The Psychology of Managing Change While Scaling a SaaS Business

A discussion with Guillaume Garreau
COO OF HAMMER TEAM, EARLY-STAGE INVESTOR IN EUROPEAN SAAS COMPANIES

Hammer Team is the software startup fund of founder Ariel Lüdi. It supports early-stage B2B software solution companies. Since joining in 2016 as COO, Guillaume Garreau has worked with and actively supported many early-stage SaaS firms, including Oxial, Beekeeper, Scandit, and Archilogic.

It all grew out of the experience of working for SAP Hybris, as Guillaume explains: "It started off from the success we had particularly at Hybris and understanding the scale-up journey, the setbacks, what it takes to go international, and what it takes to create a great team and culture."

The value Hammer Team brings to early-stage SaaS companies

Guillaume talks a lot about the importance of a great team and a great culture, and about the psychology behind many of the business decisions needed to grow a SaaS company successfully. This deep understanding of the psychological challenges is a big part of the value Guillaume and the rest of the team at Hammer bring to the SaaS startups and scaleups in their portfolio.

As Guillaume explains: "We do help them by providing capital but more important is the expertise we bring to their journey, from go-to-market strategy and finding product-market fit to scaling a sales organisation. Even more valuable than that is our experience in the operations that sit behind that, such as HR and recruitment, legal, finance. These are all areas where tech founders tend to have little to no experience."

According to Guillaume, the Hammer team often focus on advising tech founders on what doesn't work – the common mistakes to avoid – as well as leveraging the experience of other experts in their network. All with the goal of helping them solve their challenges faster than they could on their own.

Why is it that Guillaume so often ends up jumping into an operational role in many of these startups? .

With a chuckle, he describes himself as a Swiss Army Knife – or jack of all trades – for early-stage SaaS companies because of the variety of functions he has supported. "Usually it's because you have a setup where the company is missing one of the key functions or key leaders," he explains. "You usually have someone more commercially oriented as the founder. You have a technology leader. Maybe a second person on product leadership. But usually, they're missing someone for operations. Or maybe a commercial leader. So if they need support, I just jump in."

The problem of "quiet quitting" SaaS customers

One of the most intriguing ideas Guillaume explores in our conversation is why it's so important to embed customer centricity into a SaaS firm in the early days of growth, as well as later when they look to expand internationally.

"Keeping customer-centric is vital as you grow, not least because this is a very competitive marketplace," Guillaume says. "You must make customer centricity part of your culture. Ask yourself, is this core to your company? Is it a shared value?"

For Guillaume, companies should almost be paranoid about customer success – "in a good way". That's because it's so easy to switch cloud-based providers today for most business functions that companies will do it when it comes time to renew the contract.

Significantly, they'll often do it without warning and without complaining first, so you may have no idea that the customer is unhappy. Guillaume likens this to the phenomenon of employees quiet quitting. Just as employees who feel unfulfilled or frustrated will often leave a company without saying anything, the same is now increasingly true of SaaS customers.

"The customers that are quiet quitting, you don't see them," he says. "They don't complain. They don't call you

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for the things that aren't working or new requests. They're probably already quitting you."

How to keep customers happy when growing

How can SaaS firms avoid this problem? The solutions for Guillaume are threefold. First, make someone on the leadership team accountable for customer success. "Who is doing this?" he says. "Is it Customer Success? Is it Sales? Is it someone on the technical side? Whoever it is, you must work it out and make this clear."

Second, embed the concept into the company culture. "You need to foster knowledge sharing within the organisation about customers. For example, how do they use your product? What do they do? How are they successful?"
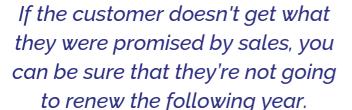
Guillaume cites the example of portfolio company Beekeeper, where "we tried to promote that every employee should go and spend a day with a customer. That was a great way to increase customer satisfaction and reduce churn."

