of the company lifecycle compared to starting up (31%) and maturity (27%). The organizational commitment required means that scaling successfully cannot be achieved overnight. Software leaders anticipate a multi-year timeframe, with most expecting their company to transition to the next stage of its lifecycle within 3–5 years.

3

THE SCALING PROCESS HAS UNIQUE CHALLENGES

The challenges ScaleUps face are unique to their stage, and distinctly different from the hurdles experienced as a startup. Increasing the level of difficulty, leadership can no longer be involved in every facet of the company during scaling, making navigating multiple challenges at one time substantially more complex. One of the key challenges for ScaleUps starts with attracting the right talent. The startup method of hiring via personal networks must be augmented with a process to recruit talent on a consistent basis. Most software companies have also struggled to lower customer acquisition costs over the last three years. To solve this, many are pursuing strategies such as investing in analytics software and digital processes to help scale the sales process.

4

KNOWLEDGEABLE INVESTMENT PARTNERS ARE CRITICAL

Software leaders want more than cash from investors. Most leaders want a partner that will provide strategic resources across business areas (64%), networks of other high growth companies and customers (58%), and deep industry knowledge (55%). Software leaders are careful about who they partner with, but leaders at ScaleUps cite the virtues of an investor who can share in the company vision, bring deep industry expertise, and add value across all functions. Research shows that companies with private equity investment can create more jobs and revenue growth than other companies – making private equity and ScaleUps a powerful economic combination.

SECTION ONE

Resilience is a Defining ScaleUp Characteristic

Resilience is a Defining ScaleUp Characteristic

Software is at the core of sweeping changes that are revolutionizing business. Despite being smaller than some tech sectors, software is the predominant driver of growth in global tech spending. While startups contribute to software advancement by providing a valuable foundation for innovation, ScaleUps have the stability, revenue, and growth rates to truly make an impact.

Most startups cannot overcome the major hurdles to reach ScaleUp status. ScaleUps typically achieve annual revenue in the $10 million to $1 billion range. Across all industries, companies with this revenue represent less than 2% of U.S. companies, yet they employ 28% of the private sector workforce. Similar trends are evident in numerous major economies.[2]

The evolution from startup to ScaleUp happens when the investment in product, technology, processes, and talent enable sustained growth and limit the relative chaos that was necessary for hyper-growth in the startup phase.

Industry focus has not yet evolved to recognize the unique characteristics and impact of ScaleUps. ScaleUps require a strong startup ecosystem: a distinctive support system that helps them thrive and progress into mature, multibillion-dollar enterprises. As the following research shows, scaling up is distinct from startup growth, and is a major focus of today's software leaders. However, the endeavor presents challenges that require specialized assistance to realize ScaleUps' brilliant potential.

ScaleUps Are A Unique Type of Company

In addition to the $10 million to $1 billion annual revenue range, ScaleUps are characterized by rapid annual growth of 20% or more sustained over a multi-year period – though some can become "Super ScaleUps" with over $1 billion in revenue and more rapid growth rates.

The below table provides metrics that often define these stages of growth.

	REVENUE BAND	EMPLOYEE HEADCOUNT	ANNUAL REVENUE & EMPLOYEE GROWTH RATE
STARTUPS	$10 Million or Less	40 or Fewer	High growth rates off a low base with volatile sustainability
SCALEUPS	$10 Million to $1 Billion	50 to 1,000	Typically, 20% to 50% or More Over 3 Years
"GROWNUPS"	$1 Billion or More	More than 1,000	2% to 15%

Startups wrestle with the process of validating a product-market fit, with the objective of establishing a business model that can scale. The goal of scaling is what differentiates a growing startup from a "small business" or "mom and pop shop."

On the other hand, Scaleups are defined by a more tested business model and an established, even if relatively immature in its development, product in the market. To become ScaleUps, companies must expand at a much faster rate than their resources, which proves an insurmountable hurdle for most startups.

	STARTUPS	SCALEUPS	"GROWNUPS"
BUSINESS MODEL	Still experimenting; looking for right business model/ monetization	Have a tested business model and market-validated product	Exhibit a well-established business model with steady growth
PRODUCT-MARKET FIT	Early product/ Minimum Viable Product with limited features	Feature-rich product able to solve customer's pain point	Comprehensive product modules and/or multi-product portfolio solving additional customer pain points
TALENT	Primarily founder led; network-driven hiring; lean or minimal HR function; employees likely to be generalists	Founders begin to form a C-Suite; programmatic hiring; formalized HR function; hire more specialized employees	Professional C-Suite; shift of emphasis to organizational effectiveness, culture and retention; full-service HR function
SALES/ CUSTOMER SUCCESS	Executive-led selling with small sales team and repeatable sales motion not yet established	More clearly defined sales motion; increasing focus on upsell to existing customers and retention	Repeatable and predictable sales model and customer success functions with team specialization
MARKETING	Inexperienced marketing team; digital advertising experimentation; reliance on 3rd parties	Focus on creating a scalable demand gen machine; build out in house marketing talent	Upscaling marketing talent; expand brand building
OPERATIONS	Exhibit a much looser company structure	More formalization of processes and procedures including Finance, Legal & IT	Maintain highly systematized processes with a clear structure throughout the company

Software leaders are very attuned to the difference between growth and scaling.

Most (71%) are highly focused on scaling the capacity and capabilities of their business, while an additional 13% are somewhat focused on it. Software leaders also know that scaling requires commitment across all business areas and can be a multi-year endeavor. Most software leaders (56%) believe that it will take 3–5 years for their company to scale to the next stage of its lifecycle. Just 1% think it can be done in less than a year.

71%

of software leaders are **highly focused on scaling the capacity and capabilities** of their business.

The startup stage may get more ink than other parts of the company lifecycle – but business leaders recognize that scaling is where the real challenges lie. Software leaders are much more likely to say scaling up (42%) is the most challenging phase of the company lifecycle compared to starting up (31%) and maturity (27%).

ScaleUps Have A Real Economic Impact

ScaleUps are distinct in both company characteristics and their role in economic growth, particularly in times of need. Looking back at past periods of economic stress, ScaleUps have had an outsized impact on job creation. In 2006, less than 2% of U.S. companies across industries were achieving the key ScaleUp characteristic of greater than 20% average annual employee growth over a three-year period. But over the next three tumultuous economic years these 90,441 companies created 3.7 million jobs by 2009.[3] This was at a time when the overall unemployment rate skyrocketed.

Subsequent years were also characterized by high unemployment, but these ScaleUps again punched above their weight by creating 4.2 million jobs between 2009 and 2012.

Importantly, these ScaleUps created 35% of all new job gains among companies that grew jobs over that three-year period.

On a per-company basis, all growing companies created 9.7 jobs per company on average during the 2009–2012 timeframe. Yet the ScaleUps added 43.3 jobs per company – 4.5 times more jobs than other growing companies.

PERIOD	NUMBER OF COMPANIES IN BASE YEAR	NUMBER OF SCALEUPS IN BASE YEAR	GROSS JOB GAINS BY SCALEUPS OVER PERIOD
2006-2009	5,052,954	90,441	3,658,879
2009-2012	4,897,649	96,900	4,200,345

Source: U.S. Bureau of Labor Statistics. ScaleUps defined here as companies with average annualized employee growth greater than 20% per year over a 3-year period.[3]

Similarly, during the unfolding COVID-19 pandemic in 2020 and resulting economic and unemployment pressures, software ScaleUps showed resilience through hiring data. As seen in Insight Partners' portfolio of more than 200 software ScaleUps, these businesses saw a significant decline in job openings during the early days of the pandemic, between the months of March and May, as executives assessed the impact of COVID-19 on their business. Yet, employment held steady at around 3,500 open roles per day from May to August whereafter job openings steadily increased to pre-pandemic averages. This contrasts with the U.S. Bureau of Labor Statistics United States Unemployment data which cites six consecutive months of declining employment from May 2020.

