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Michael Greenough's "Extreme Make-Over: Company Edition"

How he transformed a bankrupt \$130 million SSA Global into a thriving \$638 million success

Normally, in this column, I write about the success strategies that a company uses to make its way onto the Sustained Success Honor Roll (A company appears on it if they have racked up five or more consecutive years of profitable growth). But in this edition's column, I write about a company not on the Sustained Success Honor Roll, SSA Global—at least not yet.

Executive Strategy Brian Turchin



The reason for my change is simple. Its CEO, Michael Greenough, has achieved something no one else in our industry has: he resuscitated a bankrupt software company transforming it into a belle of the enterprise software ball-in just three years, no less. Like you, I wanted to know "how'd he do that?"

Ever wake-up and feel like someone has tattooed a bulls-eye on your back? On August 27, 2001, three months after Michael Greenough joined SSA Global as CEO, Tom Saprano, a customer, posted the following bulletin board note:

"When I look back at the past and what we were told, the decision to come or not to come [to an upcoming SSA Global Client Forum] becomes an easy one:

- 1997 Roger Covey
- 1998 Bill Stuek
- 1999 Bob Carpenter

- 2000 Vic Shepherd
- 2001 Mike Greenough
- 2002 ?

Please let me know who it [the new CEO] will be in 2002 so I can put his name on this list."

It's understandable why Saprano or any customer would be so skeptical. On November 18, 1996, Crain's Chicago Business reported, "Despite a host of problems this year, including early customer resistance to the latest generation of the company's product, a cash crunch triggering loan defaults, turnover in the executive suite and even an embarrassing dispute with his auditors, Mr. Covey [founder and CEO] appears to have turned a corner." Crain's was wrong. Covey left in 1997.

And again in December 1998, Mike Barone, a senior research analyst at Tudor Investments proclaimed, that Bill Stuek, who took over as CEO in April 1998, "has got everything in place to turn the company around." Stuek didn't. He left in 1999.

Saprano saw Greenough as just another in a long list of transient CEOs. Who could blame him?

But Greenough saw it very differently and in a bulletin posting of his own he answered Saprano: "I feel compelled to respond...I have had [just] three jobs in 17 years...I am a pragmatic and decisive leader with a proven record of service and achievement. I intend to rebuild the BPCS brand [At that time, SSA Global's flagship software product] through hard work and listening to our customers...I can't change the fact there have been 4 other CEO's in the last few years, but I can tell you this, there is a new sheriff in town and things are changing."

And indeed, he has been true to his word.

How much trouble was SSA Global in when Greenough joined in May 2001? Jim Shepherd, Vice President of Research, AMR Research, wrote "Once a company starts to circle the drain, they almost never come back up. This is a company [SSA] that wasn't just circling the drain. It was down in the trap."

SSA Global's revenue was evaporating as it shrunk from its high of \$430.5 million in 1997 to about \$130 million. It was hemorrhaging cash to the tune of \$16 million a year. And customers were deserting at an alarming rate as its dismal maintenance renewal rate of 62 percent reveals.

Further, after SSA Global emerged from bankruptcy, in August 2000, shedding half of its staff, from about 2,200 employees to about 1,100, its leadership still couldn't meet its own revenue or profitability forecasts.

Flash forward. SSA Global has been profitable for the last 13 consecutive quarters. Instead of running a \$16 million deficit, it now has, in fiscal 2004, a \$20 million net profit. Its revenue quadrupled from \$130 million in 2001 to \$637.8 million in 2004. Its customer base almost tripled from 5,000 to 13,300. And on May 26, 2005 it went public.

It widened its market penetration by adding financial services, government and health organizations, hospitality and gaming, retail vertical markets to the ones it already sells to: automotive, aerospace and defense, consumer goods, food/beverage, chemical, and pharmaceutical.

SSA Global broadened the types of software offered to its customers. Where it had traditionally been a provider of ERP (Enterprise Resource Planning) solutions, it now offers a

full gamut of acronymed enterprise solutions: SCM (Supply Chain Management), CRM (Customer Relationship Management), PLM (Corporate Performance Management) and CPM (Corporate Performance Management).

How did Michael Greenough succeed when the four prior SSA Global CEOs failed? A hint. It wasn't an accident.

Making SSA Global Profitable And Keeping It That Way

Greenough, a person of very strong convictions, believes that "cash in should exceed cash out." Seems obvious: any CEO should believe that.

However, one of the dirty little secrets of our industry is that although we may profess belief in being profitable, our industry is, in fact, awash in red ink. My research reveals that over the last six years, even during the go-go years of 1998 and 1999, the majority of public software companies were unprofitable. And in 2001, a low-point for our industry, only one of three public software companies was profitable.

