Here's How SaaS CEO Built Platform With Billions in Annual Billings

Steve Sanduski: Hello everybody and welcome back. This is Steve Sanduski and you are listening to On Your Mark, Get Set, Grow!, which is the podcast of CEO Coaching International and joining me today is Josh McCarter. Josh is the co-founder of Booker which is a very exciting software as a service company. Josh, it's great to have you on the show.

Josh McCarter: Great, Steve, thanks for having me on the show. I appreciate it.

Steve Sanduski: Well Josh, you've got quite a background here in the technology space, as an executive, as an entrepreneur. You've been involved in multiple companies, in fact one of the past companies that you were a part of was recognized as Entrepreneur Magazine's Fastest Growing Company in the United States. Boy, that's quite an accomplishment.

Josh McCarter: It sure was. It sure was. It was a fun company which is still going strong today. That's a good testament to what we've built.

Steve Sanduski: You got a great background here and today you're the co-founder and CEO of Booker. Tell us what does Booker do?

Josh McCarter: Booker is a business management and marketing solution that's targeted at service-based SMBs, and SMB is small and medium businesses, think main street companies that are selling their time, businesses like spas and salons or music studios or dance lessons, photographers and so forth. They need systems that help them manage their appointments, that help them manage their staff, their customers, and then importantly be able to transact with those customers. That's something that we uniquely do, is provide also a service-based point of sale that helps them sell appointments and classes and series and packages and memberships.

Our system is largely or has historically largely been focused on the back office of these companies, and then just recently we did an acquisition in the marketing automation space that's focused on helping these businesses really grow their revenues. We're able to take the appointment information and appointment availability that they have and publish that throughout the web. We have interfaces with Google and Facebook and Yelp, where consumers that are looking for particular services can find those. Then also, we have the ability through our CRM on the marketing automation to do retention marketing, back to customers that have come in and inquire about the quality of service through gradings and reviews.

It's really an end-to-end platform that a service-based business can use to both run their operations and grow their sales. We've been around now since about 2011. It was a spinout software, kind of the kernel of the software, was developed in another company that I was on the board of. I led the spinout and then went through three rounds of capital raise. Our first round of capital was led by Steve Case's Revolution Ventures out of Washington DC, second round was led by Bain Capital Ventures, and our third round was led by Medina Capital for Miami and First Data, who is one of our large strategic partners based in Atlanta. They're the largest merchant processor in the world. Last year we finished the year with about 10,000 locations on our system. We're doing North of 3 million individual appointments booked at our merchants on a monthly basis and we ran about $2.8 billion of commerce transactions through our point of sale.

Steve Sanduski: Well, those are certainly some big numbers there and you mentioned that you went through three rounds of funding. Let's go into that here a little bit.

Josh McCarter: Sure.

Steve Sanduski: Tell me about the process of raising capital. How did you get to the point of deciding, "Hey, we need some capital?" You did it three times, just walk me through that process a little bit.

Josh McCarter: The first part of raising the capital was this was a spinout and it was a little bit complicated because there were still kind of relationships with the prior company. What we really had to do was stand the business up on its own two feet. There was obviously a lot of legal work. There was a lot of technical work to get that done and then we really have to craft the vision for, "Okay, what is this stand-alone company going to do?" Obviously, before we spun it out we had a lot of insight into where we wanted to take it, but before we went out and we're able to actually presented that and a financial model to potential investors there was a lot of work that needed to be done to position that, to identify the market opportunity, and to build the initial financial model which is ... It's a little daunting at the beginning when you have a software that only has a few hundred thousand dollars in the annualized revenue, and trying to build a case for this being a multi-million dollar business in a few years from a revenue standpoint.

We spent a bit of time working through that. It was primarily me, one of the financial people from the parent company that we spun it out from, and then the co-founder of the company who was, he was a technical co-founder. We were able to position the business well. Frankly, the initial capital raise was challenging, spinouts are not always looked at by traditional VCs. There had been, I would say there had been kind of hit and missed in terms of their success and more private equity firms look at spinouts that are larger businesses.