~3,500

open roles per day in Insight Partners portfolio companies from May to August when job openings steadily increased to pre-pandemic averages

Insight Partners Portfolio – Open Roles Per Day

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Technology ScaleUp activity is fundamental to the development of economic opportunity in America. There is simply no other economic activity where a higher percentage of investment capital is devoted to job creation and wages, including competitive middle class jobs in states across the country. In today's economy, any policymaker who is interested in job creation must consider how to encourage the scaling of companies in order to accomplish their objectives.

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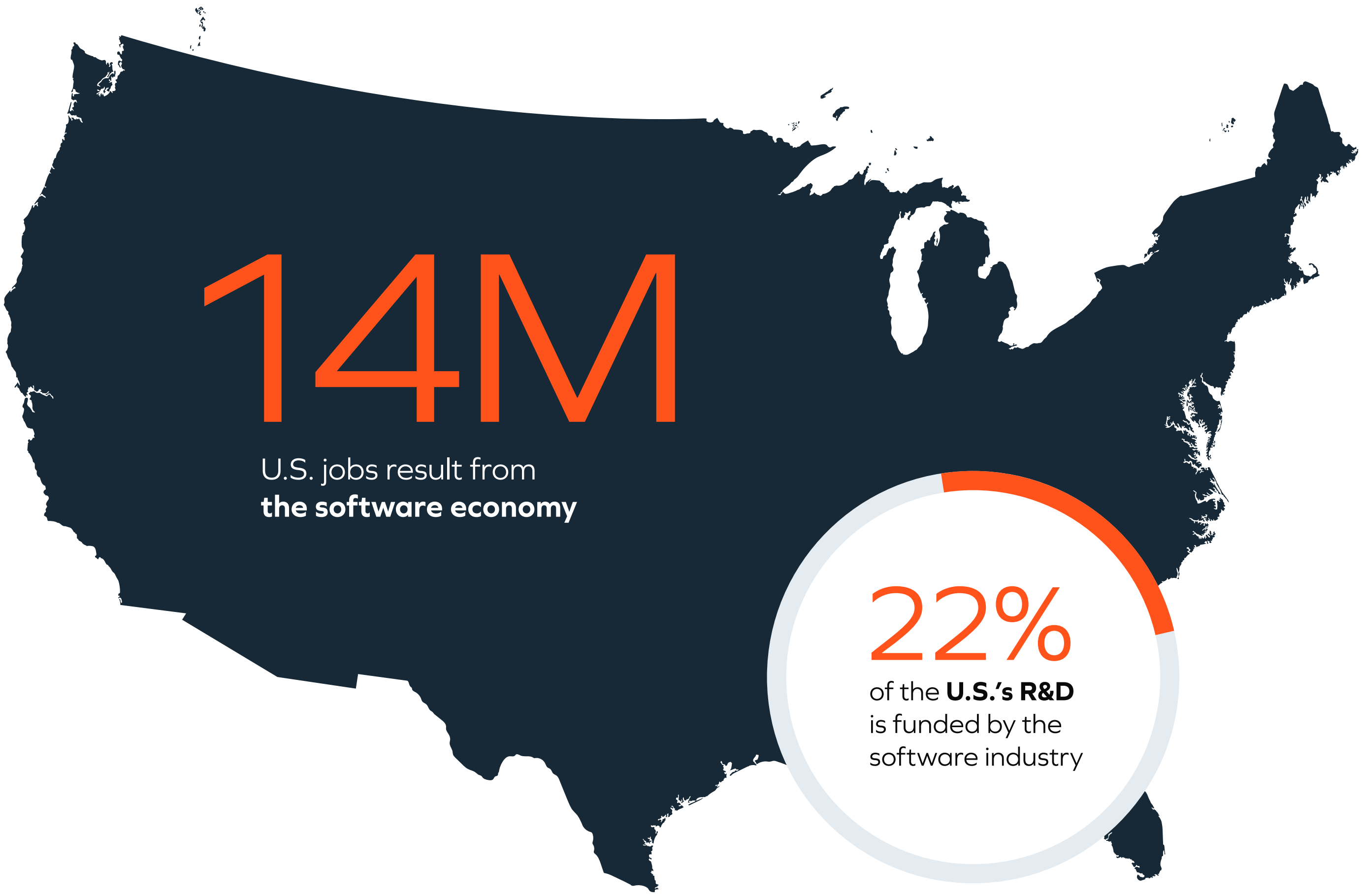
JUSTIN FIELD
GROWTH EQUITY GROUP LEAD,
NATIONAL VENTURE CAPITAL ASSOCATION

Considering how vital software is to the global economic engine, software ScaleUps become even more impressive. Nearly 1 in 10 U.S. jobs results from the software economy (14 million jobs). Moreover, the software industry funds 22% of all R&D in the country, spurring innovation via activities like developing new data analysis techniques and driving breakthrough technologies like cognitive computing.[4]



Given ScaleUps' strong growth profile and economic significance, it is no surprise that they attract attention from major investors. In recent years, private equity investors, in particular, have shifted their focus toward growth entities like ScaleUps. Gone are the days when private equity was associated with cutting company costs and increasing prices. Private equity investors now play a significant role in driving economic growth, alongside their traditional venture capital investment, along with their traditional Venture Capital counterparts.

Between 1998 and 2017, U.S. companies with private equity investors grew headcount by 60% and sales by 103%, far outpacing other U.S. companies who grew headcount by 24% and sales by 29%.[5] Based on their unique job creation profiles, the fusion of investment partners and software ScaleUps can be a powerful economic combination.

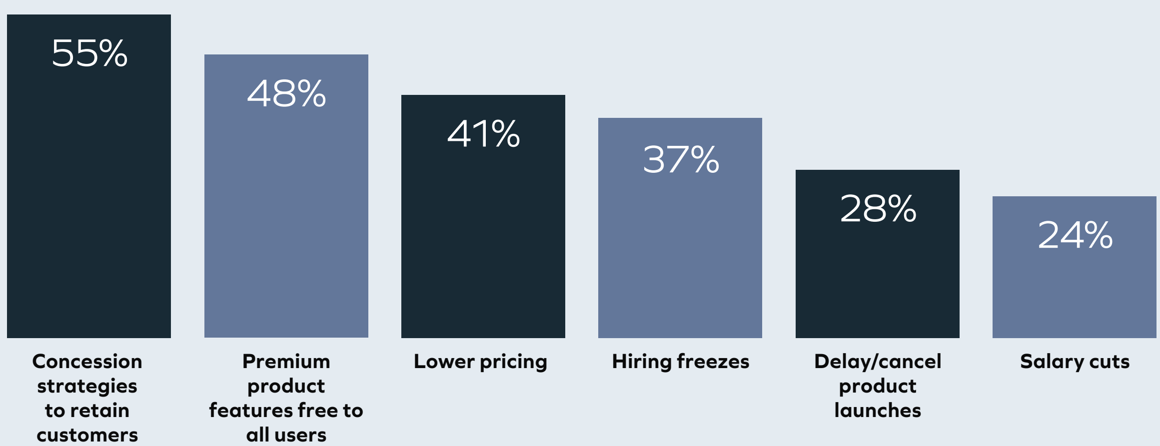
A Defining Characteristic of ScaleUps is Resilience

This year's COVID-19 outbreak brought extreme levels of economic uncertainty, but software ScaleUps reacted quickly and have shown remarkable resiliency.

