

Creating a Software Product as a Professional Services Firm

A Guide



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Introduction

It is easy to start a services firm and very hard to grow one. Services firms operate with a high degree of dependency on people. This is true for product companies as well, but product companies monetize the product whereas services firms monetize the time of their people. Services firms only mode of growth is to hire more people and to serve more clients through a direct exchange of time for money.

Services firms are often started by craftspeople who want to ply their craft inside their own firm. Plying a craft on behalf of clients is a worthy professional and personal endeavor.

Services firms have differences and limitations as compared to product companies and that shouldn't be ignored. Services firms are hard to scale, have limited value, are operationally fragile, don't have much if any recurring revenue or profit and often operate as a bank.

So, what's the answer? Should services firms just throw in the towel and pack it in? Or is there a way for some services firms to keep plying their craft, increase firm value, generate recurring revenue and profit, and to be able to grow faster and easier? There is, and that is what this e-book is about.

Some services firms are uniquely positioned to leverage their processes, experience, and expertise to create a software product that can evolve the firm to be a combination services firm and software product company.

There is no *one* way to create a software product as a services firm; in fact, most services firms will have to carve a pretty unique pathway through the process. However, it is useful to keep in mind that there are some areas of commonality in firms that succeed and firms that do not. This guide aims to address important areas of consideration to help you decide whether your firm should explore creating a software product.

A Note About Us- We at AWH pride ourselves on being the elite digital product firm that helps you create great software products. (<https://www.awh.net/>). Clients continue to choose us for our experience and expertise creating both innovative and disruptive products for the web, mobile devices, and the Internet of Things.

Like we mentioned earlier, there is more than one way to successfully develop software products. But, we have over 26 years of experience in this area, and would like to share some of what we learned from being in the game for this long. Not only that, but we will also share some useful information that we have picked up from others. There is a lot of great data out there, and with the right information and tools, you will be in a prime position to achieve all the objectives to grow and evolve your services firm.

The questions we are going to answer in this guide will include several important topics and considerations:

- When to consider building a software product?
- What are the challenges associated with creating a software product?
- What are the business and operational impacts?
- What are some examples of services firms creating a software product?
- What went wrong for services firms that failed at creating a software product?
- What types of financial considerations will there be if I take on a project of this magnitude?
- How should you market and sell differently now that a software product is part of your offering?

These questions are both important and complex, but the answers to them are extremely useful for anyone hoping to build a successful software product.

Chapter 1: What Are the Benefits?

Services firms and software product companies couldn't be more different. This diversification is another upside to a services firm who creates a software product.

Recurring revenue and profit:

Services firms trade time for money on an ongoing basis. There is little ability to get any exponential growth inside of a time for money exchange. It is a linear path with only two factors to growth: sign more client work and hire more people to do the work. You can't have one without the other and of course, we all know the challenges inherent in adding more people. Services firms are transactional businesses. Whereas software product companies are investment and return businesses. An investment gets made in creating the software product that is expected to provide an exponential return over time. Software product companies trade the value of the problem their product solves for customers to pay for it continuously over time. Therefore, software product companies develop recurring revenue and profit. The longer a customer uses the product, the more profit a software product company makes on that customer. Services firms must show up and ply their craft on behalf of clients to be able to bill a client and to generate revenue and profit. Software product companies can charge for the software when they aren't working, thus breaking the direct time for money exchange.

Financial and operational predictability:

Services firms must be fluid. A client can suddenly increase, decrease or pause a project. An anticipated new client might not start when expected, and some clients won't pay in a timely manner. These are just a few examples of the uncertainties many services firms deal with. The operational fluidity of services firms also means there is financial fluidity since the fundamental exchange between firms and clients is time for money. It is incredibly difficult for services firms to predict more than three months out with any certainty around where the firm is going to be financially. Services firms are far more unpredictable than they are predictable, which in turn, makes them an immense challenge to operate and plan for.