I think that we had also a unique challenge in that the, there were not a lot of Series A investors in New York City. where the the company was based, that focused in the space that we were in. We had to go pretty far and wide. I was on planes going to Utah and Colorado and DC and Silicon Valley. We found that it was pretty hard to raise capital from Silicon Valley venture groups being in New York. They just want people in their backyard, and frankly with the volume of businesses that get founded there on a monthly basis they have plenty of deal flow.

We were fortunate to connect with Steve Case at Revolution Ventures and really hit it off with them. They have investments in very relevant companies. We sell a lot into the health and wellness space and they were owners of Miraval, which is a destination spa. They were early investors in everyday health. Then since we also sell to a lot of service-based businesses in the local commerce space, they are one of founders of Living Social, and they had a very good experience in the early days there and insight into the dynamics of that market. We were fortunate to get them to lead our round. They also brought in some co-investors based out of DC, where they had other experience with those investors and they've been, frankly, a great part of the nucleus of our investor-base. Then they helped us as we went out and raised other rounds of capital, Series B with Bain, and our last round, Series C with Medina and with First Data.

Steve Sanduski: What would you say those types of venture capitalists are looking for? Maybe rank it in order first, second, and third, in terms of if they're going to put their money on the line, what are the most important metrics or key things that they look at before they're going to invest in a company?

Josh McCarter: Great question. It's different at every stages as you point out. In a Series A investment, and I think it also depends upon the size of the investment that you're looking for and how mature the business is. We were fortunate to already have a product. We already had a few hundred customers and it was beyond walking in with a business plan or an idea on the back of a napkin. We had actual real results and clients and feedback that we could show. In Series A, I think that number one across every round of financing, the first thing that they're looking at is the CEO and the team, because if they don't believe that you've got the track record or that you have the ability to assemble a team and inspire leadership and confidence in that team, they're not going to put money in because you can't build a business without that.

In Series A, I think that a lot of it is more about selling the dream and selling the vision and the market opportunity. The discussions are much less at that point about financial metrics and a lot more about go to market strategy, partnerships, why now? Why in this market? Why you? How are you going to be able to go and capture that opportunity? That's really, I would say while they were a lot of, there was a lot of financial diligence and modeling that needed to happen, we certainly didn't get into major, major depths of financial diligence, because there just wasn't a lot to dive into.

Then as we went into our Series B, financing the company had become more mature and at that point also, there was becoming a better understanding in the market of SaaS-based metrics. That's something that has really evolved over the last five years, as more and more SaaS companies have gone public and people can understand the underlying metrics better and what matters and what doesn't.

In our Series B, which was led by Bain Capital Ventures, obviously there was much more scrutiny on the numbers and looking at really the underlying metrics. Because you can have, in a SaaS business you can have impressive top line growth numbers but there's also a lot of efficiency metrics that you need to look at underneath the financial model to understand how capital efficient the business is, how much cash is it going to take to break even on a per sale basis and so forth. There's definitely, in that world a lot more focus on the metrics and then clearly the strategy, a lot more around the team, a lot more around the go to market, what's working and what's not working, how do you get more leverage in the company is a big part of that discussion.

Then in the Series C, a lot of it was just an extension of what I would say the Series B was. You have people that do interrogate your model. You've got more customers so you can report on more on customer retention or turn. You can report more on sale segmentation and which channels are working and are not working. They dig a lot more into your internal technology and what systems are you using to manage different workflows from a technical development standpoint or how are you using Salesforce and what marketing automation systems are you using.

I would say it's an additional level of scrutiny that happens, and obviously the VCs at every stage are looking at making some level of a return. I think that when you're at a Series B level people are hoping that they're going to get a 5x to 7x level return, and when you're at a C they're probably, there's less risks because the company's more mature at that point so they're probably looking kind of a minimum of a 2x and hope to get somewhere closer from a 3x to 5x.