"We didn't know how it [COVID-19] would affect us," says Michael Wystrach, CEO of Freshly. "Most of our immediate initiatives were about conserving costs. We stopped all capital investment, all long-term leases. We did a minor headcount adjustment, we closed an office and moved teams to remote work – we did all that within the first three weeks, by mid-March."

The quick reactions by companies are evidenced by Scaling Focused[6] companies introducing customer-focused strategies aimed at securing revenue, while also moving forward with new products. Most of these companies introduced concession strategies to retain customers (55%), and nearly half (48%) made premium product features free to all users. Just 28% canceled or delayed product launches.

Strategies adopted by Scaling Focused companies due to changing business conditions as a result of COVID-19 (n=112)



"[Since the COVID-19 outbreak] if we have had customers in financial trouble, we're giving them extensions or a free month or free year," says Dan Adika, CEO of WalkMe. "We did launch two products that are more for working from home, which have been really good. We launched quickly, people like them, are adopting them, and now we're selling them as part of our offering."

Despite reacting rapidly, the changing business conditions still created challenges. "We never had a work from home policy before," explains the CEO of a mobile transcription service ScaleUp. "We were backlogged with work [during the transition]. The majority of our clients understood. Some did not. We offered some free months and free upgrades for a period of time. We did what we needed to do to offer incentives to make our large enterprise customers comfortable."

Growth during recessions is nothing new for ScaleUps. True to form, Scaling Focused companies remain particularly upbeat about growth prospects in the current environment. Most (85%) Scaling Focused software companies expect annual revenue growth rates to increase over the next three years, compared to just 58% of software companies in general.

The positive outlook for ScaleUps is helped by forecasts of a strong rebound in global enterprise software spending in 2021, which is expected to outpace all other IT sectors.[7] The resiliency in 2020 showed that ScaleUps can be a particularly attractive software provider to large enterprises; ScaleUps bring innovative solutions over the longer-term, with limited risk of running into business issues.

For many, the changing business environment in 2020 provided a strong tailwind for the scaling process. “COVID-19 accelerated trends we were seeing and accelerated the growth of our company,” says Gregg Coccari, CEO of Udemy. “We nearly tripled the capacity of our consumer business. [Web] traffic spiked to levels we hadn’t previously seen and we had to scale up very quickly…On the B2B/enterprise side of our business, our customers turned to us to help them navigate through change across their businesses and teams.”

“

Not discounting the human impact, [the COVID-19 environment] has been beneficial for our business. Many more consumers are now buying more online. We don’t see a regression back to the mean on previous consumption behavior. We’re positioned to continue to grow.

”

MICHAEL WYSTRACH
CEO, FRESHLY

SECTION TWO

The ScaleUp Challenge

The ScaleUp Challenge

As the scaling journey begins, ScaleUps must first address six key aspects of the business:

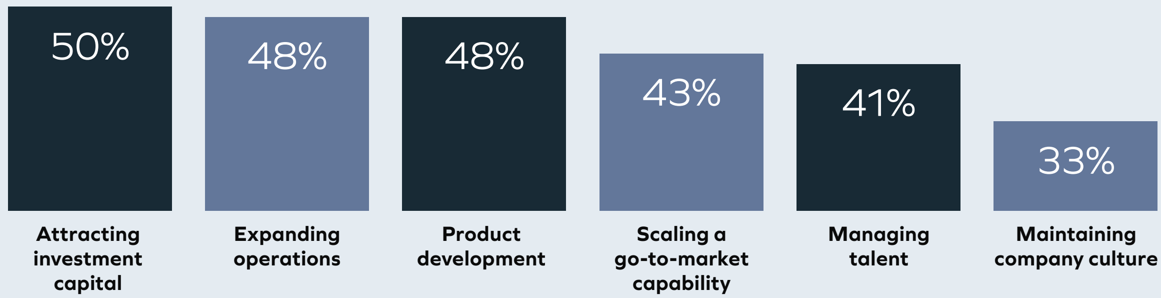
1. Scale a go-to-market capability
2. Product development to maintain growth
3. Create a process-driven approach to talent acquisition
4. Develop a robust HR function and organizational structure
5. Expand operations to handle rapid growth
6. Attract capital to provide company-wide investment

These initiatives spur a range of new obstacles across the company. Dan Adika, CEO of WalkMe, sums it up: "When you are small you control everything, but when you are big other people have to do what you want to do at scale. At the beginning, I wrote code or I designed the product; now we have 200 developers and 30 product managers. As you scale you need to make sure that 1,000 people know what to do. It's a different skillset and different challenge."

The critical challenges take many forms. Attracting investment capital (50%), expanding operations (48%), and managing talent (41%) are just some of the major obstacles cited by software leaders.

Most Challenging Part of the Scaling Up Process

Asked among those who find the scaling up phase the most challenging (N=126)



Scaling A Go-To-Market Capability

Go-to-market maturation and sales efficiency are central to the ScaleUp journey. As a company's customer base expands, the mix between new and expansion bookings must shift, helping to lower customer acquisition costs (CAC). To successfully scale, companies must execute strategies to reduce the capital outlay required for each new customer, speeding up the return on investment and ultimately scaling faster. "CAC is a big focus through the scaling phase," says the CFO of a 3D technology ScaleUp. "In the software space you use CAC as part of a metric for sales and marketing efficiency. You need to think about how CAC can come down in time. Alternatively, you try to increase the average deal size and hold your CAC steady."

However, lowering costs of new customer acquisition remains an elusive struggle. Most (64%) software companies have been unable to lower their CAC over the last three years. Yet the data is clear: companies that have scaled in size have been more successful at lowering CAC: 45% of companies with more than $1 billion in revenue lowered their costs, compared to 31% of companies under $10 million in revenue.

To overcome these challenges, software leaders are turning to several strategies that can increase efficiency. Most notably, they are focusing on customer analytics software (54%), digitizing sales operations (53%), and streamlining the sales process (46%). Such investments can facilitate upselling to a larger existing base, more effective sellers, and a better understanding of the market.

Continue Product Innovation to Maintain Growth

ScaleUps must continue to refine and expand their product portfolio in order to maintain growth. This involves an increased emphasis on utilizing feedback for product improvement. It can also take the form of expansion into new use cases and vertical markets, or the creation of a portfolio of complementary products.

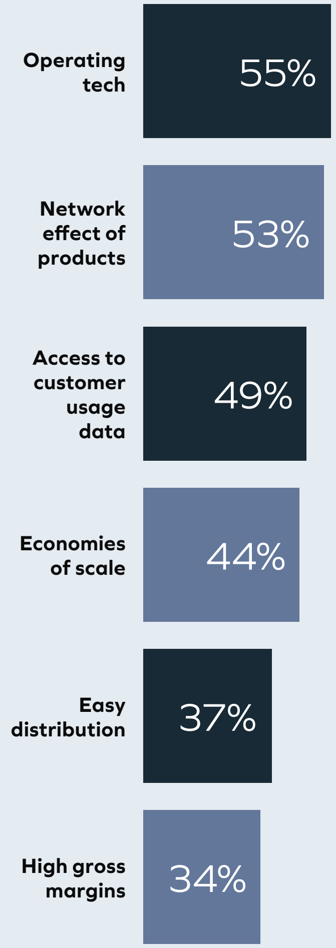
Software ScaleUps are uniquely positioned to execute on these initiatives and expand at a much faster rate than companies in other industries. "Software is a digital product, meaning our factory is essentially people who can work in their home," explains Jason Zintak, CEO of 6sense. "We don't have a distribution channel other than the Internet [the Cloud]. That allows for more rapid evaluation and adoption by customers. If you're buying a car you have to physically go visit the car and test drive it. [Our customers] have the ability to do it all from their computers: evaluate, test, roll out, experience."