Software product companies are much more predictable. Software product companies are typically executing against a couple of roadmaps. First, a product roadmap that defines why, how, and when the product is evolving. Second, a sales and marketing roadmap that defines how the company is going to acquire customers. Third, a support and administrative roadmap of what the company needs to do to support the customers and the execution of the first two roadmaps. This is a simplification to illustrate that software product companies are significantly more planned and structured than services firms are, and how a services firm that builds a software product can become much more structured and consistent.

Software product companies also have the ability to forecast financials, team hires, make system enhancements and perform other aspects of the business better than services firms because software product companies can look to their roadmaps for more concrete expectations. Software product companies are very data driven, much more than services firms. Software product companies can look at marketing campaigns and sales activities to predict the number of new customers they will have and when they will have them. They can forecast where they will be financially in six months, a year and two years with much greater accuracy and certainty than services firms are able to.

Increased firm value:

Services firms are typically worth one to one-and-a-half times revenue. Some valuations use EBITDA. but any way you slice it, services firms don't get high valuation multiples because of the lack of recurring revenue, scalability and proprietary intellectual property. Services firms are essentially worth what their current work and billings say they are. Services firms don't get any valuation credit for how long they have been in business or what has happened in the past. The long hours, blood, sweat and tears makes no difference when it comes to a services firm's valuation. The value of services firms is low compared to the effort needed to run and grow it, which can be surprising and disappointing to firm owners. Ultimately, a firm's value is what a buyer is willing to pay for it, but historically the sale of services firms doesn't provide a huge payday.

Software product companies are valued significantly more than services firms. Often, five total times more. It makes sense if you step back and think about it. Software product companies have all of the characteristics for a higher valuation. They are scalable, repeatable, proprietary and provide recurring revenue and profit. Software product companies are also easier to operate and manage. Services firms are frequently dependent on a few key leaders being intimately and directly involved with acquiring and servicing clients. Services firms lose whatever value they have if these few key people aren't actively involved. This makes services firms highly "people dependent" versus "process" and "system" dependent. It also means that services firms can't easily be passed to different ownership. Services firms are not turnkey. Software product companies are, or at least should be.

Scalability

Services firms aren't scalable. Services firms must hire more people to perform more work to increase revenue and profits. Services firms have to show up and put time in everyday to generate revenue. There is no time, operational or financial leverage for services firms. Software product companies have a lot of leverage and are therefore scalable. Software product companies get to essentially build once and to keep charging for work that has long since happened. Therefore, they are in every aspect, an investment that has compounding, exponential potential. Services firms don't compound or have any exponential potential.

Chapter 2: Why Do Most Fail?

Services firms desire for the elusive benefits of being a software product company is not new, and many have attempted to do it. Most fail.

Services firms fail in attempting to create a software product for several common reasons including:

- Not understanding the software product creation process that is essential to creating a successful product.
- Under-funding the software product creation.
- Not evolving operationally from a services firm model to a product business model to support the product creation process.
- Underestimating and executing poorly on product marketing and selling.
- Expecting the current services firm team to be able to fulfill the roles required of a software product team.
- Being unwilling to give up some aspects of the services firm to facilitate creating and supporting a software product.
- Maintaining a services firm scarcity mindset as compared to a software product abundance mindset.

To be clear, there are tremendous upsides to a services firm creating a software product, but it isn't easy. Almost every aspect of a services firm will be challenged to evolve, to create, and to successfully bring a software product to market. Many services firms are willing to dip their toes in the water around creating a software product, but most don't go all in. A services firm has to be *all-in* in order to create and leverage a software product. The benefits referenced in Chapter 1 only come to the services firms that are consciously aware of, and committed to, the process of a creating a successful software product.

We at AWH have helped numerous services firms to create software products. We have seen what works and what doesn't. Not only do we help our clients to architect, design, develop and deploy award-winning, successful software products, but we also help them navigate the potholes along the way around operations, marketing and support. We also know firsthand what the process is like shifting from a services firm to a software company and back.

In recent years we have become a Venture Studio in which we also provide or help clients to access financing and/or equity funding for their products.

Creating anything is hard, and creating a successful software product is no different. Services firms have an advantage over others creating software products because of deep problem understanding and their closeness with customers, but it is still a challenge. AWH is uniquely capable of helping services firms to navigate the waters to create a software product.