Steve Sanduski: Josh, thank you, that's a great explanation of some of these different funding rounds and what those investors are looking for. Now let's talk some more here about the software as a service, just as a business model. When I think of these SaaS firms I think of firms like Salesforce like you mentioned. I think of Open Table. Now I think of Booker. I suppose Uber and AirBnB might be in that same category as well. Let's talk about SaaS as a business model and what should firms be thinking about in terms of that as a business model and just any thoughts that you have on what we need to be thinking about when it comes to that as a business model.

Josh McCarter: Sure. I think that if you are, and I'm going to be talking more from a technology developer standpoint, if you are a technology-oriented company today the only model is SaaS. Nobody buys or starts a business or certainly VCs don't invest in technology companies that want to send you a CD every year to get your updates and upgrade. That model is pretty much gone.

Steve Sanduski: Isn't that kind of funny though, because it wasn't all that long ago that people were just like, "What is this software as a service?" I think when Benioff at Salesforce was coming out with his company, people like Larry Ellison were like, "Oh, that's never going to work." Then, of course now nobody will invest in a business unless it's like that.

Josh McCarter: It's interesting and it has its own dynamics that I can talk about a little bit from the financial side of it, but as far as the way that, and I was reading a Gartner Report recently, they're envisioning within the next 3 to 5 years that enterprise SaaS, which has its own flavor of SaaS, are like large companies that are buying SaaS applications, that over 80% in the next 5 years is going to go to SaaS. That's just like a huge, huge transition and then in the SMB space which is more of our focus, that that number is going to get up into the 50% and 60%.

You see companies like Intuit, who has QuickBooks, which is one of the, obviously one of the most widely distributed SMB accounting systems. They have about 5 million accounts, last I heard, that are on that, but it's still their old installed version and they're moving more and more of their accounts to their web-based version. I've heard in the next couple of years they're going to end-of-life and discontinue supporting their installed version. That's going to have a pretty significant impact on the percentage of SMBs that are almost forced into using SaaS.

Before when we were trying to sell SaaS it was tough because you have to overcome objections about security and availability and "Can somebody hack into my information?" Now it's, "Well, I want to be able to see everything on my phone, and when I'm at home I want to be able to review my sales reports." You can't do that if you have everything installed on a local system. I kind of go back to saying that if it's a technology-based company then your only really model is to figure out how to develop a SaaS platform and, or a SaaS subscription model. Then separately if you're a business, I think that you'd be hard-pressed now to justify why a business should buy traditional software for a big slug of capital upfront and then more than 15% to 25% maintenance fee on top of that on an annual basis.

There's just so many companies now that have come in and upended various markets with SaaS offerings and they've gotten really good over the last few years. I think that the Legacy companies have only been able to adapt to the SaaS market if they've acquired a business. There's very few that have been able to support their Legacy installed infrastructure and then develop a highly compelling SaaS model as well, because it's expensive to do both at the same time.

Steve Sanduski: Would you put Microsoft and Adobe in that latter category, Legacy firms that have been able to make the switch to a SaaS model?

Josh McCarter: Microsoft obviously is trying to do that now with their Office 360, which is a web-based version and Windows 10 is much more there, but look at how long it's taken them to get there and they're one of the largest players obviously in the operating systems and office management or office workflows. Certainly they're going to get there but it takes somebody like the size of Microsoft with billions of revenue and cash that they have to do it. As you go down the ladder, the smaller firms that aren't in those billions of dollars of revenue and market caps, it's tough to make that transition.

Steve Sanduski: Let me take this up to the 30,000 ft. level.

Josh McCarter: Sure.

