



# A Delicate Balance

There are only so many ways a start-up CEO can turn when his one and only product isn't selling

**The company:** Wrapped Apps is an Ottawa start-up with a suite of services that can cheaply and rapidly make desktop software available through any computer with a Web browser. It's spent millions building its product and now has an offering that even the industry giants can't match.

**The situation:** The company survived the tech meltdown and has a great product — but it also has few customers and little revenue. Newly minted CEO Rob Lewis has been hired to quickly bring the company's product to market. But when existing methods don't produce the desired results, he needs to find a new approach on a tight budget.

IT WAS ONLY DAYS AFTER his appointment as CEO in November 2004 that Rob Lewis found himself standing in the blue-white glare of TV lights, facing a rolling camera. His unorthodox career trajectory — from founder of an Ottawa law firm to CEO of technology firm Wrapped Apps — had caught the eye of a local producer. Looking into the camera, Lewis made his pitch. "This is, without a doubt, the most exciting software opportunity in Ottawa," he declared. "We're going to set the world on fire."

Lewis's company had spent five years and \$4 million conceiving and developing a technology that could make any computer application securely available through an Internet browser. The tool solved the most nagging problems of the traditional software model, from viruses and piracy to the hassle of upkeep and maintenance. It was a hugely promising market with few serious competitors.

Even though today's software was increasingly sophisticated and complex, the way it was purchased and delivered had scarcely changed since the 1980s. A product was out of date the minute the box was open, and buyers would pay the same up-front cost regardless of how often they used it.

Wrapped Apps' products reshaped this model. Its enabling technology allowed applications to be

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tried for free, then "rented" online using monthly subscriptions or metered per-use billing. Rather than installing software on local desktop computers or company servers, users would access the application through a browser using a broadband Internet connection. With nothing installed locally, users would be spared the headaches of installation and maintenance. Subscribers would also be able to use their applications from any computer with Internet access, anywhere in the world.

"Our product is like a cargo crate," Lewis explained into the TV camera. "You can put anything you want inside the crate. Once it's inside that container, it can be moved by any forklift." Once "containerized," software written for a given operating system – Mac OS, Windows, Unix/Linux – could be deployed online for any computer with a browser.

As Lewis explained the Wrapped Apps technology, his interviewer retained a puzzled look. "Why," he asked, "did you trade the courtroom for the boardroom?" Lewis was unequivocal: "Easy," he replied. "I get the chance to build a company from no revenue to a multi-million-dollar company in a very short period of time. That's very exciting."

The industry's growth figures were certainly reason for excitement. The market for "Software as a Service" was growing at 40% per year, with network-based applications expected to be the fastest-growing subsegment of the market. Revenues through 2008 had been estimated by Gartner Group at US\$14.4 billion. One company, Salesforce.com, had reached US\$175 million in revenue from a single on-demand application. Wrapped Apps could transform any desktop application into a Web-based service, regardless of the platform. And it could do it in 30 days at a cost of less than \$50,000 – an offering unmatched even by industry giants like IBM.

But when the interviewer asked about sales, Lewis admitted that the company's promise had not yet translated into revenue. He was convinced, though, that its sales and marketing work would soon start to bear fruit.

A MONTH LATER, a coffee in one hand and a tea in the other, Lewis made a beeline into Alain Mercier's office. Mercier was one of the company's co-founders and had been Lewis's classmate while studying for an MBA. Still chilled from the brisk November morning, Mercier gratefully accepted the tea and asked about Lewis's most recent marketing meeting.

Lewis recapped the previous day's meeting, an afternoon strategy session with the company's vice-president of sales and marketing and her team. The VP had expressed confidence about the company's sales prospects, but she had not met recent sales targets. Lewis was upbeat, but he and Mercier discussed the matter with concern in their voices.

The VP had arrived eight months before Lewis. She found a company with a freshly completed product, an embryonic marketing strategy and an underdeveloped pricing approach. She began attending trade shows and found four independent software vendors (ISVs) willing to act as "pilot" clients. Wrapped Apps waived its wrapping fee in exchange for the opportunity to use the four ISVs to test the wrapping process and hosting software.

At the time, Wrapped Apps was counting on the marketing efforts of ISV customers and hosting partners like Internet service providers (ISPs) to reach end users. Lewis believed that it should have been a slam-dunk convergence of interests. ISVs struggled with piracy and a mercurial sales cycle that had few sources of recurring revenue. ISPs had excess capacity in their expensive data centres and a need for new services for their customers. Wrapped

Apps eliminated piracy for ISVs, provided new offerings for ISPs and delivered recurring subscription revenues for both. In exchange, ISVs would pay Wrapped Apps to Web-enable their software, while ISPs would pay for the server software and make royalty payments from their recurring application rental revenues.

