

informe^r

Upsize

PEOPLE, IDEAS AND STUFF TO HELP GROWING COMPANIES

Bolster original model first, then replicate, experts tell IntelAccount

By Beth Ewen

INTELLACCOUNT'S LEADERS have ambitious plans for their two-year-old automated accounts payable service, which they say can cut the cost of paying bills by as much as 70 percent.

They want to become the Paychex of the accounts payable world, says CEO David Crane, referring to the widely used payroll service. His company is one of three winners of this year's Upsize Growth Challenge.

About 25 clients signed up so far

"We're growing quickly but we want to grow a lot quicker," says IntelAccount's CEO David Crane. "It's challenging to get people to understand the level of pain in payables."

» DAVID CRANE, INTELLACCOUNT

are believers, Crane says; he figures he needs only about 40 to turn cash-flow positive, which he expects by the end of the summer. He has attracted \$500,000 from individual investors and added his own money to capitalize the firm.

One executive, Mike Rodich, tells those assembled for the first Upsize Growth Challenge workshop that he envisions a \$100 million national company in five years.

CEO Crane, participating via phone from the company's new New York office, dials back the enthusiasm but still puts out a big number: \$48 million in revenue in that time period is the goal.

Either way, the company has some infrastructure work to do, agree the experts who gathered March 21 to help this year's three Upsize Growth Challenge winners reach their goals.

"Figure out the model and duplicate it," says Craig Murphy, partner at McGladrey & Pullen, the accounting firm in Minneapolis. IntelAccount

has had some success offering its services through CPA firms, and has begun private-labeling its software so such firms can offer it to clients under their own name.

Murphy thinks the smaller CPA firms, not the Big Four, would be amenable to a relationship with such a service, "because they have



ABOUT THIS CONTEST

Three companies are winners of this year's Upsize Growth Challenge: IntelAccount Inc., an accounts payable service; Matter of Africa America Time, a children's educational book publisher; and Sociale Make & Take Gourmet, a meal preparation franchisor.

They were selected by judges for the ambition and complexity of their growth goal, and the quality of work already done to meet it. Each winning company receives two workshops with experts who provide advice to help them reach their goal, and the opportunity to present their story at the Upsize Growth Challenge Seminar & Celebration June 14. Coverage follows of the first workshop, in March.

Presenting sponsor is Clientek, the information technology consulting firm in Minneapolis, and sponsors are Highland Bank of St. Paul, with community banks throughout the metro area; The Sage Group, a marketing and communications firm in Minneapolis; and Winthrop & Weinstine, the Minneapolis law firm. An expert from each of the sponsors helps the winners during the workshops, and provides commentary at the breakfast event.

To register for the June 14 event, 7:30-10 a.m., visit www.upsizemag.com, click on the Upsize Growth Challenge logo.

JOHN NOLTNER



[WHAT THE EXPERTS SAY...]

...ABOUT BRANDING

Describing your company succinctly is difficult, IntelAccount's executives say, and Elin Raymond of The Sage Group agrees that's difficult for many firms. "It's hard to do it when you're a founder. You see all the seedlings as well as the trees." Companies should hold focus groups with customers. Ask them, "What was the key thing that attracted them to you?" Boil down the common themes into key messages.

...ABOUT INTELLECTUAL PROPERTY

"Make sure you have the right agreements with anyone designing" your products, urges Michele Vaillancourt, Winthrop & Weinstine. "The integration part is what you need to protect" in IntelAccount's case, but all companies should take this advice: "Make sure you have the agreements with that person so you own it," she advises. "IP is slippery. It's not like land and you can put a fence around it."

...ABOUT DATA SECURITY

Every company should schedule a test restore of their information backup system. "A big mistake is they make backups but they don't know if they work. We make our clients schedule test backups," says Kirk Hoaglund, Clientek.

...ABOUT PLANNING

Business plans should include realistic goals, and especially details about interim milestones to be reached and how you plan to get there, says Rick Wall, CEO, Highland Bank. It's fine to start with a revenue goal, but support it with specific plans such as number of sales people needed, expenses tied to office locations, etc.

the small businesses with the hurt" as clients.

Rick Wall, CEO of Highland Bank and the contest's finance expert, urges Crane and Rodich to invest in a direct sales force, building it to about 8 to 10 people, and learning from each sales pitch.

"My perception is you have a very scalable product. You need to build a sales force," Wall says. "While it does make sense to go through partners, you are at a point where you need to do one-by-one selling."