Steve Sanduski: Marc Andreessen, certainly a very famous VC guy and before that entrepreneur in the tech space. A few years ago he came out with an article and he talked about how software is basically eating everything. How do you, as an entrepreneur, as the founder, co-founder of a tech firm, or just anybody listening to this, how should they be thinking about software and how they need to be using software in their business, and how they need to be watching out for ... In their business, if it's a physical business today, there's a lot of examples of companies that had physical products in the past that now have been turned into digital and they've been blown out of water, out of the water. How should CEOs and entrepreneurs be thinking about software so that they don't get blindsided, and in fact can actually use software to their advantage to grow their business?

Josh McCarter: I think there's a few ways I'd answer that. The first part is that you've got to resist the temptation to go after every new shiny object and a software that's released because I can tell you, we get calls everyday on different types of software, different development platforms that are coming out. You can literally not run your business just trying to stay on top of every bit of new software that comes out. That's one thing that I would say as a cautionary tale.

The second part is really trying to keep abreast of what are other people in your industry doing. Sometimes that's hard because your competitors aren't going to tell you the secret sauce, and at the same time if you have, like I do, good investors that are out looking at a lot of SaaS businesses, they come back to us and say, "Well, we looked at a company that just put in this marketing automation software," or, "We looked at a company that's doing this new supply chain management system." Really being able to leverage a network of whether it's your investors or it's other CEOs and entrepreneurs, to learn about what are people actually using and implementing I think is extremely important.

Then the other thing I'd say is also really being mindful about what are the things that you can automate using software. It really requires a lot of diligence of looking at your operating systems that you have, some of your organizational models and understanding if there are things that you can do to take advantage of your software and automate processes or extend your business model. If you're a retailer and you're just selling out of a single location store, you might want to consider expansion, not by opening another store but by selling your goods online. There are tons of e-commerce tools that are available now that people can use to take advantage of that.

Steve Sanduski: We're talking a lot here about technology. You're a technology company, a CEO of a technology company. As you think about your day and how you spend your time, how would you say that you allocate your time in terms of time spent thinking about technology or working with the technology versus leading the team versus meeting with top clients? How would you, if you have to put a few buckets together, what's a day in the life of Josh McCarter?

Josh McCarter: It's easier for me to think about it on a week than on a day because it fluctuates, but I would say there's a good part of my time, probably 20% that's spent on sales and marketing. That's everything from looking at our inbound lead flow to watching how leads and opportunities are converting through the funnel, paying attention to what's going on with my sales team and how sales are tracking, which client segments we're seeing better action in. That's a good part of what I do or my meeting schedule on a weekly basis.

Next part is, obviously spending time with my executive team and we also have what we call our Senior Leadership Team, those are the VPs and managers and directors, and really making sure that they understand how things are tracking, what are the issues that we're running into, how can we collaborate to, to knock through those issues, and really keep an ear to the ground through them as to what they're seeing and hearing. I would say that probably takes up another 20% of my week. With outside investors you're constantly doing calls or taking introductions or talking with people about how the business is performing and so forth, that's probably 10%. I spent probably 15% to 20% with my product and tech teams. It's not always just diving into the current product, but it's really thinking about what are we going to be developing next month and the month there after, and how does that roadmap for the product and the underlying technology support the overall business strategy and the outcomes that we're driving towards. That becomes another, I would say a large part of the focus.

I'm also a big believer in corporate culture and connecting with employees. On a monthly basis we're doing townhall meetings, I pull random people into my office for a 30-minute meetings, about every other week. I'll cycle through people in support or people in sales or in finance or in HR, just so I can hear from them, "Hey, how are things going?" A lot of times we come up with great ideas where they say, "Well, I though about, you know, this might be a good thing for us to do as company." But for whatever reason they don't bring it up with their managers but they feel okay bringing it up with me, which is fantastic, and so we can identify certain things that we can focus on together. There's always a certain amount of time that we're spending with finance and reporting and the analytics so that we can see how are the metrics doing and so forth.

Those are the main categories and then I personally have a business development background. I like our large partnerships, pretty much everyone of our, whether it's a large client or it's a large strategic partner, I'm involved in pretty much the upfront discussions, oftentimes in the negotiation. Then certainly after those programs launch and staying plugged in with those strategic partners to make sure that things are working right and that we're able to optimize the relationships.