But now fall was giving way to winter, and the multiple revenue streams had yet to materialize. The VP of sales and marketing, the company's most highly paid employee, had called for marketing functions to be jettisoned through outsourcing, and recommended to Lewis that the company immediately start to hire sales employees. "But in the same breath," Lewis said, "she's lamenting that our positioning is wrong, that our pricing model doesn't work properly." Lewis wondered whether Wrapped Apps' sales cycle was naturally long, or whether their strategy needed a fundamental change.

LUC MARTIN HAD A DIFFERENT EXPLANATION for why the product wasn't selling. Martin was another Wrapped Apps co-founder, the company's chief technology officer (CTO), and had personally overseen the development of the company's technological platform. He led a team of seven developers who were road-tested as co-op students, then hired full-time on relatively modest salaries. In the company's early days, this team was the core of the Wrapped Apps organization. "If we had the resources [more programmers] to focus on development, we could perfect the product," Martin told Lewis in late November.

Lewis couldn't deny some new features would smooth out the software's rough edges, reduce the effort required to "wrap" applications, and speed up performance for large-scale customers. But he was reluctant to sign a cheque for his CTO. Creating the new prod-

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uct would cost upwards of \$100,000, a commitment the cash-strapped company could not easily afford. And besides, he reflected, it was never the technology that seemed to stymie the company's revenue potential.

The technology worked – in fact, the four pilot software products were already available through Midwest Data Center (MDC), a small ISP in Missouri. But while MDC had quickly signed on, it hadn't yet generated any revenue.

LEWIS HAD SPENT ENDLESS HOURS emphasizing the power of his products to prospective

on-demand software to their customers. Lewis got an expression of interest from a Canadian telco with 100,000 high-speed Internet subscribers. But when it asked which applications to offer, Lewis couldn't answer – after all, it was the ISPs who had the relationships with their clients. "If they'd just tell us what particular software they wanted to offer, we could do something for them," he lamented.

It was a chicken-and-egg dilemma for Wrapped Apps: ISPs wanted a library of killer apps, ISVs wanted a waiting audience of subscribers, and neither was willing to jump first.

challenging the small fiefdoms of IT managers, whose careers were based on the support requirements of the shrink-wrapped software model. And more importantly, Lewis worried, homegrown software was a cost for enterprises. Unlike the commercial software market, there were no recurring revenue streams from which Wrapped Apps could extract royalty payments. CTO Martin agreed: "Enterprise clients will pay to migrate their software or to license our server software," he told Lewis. "But they'll never pay a royalty for the privilege of using software they already own."

## Some new features would smooth out the rough edges and speed up performance, but Lewis was reluctant to sign a cheque. Creating a new product would cost more than his young company could afford

clients. Any program – any program, he repeated over and over – could be transformed into a Web-based application. The only problem is that neither the ISPs nor the ISVs could apparently decide which applications they wanted to offer users over the Web. "We're enablers. We offer them the best tool in the industry, but they expect us to build out the business case for them," Lewis said with a note of exasperation. "What the heck do I know? It's not my job to get them customers."

Since software publishers were apparently not ready to jump without a bulletproof business case, Lewis and Mercier hoped to find the right incentive. As November drew to a close, Wrapped Apps met more frequently with ISPs, trying to spark interest in offering a range of

And for both clients, the decision to purchase required a radical strategic leap – for ISPs, into a new market; for ISVs, into a new revenue model. While the small telcos and ISPs should have been enthusiastic adopters, Lewis had been surprised by their slow uptake.

Along the way, Lewis toyed with the idea of targeting the enterprise market, offering to Web-enable legacy systems. Whenever he described Wrapped Apps technology to those in the corporate IT environment, he could see an eager gleam in their eyes. Many large companies – from retail sales to banking – still used decades-old mainframe terminal applications. Extending those legacy systems to new technology platforms was a massive headache for CTOs. But chasing enterprise clients meant

FRUGALITY WAS A WATCHWORD around the Wrapped Apps office. It had survived the tech meltdown due in large part to a loyal group of investors – friends, family and a few angel investors – who saw the company's potential. Nevertheless, its leased computers were a generation old, it occupied rented space in an office complex listed for sale, and it weathered turnover as its underpaid employees left and were replaced by green co-op students. Lewis and Mercier both knew they would likely have to seek more money from their investors.

