Stage Two Strategies
A weekly look at problem-solving by second-stage companies.

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IMAGE SOFT INC.

By Dustin Walsh

Location: Southfield, with offices in Grand Rapids; Portland, Ore.; and Raleigh, N.C.
Description: Designs content management systems. Customers include Henry Ford Health System, Accident Fund, Grand Valley State University, the Mayo Clinic and more than a dozen municipalities throughout Michigan.
President: Scott Bade
Founded: 1996
Employees: 54
Revenue: $10 million in 2009, with $14 million projected for 2010.

Problem to be solved: Growing from a startup founded by a group of entrepreneurs to a second-stage company posed consistency issues. As the company grew, adding software engineers, it became harder for its executives to manage everything, said Scott Bade, president.
"We grew from around 20 people to more than 50 over the past few years," he said. "(Managing incoming projects and employees) became too big of a task, as at any given time we have 50 projects going on at once."
Bade said consistency was missing from one project to the next, and the company lacked the management sufficient to properly plan for new contracts.
"One project would go fantastic, then we would run into issues when we didn't have the right resources at the right time for the next project, and we'd have to scramble (to fix them)," he said. "As we grew, so did our projects, and those deficiencies began to show themselves more and more."

Solution: Bade and his partners decided to create a second layer of management. Early last year, the company began its search for an experienced engineering manager. It didn't take long to fill the position.
"Due to the (economic) climate here in Detroit, there's such a large pool of talent here in town," he said.
ImageSoft also promoted an employee to manager of its business analysis group.
Bade said the changes allow the company to "remain a few chess moves ahead."
"They have the ability to track the available bandwidth (employees), applying the right technical skills to the right customer at the right time," Bade said.
The new management layer also allowed Bade and his partners to return to working on the business instead of in the business.

Risks and considerations: To create efficiencies, the engineering manager had to implement some standardized procedures. Bade worried that the company would lose its personal touch in the process.
"We create a lot of personal connections through creative and customized work for our clients," he said. "I didn't know if our services would continue to be as personal."
Creating a new management layer also meant creating positions with higher compensation, which can be difficult for smaller companies, Bade said.
"We had to look at it as an investment," Bade said. "Inefficiency across 30 engineers is a larger expense than the higher-end position."

Expert opinion: Lola Aré, president of Farmington Hills consulting firm Strategic Thinktank Inc., said most companies entering the second stage should add management positions immediately. An owner should assess the skills of existing employees before seeking outside hires.
"A lot of times, the skill set is already there, but no one is concentrating on it," said Aré, also director of the Oakland County Business Center and adjunct professor of small business management at Walsh College.
During times of rapid growth, second-stage companies can be overrun with orders if they aren't managed properly, Aré said. This includes staff and financial planning.
"Watch your cash flow," she said. "If orders are coming in and you don't have the cash to fill them, an extra layer of
management won't do any good.”
Aré recommends finding a business accelerator program or business consultant to review your company’s operations before making any big decisions.
"When transitioning to second stage, a lot of changes need to happen simultaneously — like a marching band,” she said. "Sometimes entrepreneurs don't have a system in place to make this happen.”