

How BlackLine Doubles Revenues Every Year, by Helping Customers Crunch The Numbers

By Adam Stone
September 1, 2009



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Before BlackLine Systems there was Excel. The venerable spreadsheet was all that accountants had for reconciling balance sheets at the end of every month, quarter, and year.

Since 2001 Calabasas, CA-based BlackLine has been developing an alternative, a suite of reconciliation tools that the market welcomed with open arms.

This came after a whisper from a client helped prompt the company to change direction and redefine its long-range plan.

Leading the charge is Therese Tucker, former CTO of SunGard Treasury Systems. She retired comfortably from SunGard, but just couldn't stay out of the software game.

She launched BlackLine in 2001 with her own funds, and drew no salary for the first five years as the fledgling business took wing.

With a mixed user base of 70 percent SaaS and 30 percent on-premises customers, it takes BlackLine four to six weeks to close a sale.

An initial contract typically covers 30 seats at \$50 per user per month, and Tucker says most customers scale up their usage steadily over time.

Want to make the most of the present labor glut? Beat back shady sales tactics by competitors? Leverage references for all they're worth?

Here's how Tucker does all that, and how her company has more than doubled revenues for three years running — and is on-track to do it again this year.

Crunching the numbers tip #1: Keep a tight rein on free trials

Especially in the security-conscious financial world, end users are still wary of the reliability and security of SaaS.

Best way to overturn these fears? Let them try it for themselves — but don't let it go on forever.

Ninety percent of BlackLine's free 30-day trials end in sales, Tucker says. The key to success is to manage the process aggressively.

"If it's not managed properly, it can drag on: 'Oh, we just need another 30 days to try something else.' It has to be actively managed by the salesperson.

"So we write it into the initial order form: At the end of the 30 days, unless they say they don't like it, they get an invoice. Unless you indicate that you don't want to continue, you are going to become a client. The trial order form basically is the order form."

The home page of BlackLine.com invites prospects to call for the free trial.

Let them try it for themselves — but don't let it go on forever.

"They have to actually produce data that can be loaded into the system. Then they need to put in some time to get trained on it. So by the time they are doing a free trial, they're serious about this."

Free trials have enabled BlackLine to operate with just 10 sales people covering nine U.S. cities and one more in Australia. Marketing takes up just 10 percent of the operating budget.

Crunching the numbers tip #2: Beat them in the market, not in court

BlackLine has just a few competitors. One is Chesapeake System Solutions. The other is... infuriating.

"We have one competitor who got their product when my salesperson left, created a competing product by outsourcing the ideas to India, and then sold it for \$5 million to [a company in Ireland.]

"So you can imagine there are a lot of similarities between theirs and ours," Tucker says, with a wry chuckle. Rather than sweet, vengeance proved unobtainable. It may be time to review your HR policies to fill in any gaps.

"In California, the employment laws are extremely biased toward the employee. Non-compete is basically illegal, and intellectual property theft is almost impossible to prove.

"Our lawyer called it a seven-figure lawsuit with a 30 percent chance of winning. So we decided to beat them in the marketplace instead."

In the end, the experience may have done some good. Tucker cites "Crossing the Chasm" by Geoffrey Moore, who says it takes two products to make a market — and that many enterprise buyers won't sign up until a competing product validates the marketplace.

"So in the big picture, what they did ultimately benefited BlackLine. Having a competitor was a really good thing for us."

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Crunching the numbers tip #3: Get your HR policies in order

That experience taught Tucker to be more vigilant.

"Now we have a clear agreement in place that abides by all California labor laws, and also provides the company with the most protection it can get."

Employees agree up-front that the fruits of their labor belong to the company.

"We also have a segmentation of duties now," says Tucker.

"Back then, this salesperson had every piece of source code the company had, right on their PC. That could not happen today. Nobody has access to everything in the company anymore."

Software execs, take note: It may be time to review your HR policies to fill in any gaps.

Crunching the numbers tip #4: Fight back with hard numbers

Faced with scare tactics, Tucker counters with facts.

"Our competitors play dirty. They have told our prospects that we are going out of business, that we are too small to ever make it," she says.

For most prospects, verifiable facts trump any gossip. To fight back, "we decided to take the high road," Tucker says. That means putting facts on the table to counter innuendo.

"We will provide audited financials. We have a venture capitalist on our board, Tom Unterman with Rustic Canyon Partners, which shows that we have access to capital in case we ever do need money — which we don't.

"Vendor viability is a pretty standard play in software. It's not pretty, but it is pretty standard.