Lewis's Christmas vacation was shaping up to be anything but restful. With a phone pressed to his ear, he would be spending his yuletide offering assurances to nervous investors and calming frayed nerves. When he

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returned to the office in the new year, he needed to come armed with a fresh strategy to turn around the company's flagging fortunes.

## The Expert View

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For those who have weathered the boom and bust of the technology sector, the case of Wrapped Apps rings familiar. This case shows a company having to make three simultaneous and challenging leaps forward: It's undergoing a metamorphosis from an R&D company to a product and sales company. It's changing and professionalizing the company's management. And it's trying to switch from investor dollars to sales revenue as the source of its forward momentum. Managing any one of these transitions is a tough challenge. Having to deal with all three at once, and in a period of austerity, is enough to turn most CEOs' hair grey.

The first transition that Wrapped Apps faces is the move from development to sales. Too many companies view these as wholly independent stages of growth. They theorize about the market, then cloister themselves away in a product development lab. Better companies think about the market and their customers at the outset, and continue thinking about them as they build their products. The best companies go one step further and involve their customers as they develop products. They use their customers' insight to drive development. Wrapped Apps got this insight late: It thought that ISPs were the perfect customer, and its early sale to Midwest Data seemed to confirm its intuition. However, the company was lulled into a false sense of secu-

rity about customer demand in that segment. Companies in Wrapped Apps' situation need to experiment and involve their prospective customers early, so they make smart bets on segmentation when their products are ready.

The second leap forward is from the company's founders to a professionalized and sales-oriented leadership team. This is a leap that many start-ups fail to make. It takes intellectual honesty and a level head for a founder to know when to pass the mantle, and Wrapped Apps deserves kudos for selecting a seasoned professional like Rob Lewis. At the same time, young start-ups do need to be wary of "hired guns." The same person can be white-hot when selling an established product with an ample budget, but flounder when introducing new products on a shoestring. A salesperson isn't a marketing strategist, and a marketing strategist isn't a commercialization expert. Lewis needs to consider the company's needs and stage of development, and then adjust his leadership team accordingly.

The final leap for Wrapped Apps is to sustain itself without further investment. Lewis, Mercier and Martin deserve a medal of honour for their bootstrapping ingenuity – and for surviving the implosion of the tech sector. If every start-up's management guarded its cash as jealously as Wrapped Apps, we would see a far better survival rate for new ventures. They've been frugal on staffing and on administrative costs. They've financed half a decade of development with only a small band of angels, friends and family. But there may be an opportunity cost to devoting their time to staying alive: Any time spent fundraising is time diverted from business development. And on the business development front, Wrapped Apps' top priority should be finding a stable anchor partner rather than landing more small-scale clients. If Wrapped Apps plans to go up against major competitors, it needs a "big brother." It needs a marquee client to show off to prospective customers and a high-profile customer to demonstrate its seriousness to investors.

The time is ripe for on-demand software enablement. And Wrapped Apps, despite Lewis's worries, makes applications Web-accessible faster and better than anyone else. Lewis needs to stay tough on costs, synchronize the leadership team with the company's

needs and convince investors to extend the company's cash runway. But in order to realize Wrapped Apps' staggering potential, Lewis above all needs to understand his customers better, zero in on the right segment and then relentlessly apply his focus.

## The Outcome

Lewis greeted the new year by shaking up Wrapped Apps' organization, product and strategy. Under his leadership, it refocused on a new customer segment and rolled out a new product to simplify on-demand software sales.

First, he eliminated the position of VP sales and marketing and made those areas his own top priority. With the input of an expert advisory board, Lewis shifted the company's marketing focus from ISPs to high-profile electronic retailers and Internet portals.

To support this new customer segment, Lewis had his CTO develop a "skinnable" (easily customized) online storefront. The store sells software using Wrapped Apps' back end and allows retailers to customize the storefront to match their own brand identity. Retailers have only to make sales; Wrapped Apps handles hosting, bandwidth, billing and support.

Lewis financed the company's reorientation with the support of his investors, factored R&D tax credits and receivables, and its first royalties. In 2005, Wrapped Apps also offered application-wrapping for enterprise clients for the first time. By the end of the year, Lewis felt confident and enthusiastic. The company's enterprise offering had attracted the business of a large federal government department. Validian, a respected security software company, had signed on as a wrapping client. Wrapped Apps' products were nominated for five high-profile industry awards. And the company's online store product brought them a rich pipeline of sales leads in Canada, the United States and Britain, with two deals expected to close in the first quarter of 2006.

**Note:** The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.