He recommends adding professional employers organizations, or PEOs, as another type of service firm whose clients could benefit from IntelAccounts' software. Firms that have outsourced human resources functions to a PEO will likely be amenable to outsourcing an accounts payable function as well.

Elin Raymond, president of The Sage Group in Minneapolis and the Upsize Growth Challenge marketing expert, points out that IntelAccount needs to illustrate to customers how accounts payable is causing them pain, something they may not realize.

"You're doing an educated sell. It takes a little longer. You have to hit people over the head. They might not even feel the pain," she says.

IntelAccount has a nifty tool on its Web site, an ROI calculator that lets prospects figure out how much their current accounts payable system costs, and how much IntelAccount's service can save. Raymond recommends they go much further with the site.

"Put case studies and client stories on the home page. Pepper client testimonials on every page," she says. IntelAccount should focus media relations on each new geographic area they plan to enter. "Get a media list and go after them with your story," she says. Emphasize "how this is going to benefit small businesses."

Add a list of clients, she says, although Crane expresses concern that such a list would reveal information he'd rather keep confidential. Raymond says the benefits of such a list far outweigh any negatives.

Michele Vaillancourt, attorney with Winthrop & Weinstine in Minneapolis and the Upsize Growth Challenge legal expert, thinks such a list would give law firms like hers reassurance. "We make vendor decisions" based on which companies other large firms are using. "Then you get a sense of comfort."

She was happy to hear that IntelAccount has addressed its intellectual property issues—at least, almost all of them. Although they used off-the-shelf software for their product, the integration between the software pieces is protectable.

"The A/P process has been around since the abacus," Crane points out.

That's true, Vaillancourt agrees, but the company still has much to protect with existing products, and will have even more when they implement a new system, something Crane says they're working on.

"Make sure you have the right agreements with anyone designing" your products. "The integration part is what you need to protect. Make sure you have the agreements with that person so you own it," she advises.

Crane says their agreements are in place with all but one vendor, and Vaillancourt urges him to tie that one up as well.

Kirk Hoaglund, CEO of Clientek and the contest's technology expert, continues the theme of shoring up. "You have aggressive plans to scale the business and everything has to scale along with it," he says.

IntelAccount, and all companies that want to get much bigger, faster, should pay attention to disaster recovery, resiliency (the amount

of time it takes to recover) and redundancy.

Crane says they're working on creating a true mirror site to protect against a system breakdown. Hoaglund says that should be a "hot" mirror, or actually operational, and located in a different city than the original. "That's expensive," he says. "But if you're going to be a \$100 million company, it's not an expense, it's a requirement."

David Crane and Mike Rodich,
IntelAccount: 612.605.3161;
 dcrane@intelaccount.com;
 mrodich@intelaccount.com;
 www.intelaccount.com

Reaching out to others is essential for growth, Sociale founders hear

By Elizabeth Martin

JASON AND LISA HAKE are busy. Really busy.

Like most entrepreneurs, this husband-and-wife team are trying to

run the day-to-day operations of their Minneapolis-based meal preparation company, Sociale Make & Take Gourmet, in addition to marketing, sales and strategic planning. Sociale is one of three winners of the Upsize Growth Challenge 2007.

The Hakes (pronounced HAY-kee) are also in a race to open new stores. The meal preparation industry is exploding, and the Hakes are expanding through franchising by growing from nine units in three states to a planned 35 units across the country by the end of 2007. By 2012, their goal is to have 200 franchises.

That may seem aggressive, but the meal preparation industry is growing even faster. Sociale's biggest competitor already has 200 locations. Jason Hake says the company's revenue is "in the seven-figure range" and each franchise unit grosses between \$400,000 and

"Our competitors have grown quicker than we have, and we need to play catch-up," says Lisa Hake, Sociale's vice president and co-founder, with Jason Hake, president and co-founder.

[WHAT THE EXPERTS SAY...]

...ABOUT HIRING PROS

"You hired professionals to do some difficult jobs," such as legal work and accounting, says Kirk Hoaglund, founder of Clientek. "You should do the same with your IT." As an entrepreneur, Hoaglund identifies with the plight of small-business owners when it comes to extracting oneself from the day-to-day responsibilities of running the business. But he says he finally had to realize, "If it's got to be done my way, it's not going to get done at all."