So, contrary to our intuition, it is surprising when a software company stays profitable for a long time.

Greenough—and as I discovered the CEOs of the companies on the Sustained Success Honor Roll—don't just say they believe in being profitable, they take extraordinary steps to make this happen.

To return SSA Global to profitability, Greenough did what you might expect. With his management team, he developed a restructuring plan and implemented it reducing headcount from 1,100 to 800 employees and his plan worked. "Within 90 days, we had corrected our costs, within 180 days we were profitable," Greenough said.

But in the process of returning SSA Global to profitability, he also did what you wouldn't expect.

Used An Operating Model To Guide His Restructuring Plans - Greenough started out in his career as an accountant. So he did things by the book. And in his earlier profession, the book is extremely well-defined. In our industry, though, such a book doesn't exist. So Greenough wrote one.

While working at his two prior software companies, Constellation Software, Inc. and GEAC, he devised a software company operating model which is chock-full of metrics that measure success. He brought this model with him to SSA Global and used it to guide his restructuring plan. Greenough sees enormous value in his model. He said "Just as

Walmart's distribution system gives it an edge over its competitors, so does our operating model give us an edge over our competitors."

Installed An Activity-Based Costing System - Also as part of his "book," he installed an activity-based costing (ABC) system, something which is difficult to do even in the manufacturing industry where it is more traditionally used. When it is installed and working well, it allows you to match costs, in a much more detailed way, to revenue.

The activity-based cost system works hand-

Acquisition	Date	Paid (Millions)	Annual Revenue* (Millions)	Net Income* (Loss)
Arzoon	6/14/04	NA	NA	NA
Marcam	7/1/04	NA	NA	NA
EXE	12/19/03	\$52.8	\$73.7	(\$27.5)
Elevon	7/22/03	\$23.5	\$41.9	\$20.5
Baan	7/18/03	\$132.1	\$279.8	(\$87.3)
Ironside	6/19/03	\$5.9	\$5.1	(\$8.8)
Infinium	12/20/02	\$108.3	\$66.7	\$14.0
InterBiz	4/5/02	\$25.0	\$100	NA

(Source: June 4, 2004 S-1 Filing) * At Time of Acquisition

in-glove with Greenough's operating model. "The operating model is our financial reporting system and feeding into it is our activity-based costing system," Greenough said.

What's the advantage of Greenough's synergistic operating model and cost system? Most software companies struggle to understand whether a software product or service is really profitable. They struggle because they don't have the data. But Greenough does. So he can fine tune his company in a way they can't. He can apply a laser-beam focus to what is profitable, and he can apply a surgical cut to costs on what isn't. With customers putting a squeeze on profit margins by demanding and getting reduced pricing, knowing what Greenough knows, can be the difference between success and failure.

Returning SSA Global profitability in 180 days was just a start. How did he keep SSA Global profitable for the last twelve consecutive quarters?

His operating model and cost system helps him do this on an on-going basis. But there are two other significant steps.

Have Managers Understand Financial Reports and Hold Them Accountable For the Results That Show Up There - In another unusual practice, which I have observed at other long-time profitable companies, Greenough deepens the business knowledge of those further down in the organization. He said, "We expect our managers to understand the inputs that determine the outputs for every line item on the Profit & Loss statement and on

the Balance Sheet. And we hold them accountable for what's on those reports.

And, since Greenough believes "There is no such thing as untutored brilliance," he "developed a real-world MBA program that teaches people in a lot of detail all of the different elements of running a business from operations, finance, human resources, tax, legal, and acquisition strategy. So, they see the whole picture and where they fit into our company now and in the future. We put through about 25 people a quarter and so far have had 150 of our top people attend."

Training builds understanding. Understanding allows them to be successful when Greenough holds them accountable. And holding them accountable for financial results turns what might be an academic exercise into one with a great deal of urgency.

"Doing this is a real difference maker in producing results," asserts Greenough.

Acquisitions Will Be Profitable From Day One - What goes for SSA Global, goes for any acquisition. John Walles, EVP Operations, said, "When we do

acquisitions we disaggregate the business into three different revenue streams: software sales, maintenance and professional service operation. We treat each revenue line as a separate business. Each one is budgeted and forecasted to be profitable. Once we identify the expense levels that are available to profitably run that business, we restructure it so it is run profitably from day one."

Saying, "Cash in should exceed cash out" is one thing. Making it an on-going reality is another.

But making a company profitable just allows you to line up at the business starting line. As Greenough said, "The real problem is how do you grow it?"