> *If the customer doesn't get what they were promised by sales, you can be sure that they're not going to renew the following year.*

Third, take customer engagement seriously and build relationships throughout the company at every level. "What's your engagement with your customer from closing the deal to implementing to monitoring their adoption or usage?" Guillaume says.

"It's great you acquired this customer. But if on the first day the honeymoon is over and the customer doesn't get what they were promised by sales, you can be sure that they're not going to renew the following year."

Guillaume uses the example of Hammer's recent experience as a software buyer to illustrate what he means. "Recently we purchased some software where there was some work to do in implementation. We dealt with different teams who had no clue who we are and didn't know why we decided to purchase that software.

When that happens it feels like it's a different company. Already from the first day of implementation it feels like it's not going to work."

In the enterprise world it's especially important to build relationships "at the right level", Guillaume adds, because that's how you get to really understand the customer, understand their business needs and technical needs, and understand how well you're meeting them. This could mean building relationships in the C-suite. It might mean building relationships with internal sponsors or champions within the enterprise.

"Talent is the anchor of success"

Having touched on the importance of talent, Guillaume is very eloquent on this point: "Acquiring talent and building a high performing organisation is a key source of success and it's probably the number one reason for success in technology startups because, at the end of the day, you need these people to build the product, to market that product, to sell that product, etc. Talent is the anchor of success."

> *You need to have a robust talent acquisition machine from sourcing to onboarding.*

The SaaS companies that succeed when scaling are those that are able to hire more of the right people, Guillaume insists. And how do they achieve this? By refusing to compromise on the quality of those people.

"For this, you need to have a robust talent acquisition machine from sourcing to onboarding and really think it through," he says. "There might be companies, organisations that are good at finding people, but that doesn't mean these are great people or that great people are able to really flourish as they onboard. You really need to get all of these steps together because it's about attracting, it's about getting them to perform, and also about retaining them. It's the entire cycle."

How to attract top talent

Having identified the importance of talent and how challenging it can be to find the right people, what's the »

solution? Having had a lot of experience supporting portfolio companies on talent acquisition, Guillaume has some powerful advice to share.

His first point is to use referrals from existing employees to find new talent. Great employees usually have strong networks and know other great people, so this can be a fast and inexpensive method to use – especially in the early days of scaling when the team remains small.

> **Why would I want to make a bold move and leave the current job I have to go to your scaleup that nobody knows in my country?**

When growing internationally, Guillaume stresses the importance of employer branding and a strong employee value proposition. This is especially important when you are a small SaaS company that people haven't heard of yet.

"As a talented person, why would I want to make a bold move and leave the current job I have to go to your scaleup that nobody knows in my country? You're going to have to invest a lot in employer branding."

Guillaume suggests several key questions a company should ask to put itself in the shoes of a potential new employee: "What's your proposition? What's the culture? What would I gain from joining your organisation? How would I grow personally and professionally? Will I learn a lot? How motivating is the opportunity?"

Don't forget the importance of onboarding

Guillaume goes on to stress the importance of onboarding new talent when growing. He talks from experience about setting up a new company in a market – the US, say – where you hire the first 10 people. Then a couple leave and that unbalances the company, so another two or three people leave, and suddenly half of your employees are gone.

> **The first day at the job is crucial to whether or not they're going to go home depressed and tell their partner they made a big mistake, or whether they'll say this is going to be a great experience.**

"You know we had a team where this happened. Things were working, but then some people left and it spread like fire, and suddenly 8 out of 10 were gone and we had to rethink the talent strategy completely."

His advice is to have a very robust onboarding process that starts early: "I always say to my teams, your new starter's first day at the job is crucial to whether or not they're going to go home depressed and tell their partner they made a big mistake, or whether they'll say this is going to be a great experience."

For Guillaume, companies must ensure that their new employees hit the ground running and are able to shine early. This makes them happy and increases their engagement, creating a positive feedback loop that's good for the whole company.