The efficiencies of software's operating technology also enables a product to be reproduced rapidly. "In software, you don't need to worry about scaling the product supply chain," notes the CEO of a B2B cybersecurity ScaleUp. "The great thing about technology is that in general the reproduction cost for the product is close to zero– in general. It costs about the same to create the app for one user as it does for a million users," adds Michael Wystrach, CEO of Freshly.

Software products are also distinct in their ability to become more valuable as the user base grows. These "network effects" enable additional users of products like fraud detection, cybersecurity, and marketplace platforms to increase the utility for other users. In addition, nearly half (49%) of software leaders also cite access to customer usage data as an element that can help with quick scaling. As companies grow, they can obtain valuable insights to help with product development such as extensive training data for algorithms, as well as feedback data to help with product performance and new feature design.

Emphasizing this point, former CPO of Carbon Black, Ryan Polk affirms, "The true power of SaaS products comes from the ability to measure, test and adapt to the everyday usage of our customers. This adaptability drives innovation and accelerates customer growth well after the initial acquisition of the product. As companies enter the ScaleUp stage their product leaders have to shift from intuition based roadmaps to a roadmap that is built on research driven by the product itself."

Most Important Business Elements for Quickly Building Capabilities and Capacity (n=300)



Create a Process-Driven Approach to Talent Acquisition

Human capital grows exponentially during the scaling process. Talent acquisition is core to successful scaling; the risk of poor hiring decisions negatively impacts growth objectives. A characteristic of ScaleUps is average annual employee growth of greater than 20% over a three-year period.[3] For a ScaleUp with 200 people, this translates to 40 to 50 new hires annually, and likely more than 300 candidate interviews.[8] This necessitates a process-driven approach to talent acquisition.

To succeed as a ScaleUp, the startup method of hiring via personal networks needs to be replaced by a structured program. Recruiting from talent pools known to existing employees can lead to a lack of employee diversity. In high-tech companies in the U.S., this has led to gender disparity in workforce composition where 64% of employees are male compared to 52% in the private sector overall.[9] Lack of diversity also applies to ethnic under-representation, and to executive level positions. ScaleUp founders recognize the challenge. 53% of ScaleUp companies have HR policies to address this challenge which is 5% above the norm.

Neha Sampat, CEO of Contentstack notes this: “Our goal has always been to have a multi-dimensionally diverse and representative team. We are willing to make the trade-off of potentially longer search cycles, because we have experienced first hand the benefits that diversity brings to our organization. The reward is that we get to discover “hidden gem” talent which adds to our team and our culture. We are fortunate and grateful that our investors share our values and fully support us dedicating the extra time and resources to do this right.”

At smaller software companies (<$10 million revenue), 37% of leaders are “very closely involved” in the hiring process for roles that do not report directly to them. However, among larger companies in the $10 million to under $1 billion revenue range, the share of leaders involved in such hiring falls to 27%, indicating the need to implement a process that does not involve senior leadership.

Quick expansion coupled with a lack of process can lead to hiring substandard talent that undermines company goals. “As we scale, the chances of making mistakes are growing,” says Dan Adika, CEO of WalkMe. “If we hire a manager who is not good, then that manager will hire people who are not good. It creates issues…You don’t do it yourself anymore, you need people to do it at scale.”

Having the right people in the right roles is crucial, but the scarcity of software talent can be a significant roadblock. Nearly half (45%) of software companies face difficulties attracting the right talent, specifically in high demand areas like software engineering.

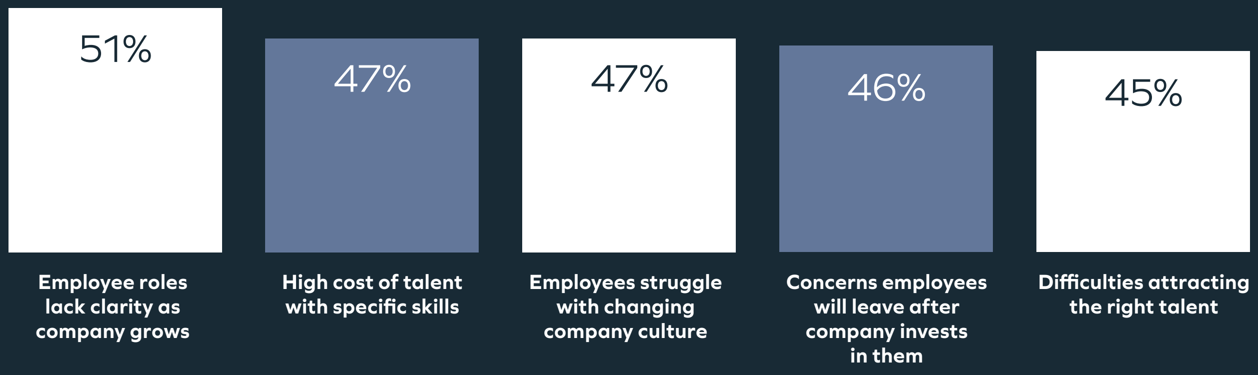
“TaxJar has been a fully remote business from day one,” notes Mark Faggiano, CEO. “This has enabled us to find talent in non-tech hubs and seek diverse candidates from a broader pool of partner organizations. We also created a structured hiring process inclusive of cross-functional interviews and a mutual assessment period.”

Develop a Robust HR Function and Organizational Structure

During scaling, critical talent challenges come in various forms, with software leaders experiencing issues such as loss of clarity of employee roles, inexperienced management, and a changing culture.

As headcounts skyrocket and the business evolves rapidly, a robust HR function is needed to ensure the company's vision can be executed. "[The scaling stage] is a harder people challenge," says Michael Wystrach, CEO of Freshly. "The startup phase is more about the product and market fit. At the ScaleUp stage you know who you are, but now it's about getting the right organization that can accomplish the goals and objectives. As you scale you need to evolve [the organization] to make sure you can continue to scale."

Talent management challenges when a company is investing in its capabilities and capacity (n=300)



A structured process helps enhance transparency and communication across the organization as well.

"

As you get more into the scaling stage you need more people who can keep the company organized. It gets harder for everyone to hear from the CEO, so you need to make sure your organization supports proper and efficient communication.

"

ERAN ZIMNAN
CO-CEO, MONDAY.COM

Organizational structures vary, and each ScaleUp must identify a structure and a communication process that works for them.

"

Here, every manager has on average of seven people reporting to them. At any moment I can speak to the managers and know they will communicate to their team members. Each manager is required to hire seven people of the caliber to take us to the Super Bowl.

"

PIERRE NAUDÉ
CEO, NCINO

Highly trained manager-level employees are needed to oversee performance of new processes and teams.