"So we produce our financials to show viability, we show things like the Inc. 500 list to show that we are growing. We give them the client list. All that together generally does it." It's true: For most prospects, verifiable facts trump any gossip.

Crunching the numbers tip #5: Make every client a reference

Nothing warms a buyer's heart like an authentic reference. Tucker will do what it takes to get references, even from clients who ordinarily can't vouch for a vendor.

All of BlackLine's clients serve as references. They are free to talk to one another, and each agrees to share their own experience when prospects come calling.

"We tell every prospect they can talk directly to any client on our list. Here's the caveat. When you become a client, you have to be willing to take those calls as well.

"There may be a corporate policy that they are not supposed to [give references], but they still do it when asked.

"Of course, we don't typically write it down in any formal way. If they do have a policy that they never do a reference call, then I can always call the director of accounting and say, 'Hey, this person wants to ask you about BlackLine,' and we've never had anybody say no."

By keeping the agreement informal, and making requests personal, Tucker can get references even when corporate policy might have slammed the door tight.

Crunching the numbers tip #6: Let them talk in private

When producing a reference, get out of the way.

"What makes our references convincing is that we will say, 'You are going to talk to them directly, we are not going to be involved.'"

Other vendors want to be on the phone when they do the reference call, and then the customer is afraid to say anything negative and maybe risk getting in trouble with the vendor.

"So we just give them the number and step back. That makes it a very credible process."

Crunching the numbers tip #7: Make close pairings in references

To maximize the benefits of reference calls, Tucker pairs potential clients with existing customers with common traits.

"If someone is using SAP, we put them in touch with SAP clients. If someone is using Hyperion [Financial Management], we put them in touch with Hyperion clients. "We also do it by industry, by vertical. Someone from manufacturing will be talking to someone else in manufacturing.

"We try to match-make a little bit, so they get not just the reference, but also some best practices from others in a similar position. They get an exchange of information outside of the vendor referral that helps make their projects move forward."

The lesson: To reap the full benefit of referrals, add value by pairing those with shared interests. Be the trusted friend who sows the seeds of future relationships.

Crunching the numbers tip #8: Use outsourcing to speed up production

Tucker says she has occasionally run into trouble by being too enthusiastic. But outsourcing has helped minimize those miscues.

"We've had people ask for a particular enhancement, and in the desire to please the client, we put something out there too quickly and then it doesn't work. Then we lose credibility. "It's better to be late and have it work, than to be on time and have it fail."

To gain both speed and quality, Tucker sought overseas help. "We have outsourced our QA to a firm in China. So now, any time anything is released into the software, a new build is put out that they have access to in China.

"In a strange way, the time difference really helps us. They start doing their work in China overnight, and when the programmers come in here the next morning, any defects have been identified. So this offsetting of shifts really works well in the development cycle."

Plus, her three full-time QA people in China cost a third of what the domestic variety would cost.

So don't fear different time zones; use them to your advantage. A thorough testing in China can ensure clean software and keep your production rolling.

Crunching the numbers tip #9: Don't push new features on the unwary

When BlackLine puts out a new release, clients don't get more. They get less. In fact, they get nothing, at least at the beginning.

"When we ship new features and enhancements, everything is turned off so it looks just like the last release. Then if you want to use anything new, you can go in and turn it on," Tucker says.

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"People don't like new. New means they have to answer questions, new means they have to retrain people. If something is working well, by golly don't change it."

Of course, BlackLine's long-term goal is for customers to actually use the product enhancements, and Tucker does the legwork to make that happen.

Each new release is preceded by a tutorial-type webinar scripted by herself, a support leader, or an in-house trainer. Mass e-mail alerts go out, and customers sign up via the BlackLine website. Each event draws about 100 attendees. "We go through the new features with them, the changes that have been made, and how to turn those on if they like them."

Especially with financial software, don't push features on the wary or unwilling. Roll out the tools, explain how to use them, and let people implement at their own pace

Crunching the numbers tip #10: Hire close to home

With developers pounding the pavement, Tucker has her pick of new hires.

"A lot of our clients have had layoffs, so we've had to do no active recruiting for the last six to nine months. It has all been people finding us," she says.

"We are able to hire people with internal audit experience, with CPAs, with advanced degrees. The credentials of the employees and the selection is so much better than it has been at other times."

Tucker has been cherry-picking employees who will fit easily into its operations.

"That means people who we know, or people referred by people we know, definitely get precedence. Because they are coming from our clients, they typically already know the software, so their learning curve is much shorter than with someone who's brand-new."