Culture is the second most important success factor

Talent alone is not enough to ensure success, and this is where having a strong company culture comes in. "It's not easy," Guillaume says, "but it is the second key element for success."

Your people need to be clear about what behaviours to adopt, and to recognise themselves in the organisation. If they feel like this, they are more likely to go the extra mile when you need them to, Guillaume asserts – "especially when there are setbacks." Part of this boils down to being clear as a founding team what your culture is, and then hiring for that and communicating it clearly at every stage of growth. »

> *You need to build a strong culture and strong management muscle to scale successfully.*

Of course, this only becomes more challenging as the company grows. As Guillaume says, "as you start growing above your first 40 or 50 people you also need to build strong management muscle in those middle layers; good managers who can live the culture and are there to lead, to guide their team, to have accountability and to have empathy."

Why are managers so important? To Guillaume, the answer is obvious: "People stay or leave because of managers, so it's crucial to build that strong culture and then the strong management muscle. You need both of these to scale successfully."

Mentality and cultural differences between the US and Europe

Speaking of culture, Guillaume has a lot of experience of growing companies across Europe and of scaling European companies in other markets. What are the cultural differences and similarities Guillaume sees between company founders and investors in Europe and the United States?

"US founders are a bit bolder from the get-go. More fearless, more aggressive in their businesses," he says. "They plan what they're going to solve in the market, how they're going to address the market in their expansion."

By comparison, he says European founders tend to be "less ambitious" at the start, positioning themselves more in terms of where their product is at that moment rather than their vision of where they want it to be.

"This is especially true when it comes to pricing. A European entrepreneur will typically reduce the value they can get from their product by being more mindful of price, whereas the typical US entrepreneur has an awareness of what they see as the value of their product, and they stand by that."

When it comes to investors, Guillaume sees more similarities and fewer differences now compared to a

decade or so ago: "It used to be that a lot of tech startups needed to go and look for US investors to realise their ambitions and grow bigger. Now, there are a lot of very strong European investors and VCs and founders can now find support to go big in Europe."

That said, he does see one interesting difference, which is that European investors tend to get more hands-on with their portfolio companies – although he does admit he might be influenced here by the fact that Hammer focuses on early-stage companies at series-A to series-C.

Whatever differences in ambition and outlook there are with founders, Guillaume puts down to broader culture and education. "Not all US startups are successful and there have been several downturns in the market, but the US mentality and spirit is that everybody can become successful. Maybe we're just more realistic in Europe, but founders here will typically get a lot more people telling them they're not going to be successful and that they need to be cautious. So maybe there is something here holding them back, psychologically."

Do any of these differences pose challenges for international expansion? Guillaume pauses and thinks about that point before responding.

"Internationalisation is definitely complex," he says. "I worked for large American companies in my early career and I could see there how some of them struggled entering Europe or trying to grow in Europe and not always understanding the differences in the different countries."

Although understanding the nuances of selling product into different cultures in different countries is a significant challenge, it may not be the biggest. This, Guillaume thinks, could be the much more immediate and practical question of where to invest first. »

> *You need to understand that market deeply – and if you think you can do that remotely, well good luck!*

Should a business invest in marketing first? Or in hiring local talent to run the business or sell the product?

"There is no one-size-fits-all solution here," he says, though he does have some advice.

His first suggestion is to understand how relevant your product is for any new market you seek to enter. Just as you wanted to find product-market fit in your first market, so you need to do that again. If you need to adapt your product to the market, it's important to focus first on those adaptations that will have the biggest impact.

His next suggestion is extremely practical. Just as he advises sourcing talent from existing employees, so does it make sense for a company to generate its first revenue in a new market from within its existing customer base.

"If you have a customer with a presence in multiple counties, this is a great way to enter a new country – by offering them local support there or getting referrals from them in that country. Never underestimate the power of word of mouth when you're getting started."

