



Slow Growth = Slow Death?

I always thought that expanding my business at a steady pace was a smart move. Now I worry that it could potentially kill us

One of our best programmers just came into my office. He's working on a new price list that we're putting into place, and he's on a tight deadline. I need to be able to announce the new rates in three weeks, at the first public demonstration of the application FogBugz 7.0.

Implementing the new prices on our website is going to take too long, he told me. We aren't going to have it ready in time for my announcement.

"What? You've got three weeks! Three weeks to change some prices? I could change those prices by the time I go home today," I lied.

Changing the prices for new customers is easy, he explained. The hard part is building a slick new area on our website where existing customers can go to convert to the new pricing.

"What if we don't have a slick website?" I asked.

"Anybody who wanted to convert would have to call in, and we'd have to do it manually," he said.

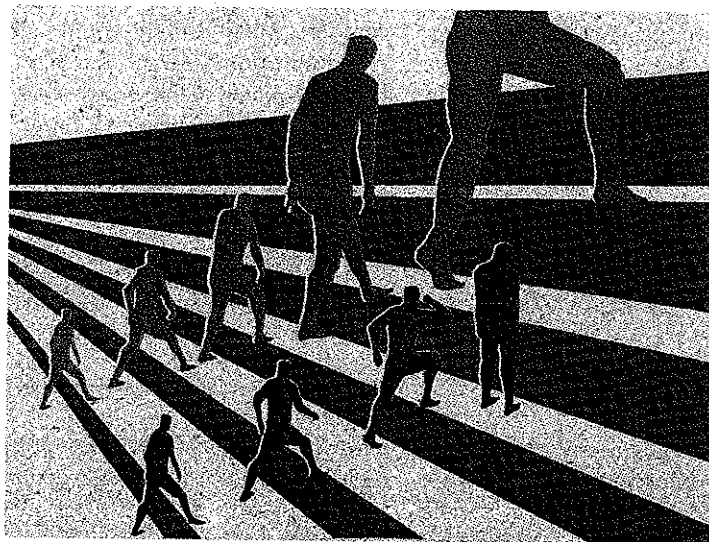
"Could you get that part done on time? With the manual conversion?"

He said he could. Which means we're going to do a half-baked job of implementing these new prices. We have to, this time, because we're committed to a date.

Normally, we don't do things this way at Fog Creek. Speed to market usually involves a direct tradeoff with quality. If you need high-quality code, it takes time, and we've always taken the time to do things right. No deadlines here! Among other things, taking the time to do things right has probably slowed us down. A lot.

We're doing great, thanks for asking, but after nine years, I'm beginning to accept the evidence that whatever it is we're doing results in reasonable, steady growth, not spectacular, explosive growth. We've gone from two to 25 employees in about a decade by growing, on average, 54 percent a year.

I have always believed that there is a natural, organic rate at which a business should grow, and that if we expanded too fast, the wheels would come flying off. (We'd have customers calling us up left and right to do things manually



that should have been handled online, for example.)

And I have to say, I've been happy with our growth rate. I was resigned to never being on the Inc. 500, because growth for the sake of growth leads to all kinds of, well, growing pains. For the longest time, I smugly thought: We're profitable, our sales are rising, we make terrific products, and our customers love us. So what do we have to worry about?

Then I came across a quote from Geoffrey Moore, who is best known for his best-selling book *Crossing the Chasm*, which is about how businesses cross over from their initial niche markets to dominate larger markets. In another book, called *Inside the Tornado*, Moore writes about the great battle between Oracle and Ingres in the early 1980s. The winner of that battle is well known: Oracle now has a market cap of

more than \$100 billion, and I'll bet you've never heard of Ingres.

"What set Oracle apart from Ingres," Moore writes, "was that [CEO] Larry Ellison drove for 100 percent growth while Ingres 'accepted' 50 percent growth." Executives at Ingres meant well. According to Moore, they felt that the company "simply cannot grow any faster than 50 percent and still adequately serve our customers. No one can. Look at Oracle. They are promising anything and everything and shipping little or nothing. Everybody knows it. Their customers hate them. They are going to hit the wall."