...ABOUT RAISING MONEY

The need for raising capital but not giving up too much control is a dilemma that Sociale faces, as do many fast-growing businesses, says Rick Wall, CEO of Highland Bank. How you go about getting cash will depend on how much you need. If you can measure your amount in the thousands, you should look to friends, family and possibly angel investors. For Sociale, which wants to open 200 locations and so needs much more, venture capitalists are the likely source, Wall says.

...ABOUT WEB SITES

Sociale's Web site is one of the most important aspects of its business. It not only introduces potential customers to the concept, but is also the way that many potential franchisees learn more about the company. Elin Raymond, president of The Sage Group, recommends that the company create a press room section of the site and expand its current offerings to include a fact sheet, bios and photos of the Hakes, and links to media coverage.

...ABOUT ESTATE PLANNING

Because the Hakes have franchisees depending on them, along with their three young children, estate planning becomes even more crucial, says Michele Vaillancourt, attorney with Winthrop & Weinstine. "It's a pain to get into place, I'm not going to lie," she says. "But it's important."

» JASON AND LISA HAKE, SOCIALE GOURMET



JOHN NOLTNER

\$800,000.

"Our competitors have grown quicker than we have, and we need to play catch-up," says Lisa Hake, Sociale's vice president and co-founder. Jason Hake is president and co-founder.

Lisa Hake heads up marketing, which hinges on the Web site. "Our Web site is just as important as our food," she tells Kirk Hoaglund, CEO of Clientek and the Upsize Growth Challenge technology expert.

Not only is the Web site most customers' first point of contact with the company, but also 99 percent of orders are also placed online. In addition, franchisees also use the site to know how many customers have signed up for a meal preparation session.

Lisa Hake handles the daily Web site maintenance. "I'm the IT expert and I learn as I go and while I can figure it out pretty quickly, it's not my area of expertise," she says.

Hoaglund notes that Sociale hired legal and accounting experts, because those weren't their areas of expertise. The same should be done for their IT needs.

Hoaglund suggests using the Microsoft Gold Partner referral site, which can be accessed through www.microsoft.com. As a gold partner, a firm's employees must be tested each year and also have to provide names of customers who can provide feedback on the firm's customer service.

"It's a little bit like asking for a CPA rather than a bookkeeper," he says.

Despite their ambitious growth plans, the Hakes have managed to retain full ownership of Sociale. But they foresee the day in which that won't be the case.

"Jason and I are tapped out both from a time perspective and from a financial perspective," says Lisa.

As they've talked to other franchisors, they realize that retaining 100 percent ownership while con-

tinuing to grow is uncommon. And while the Hakes realize that they need cash to grow, they don't want to give up too much of their ownership.

Sociale's best options are funding through friends, family and angel investors or turning to venture capitalists. Friends and family can help if Sociale's capital needs are small, explains Rick Wall, CEO of Highland Bank in St. Paul and the Upsize Growth Challenge finance expert. but if the company requires larger amounts, it will have to consider venture capitalists. Such investors usually want a higher amount of equity in the business and will require the Hakes to have an exit strategy.

"You're in the classic spot where you're growing fast, which is a good thing, but you're short on cash," says Craig Murphy, a certified public accountant with McGladrey & Pullen in Minneapolis, who helped this year's winners with finance and operational questions.

"To raise money or not to raise money is the question," says Jason Hake. "And we don't have the answer."

Wall points out that if Sociale wants to meet its goals of opening 200 stores in the next five years, not raising money is not an option.

"You've got to know what you need and have an idea what you're willing to give up," in order to get it, says Wall.

Sociale has done a lot of things right in the legal and marketing arenas, agree panelists Elin Raymond, president of The Sage Group, and Michele Vaillancourt, attorney with Winthrop & Weinstine.

The company recently hired a national public relations firm that focuses on franchises. Franchisees are getting a lot of media attention as well.

Both panelists ask whether Sociale assisted its franchisees with

EXPERT CONTACT

Kirk Hoaglund, Clientek:

612.379.1440, ext. 101;
kirk.hoaglund@clientek.com;
www.clientek.com

Craig Murphy, McGladrey & Pullen:

612.376.9295;
craig.murphy@rsmi.com;
www.rsmi.com

Elin Raymond, The Sage Group:

612.321.9897;
eraymond@sagegrp.com;
www.sagegrp.com

Michele Vaillancourt, Winthrop &

Weinstine: 612.604.6681; mvaillancourt@winthrop.com;
www.winthrop.com

Rick Wall, Highland Bank:

952.858.4753; rick.wall@highlandbanks.com; www.highlandbanks.com

financing. "There are different programs available for minority-owned businesses, and that's women," says Vaillancourt, noting that Sociale's target franchisees are women.