Successful software products usually follow a set of principles and processes, but there isn't only one way to create a successful product. Services firms should be wary of how-to articles and advice that says they can create a successful software product by following "a proven 10 steps" or anything similar. There is no easy button that allows a services firm to avoid the work required to create a successful software product. There are no-code and low-code tools that allow for simple software products to get created to serve as prototypes that help with problem and customer validation, but these tools have short runways of viability. The low and no-code tools also don't provide a services firm with a proprietary software product. They do have a place in the product development process but should never be considered an *end-all be-all* for services firms creating a software product.

Value design as much as development. One of the mistakes we have seen services firms make is that they go right from idea or problem identification to building. They want to start as soon as possible, but too often what gets built misses the mark because enough time wasn't given to *how* the software product should look, what it should do, and how it should do it. We've crossed a threshold in software product creation in recent years. It used to be that writing robust and scalable code was the most important, and while that will always be wildly important, the area with the greatest focus and value is the user experience and user interface. The user of a software product doesn't care much about the behind-the-scenes code, nor should they. All users expect software to work and to work well. Writing good code is a default expectation. What users do care about is how it looks and what it takes for them to use it. Getting the user experience and user interface right for a software product is paramount to a software product's success.

Chapter 3: How to Make It Work for Your Firm

The keys to creating a successful software product are:

- **Problem understanding** – You can't expect to create a software product that meets the needs of customers and adds value for them if you don't understand the problem at a deep level.
- **Customer centricity** – Successful software products are developed with significant customer input and alignment. This is often referred to as Product Market Fit in the startup world. I prefer to call it Customer Product Fit, and I write more about why in my book, "The Founder's Manual: A Guidebook for Becoming a Successful Entrepreneur."
- **Speed** – In order to capitalize on problem understanding and customer centricity, you must move quickly when creating a software product. In fact, you must move uncomfortably fast. The longer it takes to create a software product the more likely the problem, a customer's value and perception of the problem and a customer's willingness to provide feedback begin to shift. One of the beautiful things about software products is that they can be created quickly to capitalize on the current state of a problem and customer's state around the problem to provide near-term value, yet be evolved over time to solve the problem at scale in different ways for a diverse set of customers.
- **Start with a niche** – We're wired to want to think and act big. How big is the opportunity? How many customers could be users of our product? Thinking big is okay and the potential for a product to have growth potential is terrific, but you will never get to 100 or 10,000 users until you have 10. Services firms have a great advantage in this area because they sometimes provide a niche service for niche clients and even if they serve a broader set of clients, they can still carve out some specific clients to create a software with and for.
- **Team** – The best software products are created by the best product teams. No surprise, right? It is unlikely a services firm has its own team of digital designers, software and data architects, software developers, and more, to create a software product. Eventually a firm will want some of their own capability to evolve, extend and support a software product a firm creates, but at the beginning a firm will need a partner. A partner that can provide complete product management and product creation team members.

Now that we've reviewed some of the keys to creating a successful software product, let's review some of the keys for a services firm to take advantage of a software product:

- **Marketing** – Who will do the ongoing marketing and awareness of the software product to generate leads? This includes marketing to current clients as well as new ones. Does the firm's existing marketing team have the capability and capacity to add marketing for the software product to their work? If not, will the firm add a new team member or outsource the product marketing? Keep in mind, the marketing of services and software products are different and depending on the alignment of the services and product they each might need different perspectives and skills to market well.
- **Sales** – Is a services firm's current sales team capable of selling a software product? Much like marketing above, selling services and selling software products are different and may require different skill sets than those of a firm's current salespeople. If a firm is going to have their existing sales team also sell a software product, the sales team needs adequate training and coaching around the differences of services and product sales. Firms also must ensure they are establishing and tracking sales processes and metrics appropriately for the software product so they can understand and manage the product sales operation effectively. Many services firms have loose sales processes and activity tracking because of the nature of services sales. Software product sales are different and require a more rigid approach to tracking and management. A service firm has likely developed a feel for their sales processes and pipeline management over time, but adding a software product will create a new dynamic to the sales team that needs to be understood at the outset and evolved as the firm and sales team gain experience selling it.
- **Support** – Software products need to be supported. Customers might need to be onboarded to the product, may require some level of initial training, will have questions while using, and will make feature requests. Some services firms may have client support team members and structures, but many don't. Establishing how a firm will support customers using their software product is important work for a firm.