Securing Your Customer Base

Before you can grow your business, you first have to stop losing your existing customers to the competition. Competitors were delightfully picking off grumpy SSA Global clients. (Just as competitors today are eagerly looking forward to picking off grumpy Oracle/PeopleSoft/J.D Edward's customers.) To secure his customer base, Greenough took the following steps.

Declared That SSA Won't Sunset Products - On his 2nd day of work, Greenough walked from his Chicago headquarters to the Wrigley building to meet customers who were in town for a company sponsored event. While there he heard an employee explain to his customers that "We are going to kill that product and

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have everyone upgrade to a new version of our software."

But Greenough had a problem. He stopped the meeting and said, "No, that is not going to happen. We do not kill products. Customers can stay on the products as long as they want. It's our problem to support the customer if he is on an older version."

This became a bedrock policy for SSA Global: We don't sunset products as long as customers want to continue to use them.

Greenough's action had two effects. For customers, it signaled that SSA Global will protect the investment they already made in SSA Global's software, eliminating one reason for them to jump ship and choose a competitor. And for employees, it signaled that customers come first.

Reduced The Number of Sales Management Levels To Let The "Voice Of The Customer" Come Through - On his 3rd day, Greenough attended another customer meeting with Texaco. As he told me, "I walked into the meeting and I counted the number of SSA Global sales people. There were seven levels of sales people in that meeting. I said to the customer this is like the game of "whispers." [Greenough is British. In the U.S. we call the game "telephone."] By the time the guy in the field gets your story to me it has changed. So let's cut that down to three or four levels."

Sometimes, driven by ego, pride and turf, a company's internal politics distracts it from focusing on the customer. Greenough took an axe to this management structure. Besides reducing administrative overhead, the reduction in management levels allowed the true voice of the customer to reach the executive suite.

Established Global Customer Forums - Wallis, who was CFO when Greenough joined SSA Global said, "The old organization hadn't had a global customer forum in the prior five or six years. Greenough had us organize one in Boca that fall [this is the event that Saprano, our bulletin board note poster, declined to attend]. It ended up being two weeks after 9/11. We had some question about going forward, but we did and had tremendous positive feedback from the customer base." Forums provide another way to hear the "voice of the customer."

Instituted A Customer Satisfaction Survey - Sales personnel and customer forums provide anecdotal information about customers. These insights are very useful but they don't pinpoint broad trends, good or bad. So Greenough instituted an annual customer satisfaction survey. This gives him more objective data on a more global basis. And it becomes another part of his operating model, allowing him to see how successful or not successful he is.

These four actions curtailed customer defections which showed up in their maintenance renewal rate as it went up dramatically from 62 percent in 2001 to the mid-90s range.

Growing SSA Global's Business

It's good to stop losing customers, but coming back to Greenough's question, "How do you grow?"



Mike Greenough, CEO, SSA Global

"Acquisition planning starts with a two to three year strategic plan to see how your company is going to look in the future. Then you work backwards from there."

Growth is a problem in our industry as we face a stark reality: we have saturated software markets and reduced customer IT spending. It's a reality we detest because we fear that the exciting super-go-go days of rapid growth will never return and because, frankly, we don't exactly know how to succeed under these market conditions.

In true Darwinian fashion, where there are too many software companies vying for too few customers, it's been a "survival of the fittest." The growth-hungry large fish are swallowing the financially weaker smaller fish. We see this with \$9.5 billion Oracle swallowing \$2 billion Peoplesoft, who earlier had swallowed \$1 billion J. D. Edwards.

Yet growth by aggressive acquisition buying is a suspect strategy. Historically, according to strategy guru Michael Porter, two-thirds of all acquisitions fail. And we don't have to look very far in our industry for a cautionary tale.

In a tale of rags-to-riches and riches-to-rags, in 1987, Andrew "Flip" Filipowski

founded Platinum Technologies. Through an aggressive acquisition strategy he grew his company so that by 1999 it generated \$1 billion in revenue. And then, for what was a record price in the software industry, sold it to Computer Associates for \$3.5 billion. So far so wonderful.

But he tried duplicating his success with dramatically different results. After his sale, in 1999, he founded Divine. He went through another rapid series of fire-sale acquisitions growing his revenue again to a \$1 billion company. This time, though, instead of selling his company for a fortune, on February 27, 2003 he filed for bankruptcy and his company's assets were ignominiously sold off at even lower prices than he paid.

Into this bleak market environment, enters Greenough saying in 2001 he is going to be an aggressive acquirer of businesses. Bruce Richardson, Senior Vice President of Research, AMR Research, who met with him in late 2001, wrote that Greenough's plans were "delusional." And giving the reason for his conclusion, Richardson continued, "At that time, no company had been successful in doing 'roll-ups' of competitive offerings."

