OPINION ECONOMY STARTUPS

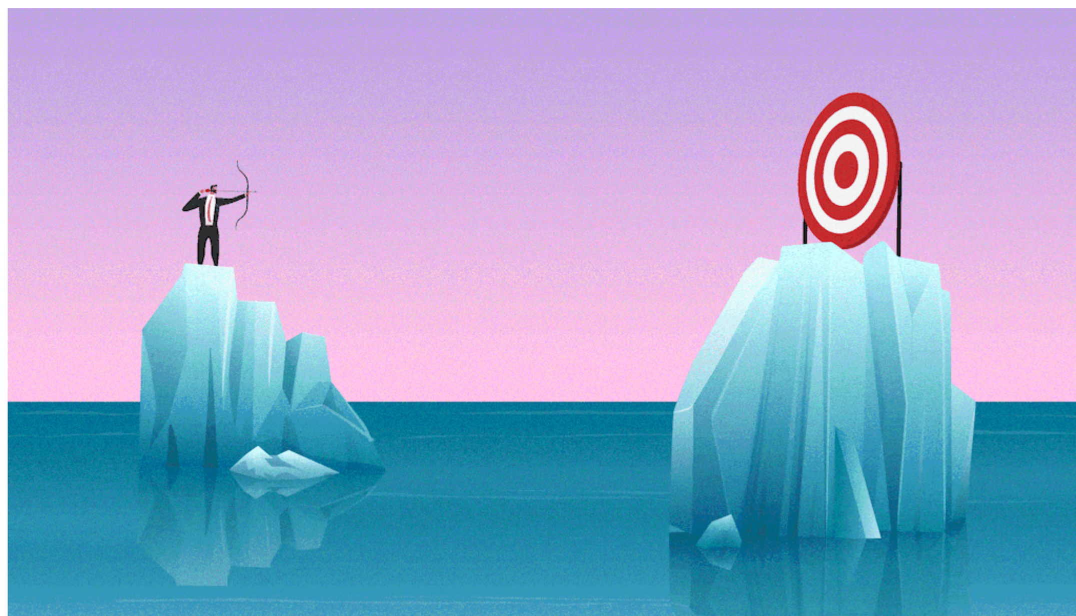
Share article

Got a Growing Company? Watch Out for Business Drift.

Under tightened economic conditions, no one can afford to lose focus.

By Holden Spaht
Spaht is a managing partner at Thoma Bravo.

April 4, 2023 9:00 AM PDT · Comment by Josh Bersin



Art by Clark Miller.

After slouching toward a sluggish end of 2022, technology mergers and acquisitions look to be showing new signs of life. That activity coincides with a continued rise in shareholder activism as value-oriented investors take advantage of the paradigm shift in valuations to demand higher profits and cash flow margins.

Amid tightened market conditions and the still-looming potential of an economic recession, balance sheet health is now under a microscope. With that heightened scrutiny, a long-undiagnosed malady has become too obvious to ignore: business drift. Common symptoms include loss of focus, declining productivity, low employee engagement, opaque product strategy and organizational bloat.

> THE TAKEAWAY
>
> Business drift can be cured, but better to stay vigilant and recognize the signs before it has a chance to take hold.

Let's look at two simple yet common cases of drift:

1. A big tech company acquires a startup, which it decides to let operate as a separate business entity with its own internal workflows and performance benchmarks. Over the years, those benchmarks fall out of alignment with the big tech company's strategic direction. Employees at the parent company who continue to focus on the core product are left confused. With every new acquisition, that confusion multiplies. Soon the company begins to look—both internally and externally—more like an agglomeration of siloed business units than a cohesive organization.
2. Another business has a hardworking and productive team of salespeople with clearly assigned territories. To continue growing at a pace the market rewards, the organization raises sales quotas higher than those territories will bear. In response, the team rapidly hires more salespeople and branches out into new territories, but in that frenzy it fails to train new employees thoroughly and cuts corners in designing a new strategy. Both recently hired and veteran salespeople lose track of the mission. Sales continue to grow, but at nowhere near the pace per salesperson they were growing before. Churn is high. Productivity is low. Problems compound.

MOST POPULAR STORIES THIS WEEK
Wall Street Greets WWE-UFC Deal With a Smackdown
The Twitter Verification Purge That Wasn't
The Electric: With U.S. Rules in Place, a Non-Chinese Battery Supply Chain Takes Shape
Pro Weekly: OpenAI's Other Model

In recent years, permissive market conditions allowed businesses to get complacent about excess. When competitors are moving at full speed with expansionary tactics that prioritize growth at the expense of the company's mission—from overhiring to overinvesting in new markets with questionable long-term value—it becomes increasingly difficult to justify the slow-and-steady approach. That's particularly true when capital is virtually free and the public markets reward this behavior, but that's certainly not what the markets are asking for today.

As a business grows and adapts to new market demands, some degree of drift is inevitable. Most successful technology companies make strategic acquisitions, expand new product capabilities and add organizational layers over time. Drift begins to grow problematic, however, in the absence of proper integration and proactive management. Under those conditions, an organization compromises its focus—and risks losing its competitive advantage.