Professional services firms don't have to and shouldn't take the journey to creating a software product alone. Firms should bring some of their customers with them. Services firms should consider forming a customer advisory board in which they have a small group of customers, 5-6 works best, to help validate the problem and to join in creating the software solution. The customer advisory isn't going to design screens or write code, but they will help provide strategic direction and value confirmation throughout the product creation process. Customer advisory boards are also great ways to get one or more of a firm's clients to potentially fund some of the product creation work. At AWH, we advise and support services firms clients in creating and leading customer advisory boards for a software product creation process.

Chapter 4: Examples of Success

Although it is challenging for a services firm to create a software product, there are plenty of examples of it working with great success.

Here are some high-profile examples we have come across recently:

- **Basecamp** – Basecamp was created by a web design agency that was looking for a better project management tool to communicate and collaborate with clients. They tried several available products before concluding none of them were what they were looking for or what they needed. They ultimately decided to create their own, which is now known as Basecamp. As with many services firms creating their own software products, they originally used Basecamp internally and then released it for others to subscribe to and use directly. As Basecamp grew, and it became clear that Basecamp had much greater potential than the agency, they turned to Basecamp full-time. Basecamp is a private company, but it is safe to say that Basecamp is worth significantly more than the agency ever would have been.
- **covermymeds** – covermymeds is a platform that helps patients get prescription pre-authorizations completed faster and easier. The platform connects a patient's doctor, pharmacy, and insurance so the prescription pre-authorization process happens in minutes instead of days. What most people probably don't know is that covermymeds started out inside of a services firm that became aware of the prescription pre-authorization process problem and then decided to create a platform to solve it. covermymeds was acquired by McKesson for \$1.1 billion in late 2018.
- **Measurement Resources** – Measurement Resources helps non-profits to quantify impact. They use data to analyze a non-profit's work and what the impact is for its organization. Measurement Resources has traditionally used a proprietary process and algorithms to analyze and quantify a non-profit's impact. Although the proprietary process and algorithms were effective for the firm, the manual nature of the data processing and analysis meant the firm could not grow effectively or efficiently. Measurement Resources decided to engage with AWH to create a software product that would leverage their process and algorithms as well as remove the bottlenecks associated to the manual data processing and analysis. The new product is called SureImpact and Measurement Resources has created a new company to take their product to market.
- **Startup Grind** – Startup Grind is a global community to educate, inspire, and connect entrepreneurs. Startup Grind conducts monthly events in cities around the world, produces content for startups, and does an annual conference. Startup Grind is a service company for entrepreneurs and startups. What Startup Grind has now facilitated is a software company called Bevy that has raised \$55 million in a year to fuel its growth. The Bevy software product is the platform Startup Grind originally created to manage the Startup Grind community.

Chapter 5: But We're Not a Technology or Product Company

We recently engaged with a new services firm client at AWH. One of the first things they said after reaching out to us to discuss working with them to create a software product was, “But we’re not a technology or product company. Should we even be considering this, and if we do it, how will we pull it off?”

Every services firm that considers creating a software product will eventually be asking this question. It seems very far away from a services firm’s current state and capability when they think about creating a software product. Thoughts of doubt and fear pop up. We’re a [insert firm type], not a software company. This doubt and fear keep many services firms from capitalizing on the opportunity to change the trajectory and value of their firms. The doubts and fears of whether it is possible, whether it works and whether it can work for them don’t immediately go away, but they will through a well-defined and executed strategy and process.

Part of the value to our clients is helping them to understand the path to creating a successful software product for their firm. We are as much strategists and educators as we are digital designers and developers. We help our clients evolve from a state of fear and doubt around creating their own software product to a state of confidence.