Steve Sanduski: As you think about how you manage the business, how important are the metrics? Just a moment ago you talked about looking at the metrics, is your business really metric-driven? Are you as a leader driven by the numbers? What are the important things that you look at that tell you, kind of give you the heartbeat of the business and how well it's doing?

Josh McCarter: I would say that this is something that I have become much more appreciative of over the last few years. My prior companies, I think were fairly straightforward in terms of the metrics that you paid attention to. Whereas in SaaS businesses I mentioned that there's been an improved understanding of what metrics really matter. Revenue, obviously is something that matters but in a SaaS model, if you think about what the difference between maybe SaaS and a typical retail model or even the old licensing, traditional software licensing model, what happens with SaaS is that you are selling a product on a subscription and you get paid on a monthly basis for that. What you have to pay attention to is how long are people staying using the software, your retention or inverse of that is turn, is highly important.

The other one that is important is how much are you selling to that particular customer. We call it ARPU, your average revenue per user, is a highly relevant number as well, because the amount that they're paying you times the amount of time that they stayed with you, which is your retention, tells you how much value you're going to get out of that customer.

The next piece of it is, "What does it cost you to acquire that customer?" When you look at your customer acquisition cost, it's called CAC, you have to look at all of your marketing spent, everything from your marketing organization, your staff, your lead gen, your SEO, demand gen work, and so forth. You also have to look at your sales expense. When you put all of that number together you get an all-in, kind of customer acquisition costs. In the SaaS model, as I mentioned before you can grow fast but you can have underlying metrics that could hurt you.

One of the benchmarks that a lot of investors and the SaaS market look at is what they call your LTV to CAC Ratio. It's your Lifetime Value which is your ARPU times your retention over your customer acquisition cost. The number that everybody wants to see is North of 3 and probably in an ideal world, North of 4. Then that drives other metrics such as months to pay back, how long does it take you to pay back your customer acquisition costs, and kind of best in class SaaS companies are paying back in under 12 months. I think a lot of companies, us included, are paying back more in that 15 to 20 month time frame.

When you look at your capital needs, it's really driven a lot by what the LTV to CAC Ratio and the months to pay back are, because you can imagine the scenario where, say that you're at 15 months to payback. For you to grow at a high rate you're going to consume a ton of capital, because you don't get your break even on a given customer acquisition for 15 months. That's one of the, I would say complicating factors with SaaS businesses, and clearly, the higher priced product that you're selling, if your Salesforce and your average ticket is a couple hundred thousand then it's easier for you to bring back your months to pay back down to 12 months or less, versus a company like Booker or a lot of people that are selling SMB software. You're selling software for a $100 to $200 a month and it takes you more months to earn back your customer acquisition cost. Those are some of the metrics that we really pay attention to on a day in, day out basis.

Steve Sanduski: I find that very fascinating. As you look out into the marketplace, let's take your company off the table for a moment, is there any other SaaS company out there where you know enough about them and you have maybe kind of an understanding of what their metrics might be that you would point to and say, "That's the kind of company that has a really good SaaS business model," and what is it about that company that makes them a good SaaS model?

Josh McCarter: I don't pay attention to as many of the public market comps and the reports. The Bellwether Salesforce, like you brought up and I haven't gone in and studied the other metrics because I've been more focused with my investors on, "Hey, what does it take for this business to look right?" Salesforce from everything that I've seen, for retention as an example, like turn as a number that people look at. If you are kind of that 1% turn rate a month, 12% annualized turn, that's considered kind of best in class. When you get in to turns, turn is also kind of an interesting thing because there are a lot of ways to look at turn.