Diagnosing and treating drift takes a steady hand, a skill that can only be acquired through constant honing. With any company we add to our portfolio at Thoma Bravo, we look at how it will affect not only the specific area we're operating in but also the overall business. The lessons we apply to those companies depend on the particulars of the diagnosis. If the product strategy is clear and the market opportunity is compelling but the operating costs are excessive, for instance, we focus on organizational redesign. That's a relatively easy fix—you collapse layers, eliminate redundant roles and put discretionary projects with uncertain returns on ice, and most of the time you'll return to health.

Often, though, the problems are more nuanced. We're always learning from our management teams and refining best practices, especially within those companies that have succeeded in transforming a portfolio of products and people into a single, streamlined business. In more-complex situations, we've recognized a number of habits any business can adopt to stave off drift:

- **Define a strategic vision.** The hardest part can be defining a clear strategy. It may seem simple in theory, but in practice a strategic reset takes an intense amount of discipline, analysis and leadership.
- **Ensure CEO ownership of that vision.** Perhaps most importantly, you can't outsource a strategic reset. The CEO needs to own it, and the CEO needs to see it through.
- **Get buy-in from leadership.** Setting priorities across a business that has some level of product sprawl requires involvement and buy-in from the top of the organizational structure, plus at least one or two levels below them. If the organization is structured by business unit and lacks functional leaders reporting to the CEO, consider reorganizing so that customer needs can flow more directly to leadership.
- **Support decisions with data.** Setting a new strategy inevitably involves tough conversations, so try to ground those in data. Which products have the highest win rates, growth rates, pipelines, renewal rates and so forth? When the decisions are based on data, the entire organization can understand the reasoning behind any changes, no matter how unpleasant or challenging they may be.
- **Communicate early and often.** Sharing those data-driven decisions can cultivate a liberating sense of transparency, even for employees who work on a product that is not in fact core to the growth strategy but whose cash flow may fund future growth.
- **Set smart goals.** Only once those goals are in place can the company lay out a clear set of operational metrics and key performance indicators aligned with the financial plan.
- **Repeat.** This is perhaps the most important practice for a company to adopt. As businesses scale and market incentives change, they must stay vigilant about all these tenets to maintain focus.

I'll give you an example. When Thoma Bravo acquired Instructure, an ed tech company, at the onset of the pandemic, our ability to diagnose and treat drift was key to our investment thesis. Prior to the acquisition, Instructure's growth rate was healthy but decelerating, an early symptom of drift that caught our attention.

NEXT STORY
Gumroad Turns a Profit After Price Hike

Canvas—a platform to help teachers track and manage students' progress—was the company's main profit generator and was winning in its market. In addition, as part of its growth-at-all-costs mindset, Instructure had decided to fund a new product and business unit focused on corporate learning. This had, in principle, a much larger addressable market and possibly higher margins. But we quickly saw that this new market was crowded with well-established competitors with superior value propositions. What's more, Instructure didn't have the internal data to distinguish between the new product's losses from Canvas's profits.

Ultimately we determined that the corporate learning business was being treated as a high-growth cash-burning startup, hemorrhaging money despite moderate growth and low win rates. We worked with management to make the business profitable, divested it and used the cash to make acquisitions that better aligned with the company's core education market. Just over a year after we took Instructure private, we held a new initial public offering that **raised $250 million**, valuing the company at nearly $2.9 billion.

There's no panacea for drift. Every business is unique, and each requires a bespoke and intensive level of care to regain and sustain discipline that's drifted into unhealthy territory. But any business leader can adopt the steps we take with our portfolio companies to restore them to their true potential—and the earlier, the better, because when it comes to drift, prevention is the best possible cure.

*Have an opinion The Information should publish? Find out how to reach us and more **here**.*

Holden Spaht is a managing partner at Thoma Bravo. Based in San Francisco, he joined the firm in 2005. He is responsible for finding and executing new deals, monitoring and growing the portfolio as an active board member, and helping to manage the firm. Previously, he was with Morgan Stanley Capital Partners in London, Thomas H. Lee Partners in Boston, and Morgan Stanley in New York. Additionally, he is a member of the Trustee of Schools of the Sacred Heart San Francisco and is the President and Chair of the Spaht Family Foundation, founded in 2019. Spaht was a Fulbright Scholar and earned his BA degree in Economics at Dartmouth and his MBA at Harvard Business School.

Subscriber Comments

Josh Bersin
Research Analyst, Consultant - The Josh Bersin Company

Good case study. I worked with Instructure on their corporate product strategy and despite their amazing product work, the company could not marshall all the resources needed. That's the problem with "drift" - the cost of "going to war" in a new domain is always higher than it seems, and companies that drift to new domains without vengeance often fail.

Like · Reply · Report · about 1 hour ago

A Arik Benzvi

Not you? Log Out
Want to edit your profile? Edit Profile

POST NEW COMMENT

Featured Partner

Vanta

Vanta
Compliance doesn't have to be complicated. In fact, with Vanta it can be super simple. Vanta automates the pricey, time-consuming process of prepping for SOC 2, ISO 27001, GDPR, and more. With Vanta, you can save up to 400 hours of work and 85% of costs. Book a demo to learn why 4,000+ fast-growing companies chose Vanta as their trusted partner — and claim your $1,000 discount.

LEARN MORE

Corporate Subscriber Circle

Vauban from Carta: SPVs & funds for VC and angel investors | TapOnIt: The next generation of SMS
Loxz: Unleash the Power of ML with World Class Loxz Team | Learn More

© 2013-2023 The Information. All Rights Reserved.