From there, he suggests creating inbound demand from a new market that you can support from your existing countries before entering physically. That way, you can test demand and build a customer base at much lower cost and lower risk while you understand how much potential demand is there.

But doesn't this mean you could just continue to service multiple markets from a single base to keep costs down? That may be possible, Guillaume admits, but to grow in a new country you need to really commit to it: "It's important to ensure that you have a leader in your business who's fully dedicated to a new market because real growth won't happen overnight. You need to understand that market deeply – and if you think you can do that remotely, well good luck!"

Dealing with the personal challenges of growing a SaaS business

The psychology of success is something Guillaume hints at frequently in his advice. Turning to the psychological challenges that face company founders, what are his views on what these are and how best to deal with them?

"One of the key lessons from growth is that you need different types of leaders at different stages of a

company. Those driven entrepreneurs who are right for growing a business to revenues of $10 million a year might not be the same people you need to take it to $100 million or beyond," Guillaume says, adding that the changing leadership needs of a growing business can often become a great source of friction within teams.

> *Often the biggest leadership challenge is having leaders recognise where they are at. Some will grow and mature, but others might not.*

"Often the biggest leadership challenge is having leaders recognise where they are at," he says. "Some will grow and mature. Some will be able to grow their leadership skills and communication and all that is required to continue the journey. But others might not."

This has been a very common experience with Hammer's portfolio companies. In fact, as Guillaume says: "If I look at all the companies we've helped in one way or another, I don't think there are many where you didn't have a change in the initial leadership team," he says. "And, depending how it's accepted, depending how it's taken, how it's practically discussed, it can be more or less painful for the business."

This must be a bitter pill for many to take. Do founders often have trouble adapting to this reality and stepping aside?

"We face this often. Sometimes we've had to make the leader recognise the situation. Sometimes they accepted it, sometimes they did not. It just takes time for everyone to see when this change is needed and to get the group to accept that and put it in place." »

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How does Guillaume deal with this challenge? "We need to help founders recognise where they are, whether they're still a fit for that leadership role, whether they still have the will, the fearless spirit, the humility. Or is it time to bring in somebody else and refocus on something they're better at – potentially going back to entrepreneurship?"

What does the future hold for Hammer and the SaaS startup scene?

When asked about the future for Hammer and its portfolio companies, Guillaume responds that the current global economic uncertainty is top of mind. It might take years for VC financing to return to stability, so companies must look to whether they have enough cash to weather the storm and keep going.

"Many leaders struggle at the moment to think about how to navigate this. Do I press on the gas pedal or not? Do I invest for growth or focus on preserving cash? It was already very complex and now that's even more true than before."

> *In some types of roles, people will not be ready to risk changing jobs. So you have to do even more to attract them.*

Beyond the financial challenges, Guillaume then points to the importance of attracting and retaining talent: "It's different than it was a year ago, but it's still complex because in some types of roles, people will not be ready to risk changing job. So you have to do even more to attract them."

The last big challenge he sees is the need to continue to adapt to technology changes. "As with the recent big push on AI, yes, there's a lot of fuss, but you need to look at it. How can it help you? What are the potential risks? How will it affect your organisation and how can you embed it? It's important not to miss out on new technology." Through all the ups and downs ahead, Guillaume is motivated by his personal philosophy:

"I play to win," he says. "Bring it on. I'm here for the competition and to finish the race."

With that comes a preference for directness and transparency: "We always advise founders: no bullshit, no politics. It's poison for an organisation. Honest and open conversations may cause tension, but this is usually far healthier than political scheming. That's Ariel's philosophy too."

He also believes in the importance of making hard decisions and following them through. As well as the hard reality of how long success takes to achieve:

"It's going to take 10 years at least to build that success story that you're looking for. Are you ready for that? Are you ready for 10 years of hard work and up and downs? This is something I try to instil in leadership teams because it's important to be realistic."