You can look at turn by on a unit basis, "How many logos or locations are turning off your product?" You can look at your turn on a dollar basis, "How many dollars are actually turning out of your revenue stream on a monthly basis?" In an interesting light like with Booker, our dollar turn is lower than our unit turn, because the people that are leaving us, are usually leaving us are the ones that are paying us a lower amount. They're smaller businesses and they tend to go out of business at a higher frequency. They don't necessarily get the benefit from all of the features that we offer so they might be able to switch to a much cheaper solution that's in the market.

Then the other thing that's interesting to look at with turn, and this is where a lot of the enterprise SaaS companies that are out there have done a really nice job, is what you call your Net Dollar Turn. The last one I was talking about was a Gross

Dollar Turn, Net Dollar Turn takes into account your upsell into your account base. You might have a customer that starts with you paying you a $100 bucks a month, but if you can upsell them on more products then that now becomes a $110, $120, $130. That over time, what you're trying to do is chip away at the Gross Dollar Turn that's leaving you. Because if you have, say you have 10 customers and they're each paying you a $100 bucks and 2 of them leave, but of the 8 that are remaining you can increase what they're paying you by 20% or 30% over the course of 6 months. Then the impact on, like your net revenue impact isn't nearly as bad as what it would appear to be if you were just looking at the Gross Dollar Turn, if that makes sense.

Steve Sanduski: It sure does. Well Josh, let me ask you one more questions here.

Josh McCarter: Sure.

Steve Sanduski: You've had a number of businesses that you've been running over the years. I'm sure you've had your ups and downs in the business, what are some lessons that you've learned over the years as you'd look back at some of those difficult times? Let's say you're looking back on your 25 or 30 year old self, what kind of advice would you give to yourself based on what you know now?

Josh McCarter: Well, a lot of things you learned in the rear view mirror for sure. I think one of the things that I've learned at this company is that it's very important to have alignment and focus with your investors, because if you do have outside capital and you become misaligned with them, that can be bad. We have been really fortunate to have a great alignment with our investors. I've built out an amazing board where there's a high degree of engagement and collaboration. I think a lot of people, when they go out to raise money just say, "Hey, money is money," but at the end of the day there are terms and conditions that are written with every financing. There's also a lot of stuff that's unwritten that's going to be based on the people that you are working with. That's one that I think is really important.

The other thing I would say is focus and I think that, as we were building Booker we were making a lot of bets because we just weren't sure which ones we're going to hit and take off. As a result of that, we have tried some things that didn't work out that were big bets and we tried some things that have worked out really nicely. Now we're in the process of doing, is kind of narrowing down, again focusing more on the bets that we see that are paying off. It requires tough decisions sometimes to shut down initiatives that you've spent 2 or 3 years building up and have had rallied the company around and then have to go back and say, "Hey, you know, this just isn't turning out to be as scalable as these two other bets. So now we got to double back down on these other bets." Really having the discipline to have that focus and sometimes to shut down initiatives and make those moves, I think is tough but it's an important discipline to have.

The other part that kind of ties to that is really understanding who your customer is and when you're a technology company, defining that, are you selling to enterprises? Are you selling to small and medium businesses? Are you selling internationally? Because that then really drives your product set. Our Head of Product always uses the phrase, "What are our customers hiring our software to do?" I think that's an interesting way to think about it because if you think about, well, if you're going to hire a person, how do they deal in performing that job? Are they somebody that you want to keep and that you want to give a raise to or are they somebody you want to fire?

Thinking through how can we get the best product fit for the needs of the market and the particular used cases, and spending a lot of time with the customers and getting feedback from them about how they use the product, how they wish they could use the product versus having a bunch of engineers sitting around a white board and coming up with their vision of how people should do things. That's obviously very different than how people do do things. Having that discipline upfront to really engage with customers and focus on what they're asking for.

Steve Sanduski: Great. Well Josh, this has been excellent. I really appreciate you sharing your insights here and you guys have built a great company here, so very exciting to watch what you're doing and look forward to watching the continued success of the organization.

Josh McCarter: It's great. I appreciate the time, Steve.