"

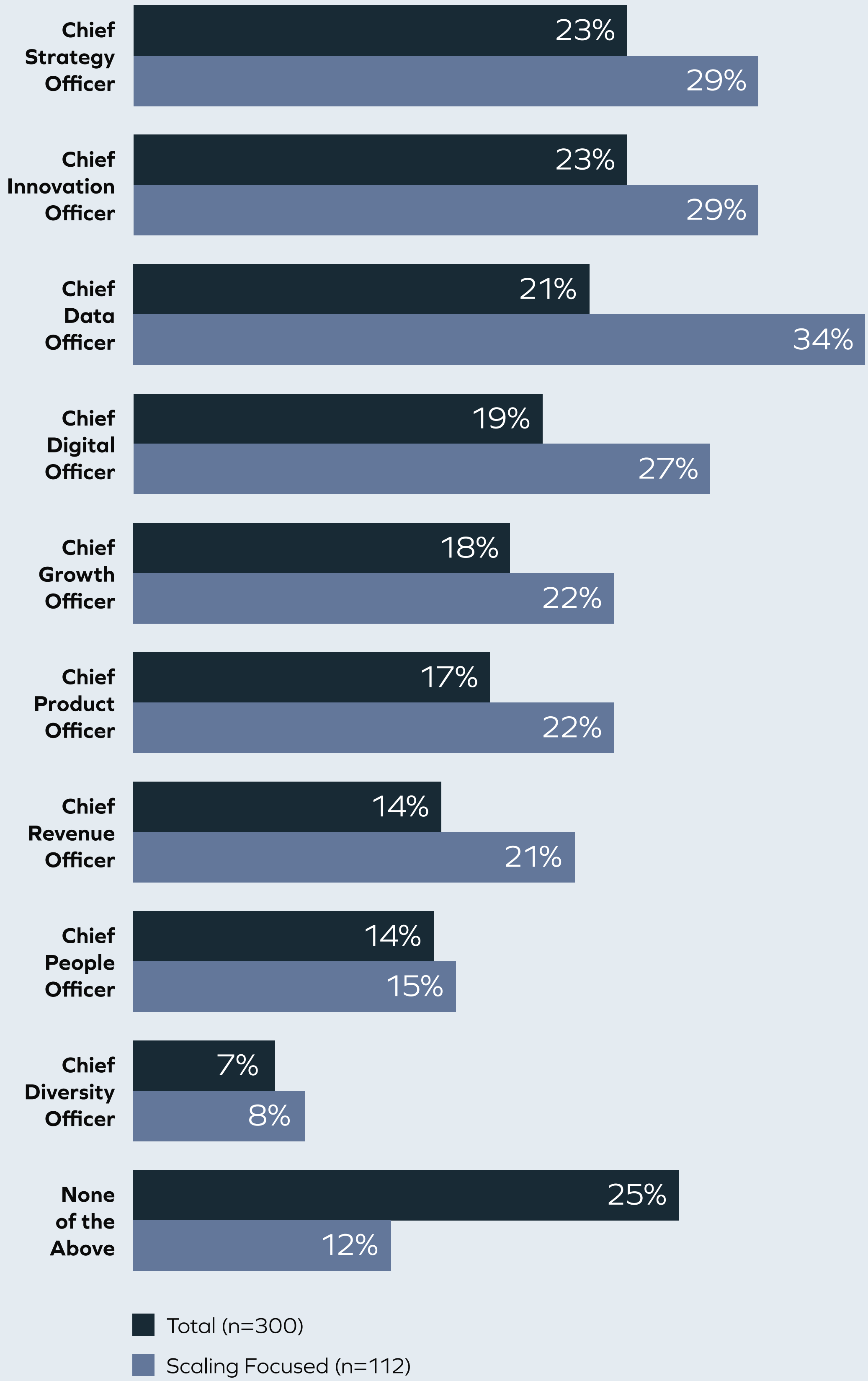
We need to train our managers to lead, set expectations, give feedback, and manage their teams. Investing in our managers improves the leadership team's ability to focus on overall company strategy and is a key scaling tactic.

"

BRONWYN SPIRA
CEO, FORCE THERAPEUTICS

Along with management skills, Scaling Focused companies need specialized resources. New C-suite roles may also need to be created. The vast majority (88%) of Scaling Focused software companies have introduced at least one new C-level role over the past three years, with Chief Data Officer (34%) the most common.

Roles Created Over the Past Three Years



Software companies are reacting to the need for new processes during scaling by upgrading the HR function to support a more complex organization (51%) and introducing numerous HR initiatives. These include the professional development of teams (52%), an increasing emphasis on the onboarding process to quickly ensure employee productivity (50%), and a greater focus on company culture (53%).

ScaleUps often struggle to maintain the same sense of comradery and closeness that naturally stems from a smaller organization. In fact, 90% of software leaders said they are concerned about maintaining company culture as they scale. Levels of concern grow in parallel with company size, illustrating how the issue becomes more pressing as companies enter ScaleUp territory: 29% of leaders at smaller companies (under $10 million in revenue) are "very concerned" about maintaining company culture, but this rises to 45% of leaders at companies of $10 million to under $1 billion in revenue.

"Retaining top talent is also critical to success during the ScaleUp phase. Talent management policies and programs, like our Leadership Academy, must provide high performers with incentives to stay and continue to grow."

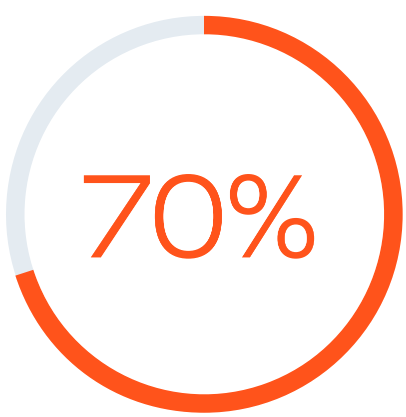
MARK FAGGIANO
CEO, TAXJAR

To retain top talent, software companies have introduced a variety of employee welfare initiatives to their personnel policies. Companies identified as "Scaling Focused" are particularly likely to have policies focused on employee benefits above the norm (63%), flexible work policies (58%), and employee diversity (53%).

KEY AREAS OF FOCUS of Company's Personnel Policies	**TOTAL** n=300	**SCALEUPS** n=112
EMPLOYEE BENEFITS ABOVE THE NORM	57%	63%
FLEXIBLE WORK POLICIES	54%	58%
SUSTAINABILITY INITIATIVES	49%	49%
EMPLOYEE DIVERSITY	48%	53%
CHARITABLE ACTIVITIES	41%	39%

> Employees want career management help and to understand what's next. That tends to be the biggest thing at [the ScaleUp] stage. You need to make sure you're keeping your great current talent, training them to do roles for the future, and properly assessing what roles you need to fill externally.