Of course, Oracle overcame those concerns and eclipsed its rival. And this got me worried. Were we Ingres?

I had to wonder. We do have a large competitor in our market that appears to be growing a lot faster than we are. The

you. And when it's 10 times bigger than you, it can buy 10 times as much advertising and do 10 times as many projects and have meetings with 10 times as many customers. And you begin to disappear.

As you may recall, there were lots of cute little word-processing software companies in the late 1980s. Remember WordPerfect? WordStar? Ami Pro? That business has been completely dead since Microsoft Word for Windows emerged as the one to beat in the early 1990s. I'll bet the Ami Pro product managers were sitting around feeling pleased with their solid annual-growth numbers, just as Microsoft was growing faster and becoming the de facto standard.

Expanding your business at faster than its natural rate is a risky thing to do, of course. You have to hire quickly, which reduces the profit margin. You may have to borrow money or take on investors. You

of a higher rate of growth. I have the beginning of a plan for how to proceed.

Step One, I think, is to pluck off our biggest competitors. We're pretty certain that we've already built a great product that meets our customers' needs—but there are still too many cases where we find out that, for some reason, someone went with the other guy. So that's the development team's mission for 2010: to eliminate any possible reason that customers might buy our competitors' junk, just because there is some dinky little feature that they told themselves they absolutely couldn't live without. I don't think this is going to be very hard, frankly. Developing great software is something I'm pretty sure we're good at.

Step Two is something I'm not particularly good at. Not in the least bit. We have to build up our sales force. The bottom line is, we just don't do enough selling. I've been working on the assumption that a product naturally creates demand for itself and the sales team just helps fulfill that demand. But I've realized that I have things backward. I've come to understand that a sales team drives demand. My problem is that I've never been able to figure out how to hire good salespeople. For a guy who wrote a book on how to hire great programmers, it's mortifying how incompetent I've been at enlarging the sales team, which, right now, consists of one terrific account executive and a dog. (I'm just kidding. There's no dog.)

We don't want to win with lousy products or high-pressure sales tactics. We have no intention of giving up our commitment to good customer service or high-quality code. But we do have to work closer to the limits of our abilities, we have to invest more of our profits in hiring more salespeople and software developers, and we have to focus relentlessly on winning more enterprise sales. We have to do that, because otherwise, we're going to end up being the company you've never heard of.

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Are we actually *losing* our market leadership position because we're careful?

company is closing big deals with big, enterprise customers. And the wheels are falling off the donkey cart over there as the company stretches to fulfill its obligations. Meanwhile, our product is miles better, and we're a well-run company, but it doesn't seem to matter. Why?

Moore explains that "for pragmatist customers, the first freedom in a rapidly shifting market is order and security. That can only come from rallying around a clear market leader. Once the apparent leader-to-be emerges, pragmatists will support that company, virtually regardless of how arrogant, unresponsive, or overpriced it is."

Uh-oh. Are we actually *losing* our market leadership position because we're careful?

It's entirely possible. Think of it this way: If you're growing at 50 percent a year, and your competitor is growing at 100 percent a year, it takes only eight years before your competitor is 10 times bigger than

have to rely on outside partners more. You have to trust your employees to do things that you used to be able to do yourself, and nobody does them better than you.

So what's the proper amount of risk? A lot of people would say, "Gosh, zero?" OK, that sounds safe and reasonable. You worked hard to build your business; you're counting on it for your retirement and your kids' college and whatever. But if you're not taking any risks, you're pretty much guaranteed to fail. Somewhere, there's someone out there who is taking more risks than you, and that person's business is growing faster than yours, and that person's business may one day come to dominate your industry while yours withers away.

Anyway, you didn't become an entrepreneur to be safe and reasonable.

Here at Fog Creek, I feel like I can certainly afford to take more risks in pursuit