It is unlikely that a services firm is going to want to hire a bunch of team members to create the first version or even the first few versions of a software product. Digital craftspeople are in high demand and expensive as a result. We even have some clients that use our recruiting team to help them build their own development team when they are ready because recruiting digital talent is just as competitive and challenging. It is more likely a services firm will engage with a firm like ours to help them understand what it means and looks like to create a software product for their firm. With that said, every services firm that creates a software product should plan on having their own team at some point to support, maintain and extend the product. This is even more the case if a services firm creates a software product with the intention of spinning the product out into its own company.

Not being technically capable shouldn't keep services firms from creating a software product that has the potential to change their growth and value because the technical and product expertise can be initially hired and then acquired.

Chapter 6: What Type of Professional Services Firm Is Best?

Should every services firm create a software product? No. Are some services firms better positioned to create a software product and therefore should? Yes.

Services firms who have the best potential to create a successful software product have some of the following attributes:

- **Data centric** – A services firm that is engaging with clients to process and analyze data has a pretty clear opportunity to capture the data processing and analysis in a software product of their own. Think Measurement Resources.
- **Process centric** – A services firm that does a lot of process consulting or leveraging its own processes on behalf of clients has software product potential as part of capturing the processes. Think Basecamp.
- **Manual workflow** – Services firms engaging with clients where there are a lot of manual and inefficient processes in place can drive efficiency through a software product. Think covermymeds.
- **Excel heavy** – Excel often gets extended by services firms and clients to serve as a quasi-software product. Excel is great for supporting processes and doing some computations, but it has limitations and creates bottlenecks as well. A pretty obvious opportunity to create a software product for services firms is to take their Excel process, or that of one of their clients, and actually make it into a true software product.
- **Proprietary algorithms or knowledge** – The best way for a services firms to capitalize on the value of proprietary algorithms or knowledge is to capture that knowledge in a software product that provides the ability to scale and be used by more people.

There are certainly other more nuanced attributes and aspects for services firms that might warrant a firm considering creating a software product. One of the questions services firms should ask themselves is, “Why do our clients hire us and what aspects of it could clients be better served by doing themselves?” For many services firms, facilitating client's ability to do things themselves might be the most valuable aspect of creating a software product. At AWH, we've worked, and are currently working, with many services firms who are creating a software product to allow clients themselves to be able to do the work the services firm traditionally did for them. We worked with a shipping rate negotiation firm, for example, to allow their clients to get rate negotiation strategies and tips without anyone at the firm having to be involved.

Chapter 7: You Will Become a Different Company (and That's Good)

A services firm with a software product will be a very different company than it was prior to the product. This is especially true for services firms that create a software product and spin it out as a separate company.

A hybrid services firm, a firm that continues to operate as a services firm with a software product now as part of the firm's offerings, will have to balance the operational, marketing, sales, support and financial needs of essentially operating two different types of companies inside of one. The strategic and operational impacts are not inconsequential. Hybrid firms will see an increased firm value and will now have some recurring revenue associated with its product; both are highly desirable outcomes.

Services firms who create and spin out a software product can separate the two companies with the services firm continuing its course while the product company sets its own course. The two companies might be strategically aligned and connected for the short- or long-term depending on the value received between a continued linkage. In some cases, the product company might take off and have much higher valuation and profit potential than the services firm creating a scenario where the services firm can continue running, be shut down, or sold. All these outcomes would be okay with the product company now in place and creating most, if not all, of the ownership value and potential.

In Conclusion:

Professional services firms possess many of the ingredients to create a successful software product that other companies need to spend a lot of time and energy trying to capture. Services firms are well positioned to create software products if they understand the process of doing so. Most entrepreneurs and companies would kill to have the problem understanding, customer centricity, and existing business operations that a service firm, creating a software product, possess.

Creating a software product doesn't make sense for every services firm, but for some it can be game changing. The benefits a software product brings for a services firm are immense. There is the ongoing benefit of recurring revenue, profit, and operational predictability, plus the long-term increase in overall firm scalability and value. Also, the competitive differentiation a proprietary software product can have on a services firm.

The path to create a successful software product for a services firm is not easy. The graveyard of unsuccessful software products is vast. Services firms need an experienced and knowledgeable partner to be their guide through the process of creating a software product.