



## What To Do with a Broken Business Model?

### CASE STUDY –VCHP1

#### **Service:**

Technology Diligence – with a market view

#### **Client:**

Well regarded growth stage Venture Capital firm

#### **Requirement:**

Perform market and technology diligence on the core product, high-level assessment of architecture, processes, staffing and ability to support business strategies to move to an adjacent market.

#### **Situation:**

The VC invested in a restart software company was considering an additional investment after 7 years of all too moderate performance. The company had created a “product” for the machine and monitoring space. The company had less than break even revenue and professed proprietary technology. The company wanted additional investment to alter the “product” offering and expand into a different market as they failed to gain traction in each of the prior markets attempted. The VC wanted a diligence review of product, market and staff to determine the probability of success of the new business strategy.

A new management team had been brought in two years ago to turn the company around again. They had made top-line progress with a product revenue mix of 30% product, 40% service and 30% maintenance.

#### **Scope:**

Staffing: 10 person days

Deliverable: A verbal presentation with follow up findings in a formal document

#### **Discovery:**

The first discovery was that the product was, in fact, not a product. It was only a tool kit wrapped with services and offered no proprietary market benefit. Its core components were quite elegant but designed for a sophisticated user with extensive initial support. The majority of the developers had been employed before the restart and knew the tool elements intimately but knew nothing about the new market to be addressed.

The development processes and procedures were exceptional. In fact they were overkill for a small company moving into a new market. The inherent cost of employing such rigorous analysis and use case requirements for a new market would have added 18 months in additional development time and cost millions more.

The final dilemma was that their market research indicated a sizable market opportunity but did not factor in the existing large players who have been working on solutions in the same space for years. Our market research revealed that while the market was growing the effort and cost to become a market leader would be unsustainable.

#### **Outcome:**

1. The deal was consummated.
2. The product road map was altered to produce a scaled back product for a specifically defined and underserved market.
3. The investment was made in tranches with specific milestone deliverables.
4. A new Business Development staff was hired with domain expertise.
5. The company reduced product development burn by half.
6. It increased product sales to 47% of total revenue – and growing.



7. Total revenue is up by 40%
8. The company has become EBITDA positive for the first time in 7 years.