Greenough went on to acquire eight companies within the space of 26 months (see table). And, in two instances he acquired companies that nearly doubled SSA Global's size each time. In 2002 the acquisition of InterBiz from Computer Associates took SSA Global from about \$130 million to about \$230 million. And in 2003, the acquisition of Baan roughly took SSA Global from a \$250 million company to a \$500 million company. It is difficult enough to assimilate a smaller company, but assimilating one your size is like doing a high-wire act without a net.

But Greenough's buying spree hasn't resulted in catastrophe as Richardson forecast. He has been successfully integrating them into the larger SSA Global. How does he do this?

Just as with the operating model, Greenough brought with him to SSA Global another chapter in his "book." "Experience is a great teacher. I learned a lot at my two prior companies, Constellation Software Inc. and GEAC. At CSI, I acquired six companies in eighteen months. I learned what worked and what didn't

work. And I documented what I learned." His documentation wasn't very fancy; it was on Excel spreadsheets.

Even though Greenough was reluctant to share too much—he considers the detailed knowledge of how to assimilate an acquisition a part of his secret sauce to success—he did share five of his lessons learned.

Plan Your Future First - Acquisition planning starts, Greenough says, "with a two to three year strategic plan to see how your company is going to look in the future. Then you work backwards from there. So, in our planning, I start by stating a revenue goal of say \$300 million. Then I look at what my product portfolio should be at that time and then what acquisitions would fit in."

In SSA Global's case, their future strategy was stated as "Acquire Market Share and Develop Customer Share." This means simply that they wanted to acquire competitors that brought them new customers in existing or new vertical industries, increasing their market share in these markets. As we learned earlier, they achieved this by adding a number of new vertical markets through acquisitions. And to help develop customer share, which means getting a higher share of a customer's IT spending, they have acquired new software capability. For example with EXE Technologies and Arzoon they added Supply Chain Management capabilities.

The point is that Greenough's acquisitions are not helter-skelter and opportunistic. He has a plan for what he wants and follows that plan.

Use The 4 M's To Test An Acquisition's Viability - There are 4 M's that Greenough uses to test whether an acquisition makes sense: Motivation, Money, Method and Match. "You need all four in play. The first test, Motivation, is 'Do I have a motivated seller?' This applies especially in our case since we are not public and we don't want to throw good money after bad. The second test, Money, is 'Does the ROI make sense at the value they want?' The third test, Method, is 'are you dealing with the right people?' And the fourth, Match, is 'does the acquisition fit our strategic plan?' If the acquisition fails on any of these criteria, I pass on it. Match is the most critical test criteria followed by money."

Document Your Integration Process - "The reason acquisitions fail, besides not meeting the 4 Ms, is that they don't have a solid integration plan. We now have a 750 page manual about how to do integration. In it are templates of what you tell employees, what you tell customers, what you do on day one, on day five, on day thirty and where you should be on day 90. We use it, and it works."

Build A Detailed Plan That Quickly Achieves Integration - Greenough said "What

is an employee thinking about the first day his company he has been acquired? 'Do I have a job?' 'Is my son going to be able to get his braces on Friday?' 'Who will I work for?' 'What are my benefits now?' These are important issues." To not let these questions fester, Greenough's goal is to announce lay-offs in the first 72 hours and tell the remaining employees, "This is what we are doing; this is why; this is how; and this is where we are going."

Take Advantage Of The New "DNA" That Acquisitions Bring - Even though the discussion about acquisitions has focused on acquiring market share and software products, Greenough said there is another very large benefit, the talent that comes along with the acquisition. Greenough said, "We are adding to the gene pool."

Final Comments

Our industry is in the throes of a passionate controversy. Can our industry still sustain future periods of hyper-growth, re-making the winners in our markets? Or are we like the "mature" auto industry, where growth is modest and only a few big gorillas remain?

What's happening in the ERP market may give us an early answer. Of all software markets it appears to be the closest to the auto market analogy: growth has slowed; consolidation is rampant.

If we are in this newer world of being a "mature" industry, Greenough may in fact be the new model of a successful software company CEO. While most software CEOs have started out as technologist or sales folks, Greenough began as an accountant. He emphasizes financials, operating efficiency, best practices as well as aggressive deal-making.

And Greenough may have pioneered a new model for us to be successful. His rapid acquisition strategy was called "lunacy," but it seems to have worked. Or is he just the right leader at the right time in the right place? Only in hindsight will we know for sure.

One thing is clear. In his extreme make-over, he's already challenged conventional wisdom, achieving

what no one else in the industry has. I expect that he and his company will continue to forge new paths to success. Our industry certainly needs them.

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