Even in this buyer's market, Tucker is making sure her people will stick around once the recession lifts.

"We just added a 401(k) plan and a cafeteria plan. We are always adding benefits." With this generous compensation, "we have had nobody quit in the last five years."

Make the most of the buyers' market for employees by seeking out a higher level of skills and compatibility.

Crunching the numbers tip #11: Hire the best person for the job, despite appearances

When it comes to hiring, don't let appearances scare you. At #2 on the org chart, VP of Operations Mario Spanicciati looks about 16 years old. He's actually 29, but he joined the firm at 24 — still young for such a ranking executive.

"When Mario first started, and we would send him out on implementations, he looked about 12. He couldn't even rent a car because he was under 25.

"I would actually call the clients to say, 'I am sending you someone who looks really young, but he is really good. Please just let him in the door,'" Tucker smiles.

"Given that he could solve virtually any problem you could throw at him, I knew I'd rather deal with those perception problems, because I knew the company would run very smoothly with him here."

The same holds true at the other end of the spectrum. Newly-hired Executive VP Greg Pond brings to the table nearly 40 years of operational and management experience in software and financial services.

"There is a place for gray hair in a developing software company. There are certain processes and communications channels that you have to put in place in order to grow gracefully, and it takes experience to do that."

So don't worry about what people will think. Hire the best person for the job, and let performance speak for itself.

Crunching the numbers tip #12: Stand out, stand tall

A female software CEO is a rare creature.

For example, Tucker reviewed the Technology Council of Southern California CEO of the Year and Entrepreneur of the Year award winners for the past 15 years. Thirty awards, and only one woman.

How do you get the CEO job and keep it in a gender-biased industry?

"Find a mentor, take them to lunch, ask their advice, learn from them. I also read every business book that I can. A lot of them are cheesy, but there are also a lot of good ones out there."

That said, Tucker notes that the gender slant is not always a disadvantage.

"At least you stand out," she smiles.

"At one event, I was on a stage with 18 other people, there were two other women and everybody was wearing black except for me. I was in a pink satin dress. So yes, I stand out. That means people take notice. They read your profile. They remember you."

Pink satin dress? If you're going to be the odd woman out, make the most of it.

Crunching the numbers tip #13: Changing course? Prepare to turn hard

Heading down a new road can be a lucrative proposition. But any about-face may require sweeping changes. Be prepared to overhaul every level of the enterprise.

In the early days, BlackLine's tools helped wealth management professionals do their jobs.

Then one fateful day a customer, First National Bank of Nebraska, stepped up with a new problem: how to automate closing its books on a periodic basis. It asked BlackLine to build a fix.

That took a lot of recoding, and a serious look at the future.

"We didn't initially intend to change the entire direction of the company, but once we built this, we realized it was a wide-open market," says Tucker.

That shift would mean much more than a gradual transition. It was major.

"We had to retrain programmers on different skills, because the new product was entirely web-based. We really had to learn the industry, which was different from wealth management.

"Then the product and sales people had to understand who we were selling to. We did a lot of training."

A change in direction is no small decision. It can require a total overhaul of the software and your sales and marketing. To take that kind of leap, be ready to commit at all levels.

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Crunching the numbers tip #14: Let your customers pick up the tab for localization

There's a wide world out there beyond the English-speaking countries. Packaging your software for use in Spain or Korea can be pricey. So why not let someone else pay for it?

BlackLine runs in English, French, German, Korean, Spanish, and Brazilian Portuguese. The system detects which language to display based on the cultural setting of the user's browser.

That sophistication tracks back to the early days of the company.

"We architected the software from the beginning to be able to handle that," Tucker says.

"Anything that is text-driven goes into a resource file, and then that resource file can be outsourced to anybody who has that expertise in accounting terminology and multiple languages."

Even with this approach, it still costs \$10,000 to \$15,000 to add a new language, plus another \$2,000 to \$3,000 a year to maintain it. Tucker relies on customers to foot those bills. "Usually the companies that are requesting this are larger multinational companies. If we haven't had a lot of requests for a language, we will typically pass the initial cost along to them."

Those asking for the new language will see the development cost incorporated into their regular fees. BlackLine then makes that language available to other users.

Such savvy win-win strategies continue to fuel BlackLine's rapid growth.

About the author: Adam Stone is an award-winning journalist who follows trends in software, wireless, government IT, and general business. With more than 20 years experience, Stone writes about entrepreneurs, HR, business financing, and industry verticals for numerous business publications.



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