MICHAEL WYSTRACH
CEO, FRESHLY



> Nearly 70% of our costs is human capital

JASON ZINTAK
CEO, 6SENSE

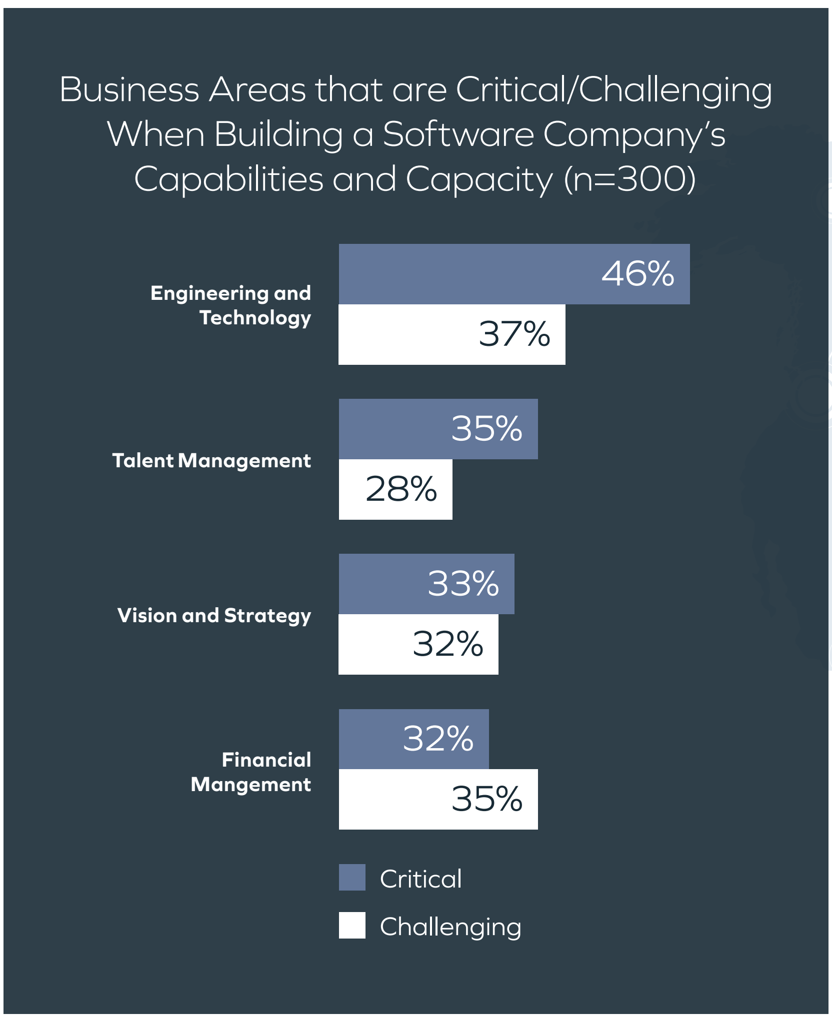
Expand Operations to Handle Rapid Growth

Startups with a strong product-market fit can achieve initial traction with limited investment in operations and technology. As the CEO of a compliance software company notes: "You need the right process-driven organization to scale the functions. The company begins with people, then the second stage is process, and third is the technologies needed to scale."

"It's like a building – if you put a foundation in for a two-story building you can never put 10 stories on top," says Pierre Naudé, CEO of nCino. "Regarding internal systems, three years into our company we started putting accounting and CRM systems in place so that we could scale the company to any level we needed it to grow to."

Alongside software systems to manage business processes, measuring business progress through key performance indicators (KPIs) and metrics is considered an essential requirement for Scaling Focused companies. The activities of every function are measured in order to improve. Companies report on the cost of developing product, marketing and sales, and customer success. This is as important as financial management. Managing via data is considered the responsibility of the C-suite.

"We measure everything," says Eran Zimnan, co-CEO of Monday.com. "We invest our time and resources to build reporting tools that help us manage effectively. Without data and insights, it would be difficult to grow rapidly while keeping a finger on the pulse of the business.



The location of a company can play a vital role in the scaling process. Software leaders are nearly universal (91%) in their belief that location is a key factor in expanding a company's operations. Access to new geographic markets is particularly important for Scaling Focused companies as well, with the majority (58%) opening offices in multiple locations.

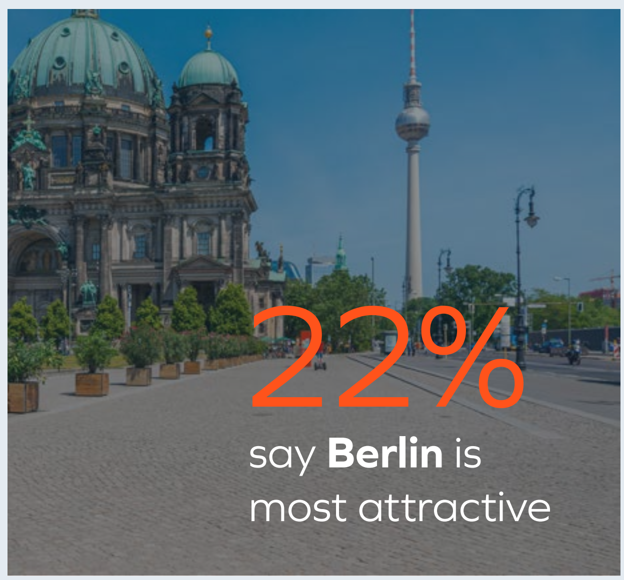
The benefits of location are driven by industry clustering – the concentration of companies from the same industry within one geographic area. This contributes to ScaleUp creation by allowing companies in the same industry to amplify one another's growth. The value reaped from clustering has recently expanded into digital and remote spheres. Smaller physical clusters have emerged that are globally connected to other clusters, bringing scaling tailwinds like idea sharing, benchmarking, and talent transfers.

Whether the hub is long established like the San Francisco Bay Area or an emerging player like Tel Aviv, scaling activity builds upon a startup foundation. A ScaleUp hub is driven by an ecosystem of participants such as venture capital/private equity firms, early stage players, legacy companies for mergers and acquisitions, and enablers like policymakers and universities.

Location also helps with expanding the engineering and technology function – the area that software leaders believe is the most critical (46%) and challenging (37%) to scale. "…there are not enough good engineers – it is hard to get the best," says Dan Adika, CEO of WalkMe. "We are headquartered in Tel Aviv and San Francisco…With the ecosystem in San Francisco, you can go and see the brightest – they are all sitting there.

When we needed to scale, we didn't know how to do it, so we immediately recruited people from the companies we wanted to be like."

When it comes to a location for scaling, among software leaders…n=300



New York City (49%) is the most attractive location for scaling, according to software leaders, while other cities such as San Francisco/Bay Area (35%), London, UK (30%) and Berlin, Germany (22%) are also selected by significant percentages.

"

If we were in New York or San Francisco it may have made scaling easier. We're close to Tampa which is becoming a large software and tech hub. We can pull a lot of candidates here. But the sales talent is much more challenging [to get] in the Sarasota, Florida region.

"

CEO, MOBILE TRANSCRIPTION SERVICE SCALEUP

There's a a need to look to new locations when it comes to scaling.

"

Our [headquarters] is in San Francisco. We have an abundance of talent in the Bay Area but it's super competitive, so we look for the right people regardless of geography. A lot of people are trapped in the Bay Area because of the nucleus it provides. But we're just looking for the right talent… We've opened in New York, Austin, Chicago, Boston, India, and various locations based on where the workforce is and where the customers and prospects are.

"

JASON ZINTAK
CEO, 6SENSE

As companies expand, they may look beyond the major hubs of San Francisco and New York and explore other new locations for scaling purposes.

"

We started in San Francisco and Ankara, Turkey, and as our business got bigger we expanded into Dublin, Ireland, India, and beyond. We continue to add new talent hubs around the world.

"

GREGG COCCARI
CEO, UDEMY

A presence in several cities can help leverage different geographic advantages

"

The [San Francisco] Bay Area has top talent, connections, and the ecosystem. New York has financial institutions – we are selling a lot to banks and insurance companies. Raleigh, North Carolina has great talent and is cheap, which really helped us scale–especially in support and services.

"

DAN ADIKA
CEO, WALKME

"

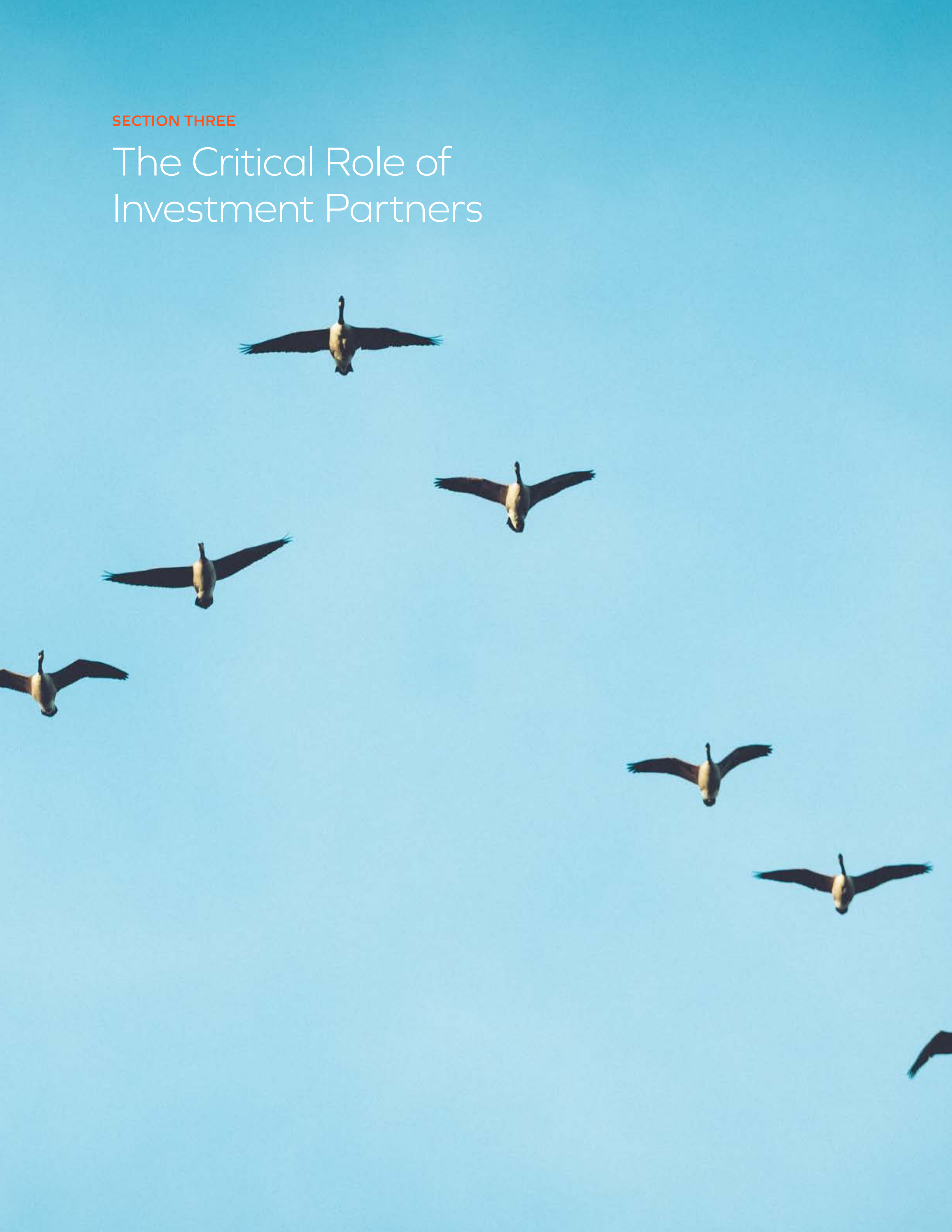
In the software space the primary resource is people, so any time we open an office we look at what the talent pool looks like in that region. We just opened a hub in Kansas, which is not the place you'd think of in the top 10. But there's a talent pool of engineers there coming from University of Kansas programs.

"

CFO, 3D TECHNOLOGY SCALEUP

SECTION THREE

The Critical Role of Investment Partners



The Critical Role of Investment Partners

The role of investment capital is integral to every aspect of scaling. Without it, scaling successfully is a daunting and potentially impossible endeavor. An overwhelming share (94%) of leaders recognize the important role of venture capital (VC) and private equity (PE) funding in the scaling process.

Recently, investment firms have been changing their strategy, much to the benefit of ScaleUps. Historically PE firms invested in more mature businesses with steady and reliable cash flow, however with the maturity of the software sector and emergence of the ScaleUp stage, private equity investors are investing in "younger" companies, but with proven business models. These are businesses who require more substantial support than venture firms can provide. As a result, a new private equity paradigm has emerged that takes a leaf from the venture capital playbook – focusing on making an investment a better business, not just a more profitable one for investors. Investment partnerships are no longer just about cash. Companies transitioning to ScaleUps require an investment partner that can deliver on the company's vision, not the other way around.

Compared to other companies, software ScaleUps are extremely attractive to investors. Their unique value is characterized by recurring revenue, a repeatable and scalable sales motion, and favorable long-term margins.

> We wouldn't have scaled without VC funding. It took us five years to get here, but without VC funding you're talking about a 30-year period.

MICHAEL WYSTRACH
CEO, FRESHLY

> Capital allows us to go in the red, to invest in the business with the hopes that we climb out of it to eventual profitability as we scale.

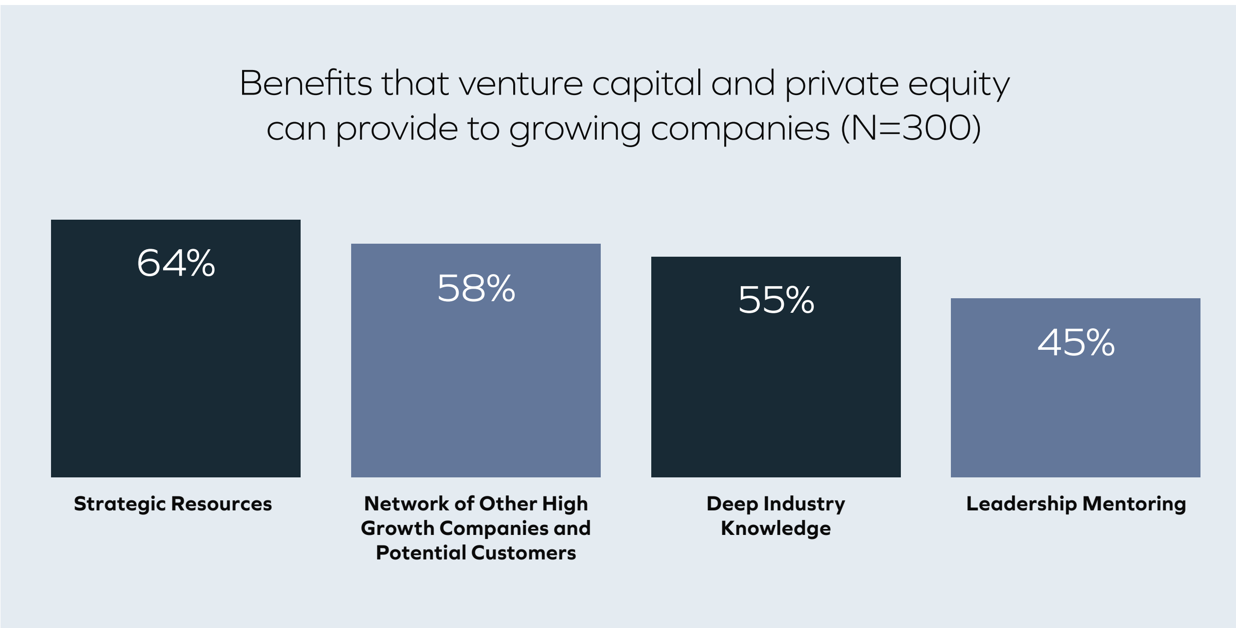
JASON ZINTAK
CEO, 6SENSE

> In software and SaaS, margins can be 70–85%. The expenditures are mostly on people, so even if you're small, you can see yourself getting to several hundred million in annual recurring revenue in three to five years if you penetrate the addressable market.

COO, 3D TECHNOLOGY SCALEUP

The attractiveness of software companies also means ScaleUps can be very particular in who they accept funding from. "[Partnering with an investment firm] requires us doing a lot of reference checks to make sure they have a track record of doing what they say they're going to do," says Michael Wystrach, CEO of Freshly.

As a result, software leaders expect more than just a cash infusion from their investors. They want a partnership that provides strategic resources across functional business areas (64%), along with networks of other high growth companies and customers (58%). In this regard, not all investors are equal. "It depends on the investors you recruit," says the CEO of a B2B cybersecurity ScaleUp. "There is smart money and dumb money."



Defining A True Investment Partner

ScaleUps often encounter investors that lack market knowledge and are solely interested in quick returns. "Investment capital is critical, but we haven't seen strategic value beyond cash," says the CEO of a cybersecurity software ScaleUp.

"I want expertise, operational focus, automation focus, a focus on growing the network," notes the COO of a compliance software ScaleUp. "There needs to be an alignment between the leadership team and the investor."

In-depth market knowledge can be hard to find in an investor, especially when it comes to those with ScaleUp expertise. "Most investors don't invest the time and energy in researching a company and its market," says Jason Zintak, CEO of 6sense.

Given the varying quality of investment partners, software leaders are generally skeptical of promises. "All [investment] firms will sell you on who they are up front, but then things can change," explains Pierre Naudé, CEO of nCino. "To me, Insight Partners really stands out as once we demonstrated our ability to execute on our business plan, they were willing to continue investing in the company to further support our growth and objectives. I have experience with other investment firms, and I can tell you that is not always the case."

The Specialty Services ScaleUps Require

An investment partnership during the ScaleUp phase should bring highly specific expertise to the table that can be delivered when software leaders need it most. This can include assistance with key hires, market entry, or access to new customers. ScaleUp leaders emphasize how the ideal investment partner can provide critical expertise across business areas.

“Investment professionals today are equally focused on providing money and providing expertise,” explains the COO of a compliance software ScaleUp.

“[Insight Partners] has a competency around post-investment for us to leverage for best practices in marketing, sales, hiring, finance,” says Jason Zintak, CEO of 6sense. “That’s ultimately what attracted us to Insight Partners over others.”

Software companies under $1 billion in revenue expect investment partners to be particularly impactful in areas as diverse as talent management (51%), product strategy (46%), engineering (44%), and customer success (44%).

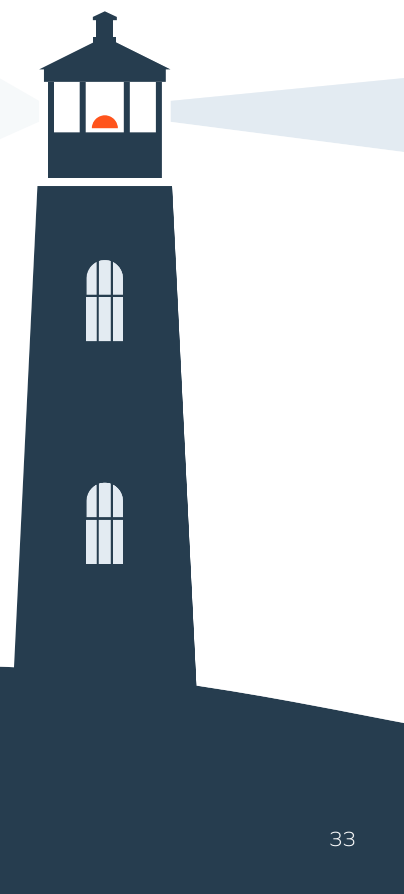
To that end, some investment firms offer specialized services to distinguish themselves from other capital providers. “Insight Onsite [from Insight Partners] can help you with marketing campaigns, connections in Europe, connections locally,” says Pierre Naudé, CEO of nCino. “For example, they really helped us to understand compensation as the company grew to make sure our compensation plans were aligned with the market. ”

“We use the Insight Onsite platform for very strategic things like key level hires and market insights,” says Michael Wystrach, CEO of Freshly. “We interact with people at Insight Partners daily and they’re readily available for me to talk to. They work for the benefit of us.”

“We use [Insight Partners’] consulting service to benchmark our business,” states Gregg Coccari, CEO of Udemy. “Today I’m using their consulting services in three different areas of the business.”

Ultimately, these services rely on the experience of the investor. To provide high-impact expertise, the investor must have specialized knowledge of the unique ScaleUp characteristics. “Investors need to have experience being in the same trenches that I’m in,” says the CFO of a 3D technology ScaleUp. “I’m looking for diversity of thought and relevance in the industry.”

> “It means a lot to me when investors understand our category, research our competitors, and clearly have a point-of-view of the market and a vision.”
>
> **JASON ZINTAK**
> **CEO, 6SENSE**



Investment Into 2021

There are no signs of investment in scaling activity slowing down, and software companies are committed to maintaining their scaling momentum into next year. Four in five (80%) Scaling Focused companies forecast that their investment in scaling activity will increase through 2021.

Hiring will remain a key theme for ScaleUps, especially in the areas of product development and sales. "[The changing business environment] has shortened our scaling timeline by two years as people are using more digital adoption platforms," says Dan Adika, CEO of WalkMe. "That puts more pressure on the product team. We need to hire faster now."

"Product development and sales expansion is our focus," adds Jason Zintak, CEO of 6sense. "In order to continue scaling we need to expand and better our product, which requires resources, developers, product managers. On the sales side we need more capacity to sell an already market-leading product."

"Our biggest investment will be in people," forecasts the CFO of a 3D technology ScaleUp. "In our case we have so much business and capital to make investments, so I'm going to go hire a lot of people."

Notably, more than a quarter (26%) of software leaders expect significant increases in their scaling investments, underscoring the optimism and bright outlook for ScaleUps.

The CEO of a financial services software company echoes the ambitions of many other ScaleUps when he outlines the vision for 2021

"

We have three growth initiatives. A combination of international expansion, cross selling, and enriching our [product] application to further demonstrate our ability to innovate and differentiate.

"

PIERRE NAUDÉ
CEO, NCINO

For decades the fervor at which business, government, and society have lauded the outsized impact of software has continued to intensify. Yet, too much of this hype has been a result of the focus on startups, young upstarts that bring new ideas to the table at a rapid pace. The true drivers and creators of digital transformation, economic development, and social impact through employment are ScaleUps. The software revolution has continued because of the emergence of ScaleUps. For continued growth in the software sector our focus needs to remain on the health of the ScaleUp ecosystem.

ENDNOTES

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WAKEFIELD

The Insight Partners Survey was conducted by Wakefield Research (**wakefieldresearch.com**) between July 24th and August 24th, 2020 among 300 owners/founders/C-level executives at software, tech, or IT industries specializing in software.

METHODOLOGICAL NOTES

The overall margin of error for this study is +/- 5.4 percentage points at the 95% confidence level. Base sizes under 100 are considered small and associated findings are directional.