Raymond recommends a franchisee referral program that would allow franchise owners to recommend others who might be interested in opening a Sociale store.

"If that referred individual became a franchisee, then reward your current franchisee," she says.

Jason and Lisa Hake, Sociale Make

& Take Gourmet: 612.209.2695;

jason@socialegourmet.com;

lisa@socialegourmet.com;

www.socialegourmet.com

[WHAT THE EXPERTS SAY...]

...ABOUT WEB READINESS

A lack of "scalability" with a Web site can break a company, says Kirk Hoaglund, Clientek. Publishers have a knack for sparking publicity quickly, whether it be a visit on the Oprah show or a plug on Good Morning America. The result — lots of Web site hits — can ramp up sales, or bring down the entire Web site if it is ill-prepared for the increase in activity.

...ABOUT THINKING BIG

Think national, not local, and wholesale, not piecemeal, when it comes to selling books, says Elin Raymond, The Sage Group. Stick to the national conventions, rather than selling school by school or individual by individual. There is strength in numbers.

...ABOUT TRADEMARKS

Papa Lemon may be a fictional character in a book, but it's also a valuable piece of intellectual property. Make sure it is protected with a copyright, so others can't steal the company's ideas, says Michele Vaillancourt, Winthrop & Weinstine. Similarly, put a paper and pen in front of all contributors to make sure they understand what belongs to them, and what belongs to the company.

...ABOUT BUSINESS MODELS

It's never too late to rethink a business model, says Rick Wall, Highland Bank. If school presentations are a lucrative and expense-free source of revenue, why not shift the company's focus toward that direction? If a market is too complex to tap into — such as the public school system — try a simpler but related one. Wall suggests the home-school market, where parents are free to make their own curriculum decisions for their children.

Matter of Africa children's book publisher urged to focus on wholesale

By Sarah Brouillard

THE PUBLISHING INDUSTRY practically sets up independent publishers for failure, says Paul Dixon, president and co-owner of Matter of Africa America Time Corp., in Minneapolis. It's one of three winners of this year's Upsize Growth Challenge.

Selling books through popular e-commerce sites, such as BN.com (Barnes & Noble's Web site) and Amazon.com, is a process fraught with obstacles and disadvantages. Not only does his company have to discount its books by 55 percent, but it also has to wait up to 120 days for payment.

Paul Dixon and his cousin went on a "whirlwind tour" of conventions to promote their "Papa Lemon" series of educational children's books. This year, they want to capitalize on all the contacts to build Matter of Africa America Time.

And the Web sites always reserve the right to return all unsold books. That's why only 3 percent of the company's sales come from bookstores.

The company has four titles, with stories taking place in a small town in Mississippi. The main character, Papa Lemon, is based on a real person, the co-owners' grandfather (Dixon's cousin, Lehman Riley, is the author).

With his magic train, which is a time machine, the supporting child characters journey into the past to witness several historic events, such as the Rev. Dr. Martin Luther King Jr.'s "I Have a Dream" speech, and meet important people, such as Harriet Tubman.

The company posted \$31,095 in revenue for 2006, mostly from conferences and trade shows and speaking fees from school presentations.

Last year, Dixon and his cousin went on a "whirlwind tour" of conventions and expositions across the country. This year, they want to capitalize on all the contacts they made during their travels.

» PAUL DIXON (left) AND LEHMAN RILEY, MATTER OF AFRICA AMERICA TIME



JOHN NOLTNER

[10 things]

...you've learned about running a business.

Dixon says he wants to triple business this year, while also making a profit and paying down debt — mostly in the form of a \$50,000 credit line.

While it's difficult to be an independent publisher, Dixon says his company benefits by having a niche. According to his market research, there are no children's book series that use a grandparent as a main character.

Elin Raymond, president of The Sage Group, a Minneapolis-based marketing and communications firm, says the company should use its limited resources wisely. Instead of selling school by school, the company should focus its energy almost exclusively on the national wholesale market.

"I would skip the PTAs and the individual consumer-type shows, and go to the ones like the librarians' associations and the teachers' associations," she says.

She also advises the company to build a comprehensive learning package around the Papa Lemon books. A "heritage journal" — in which a child can research and write about his or her own family heritage — is one example of how to expand and personalize the curriculum, and build on the themes presented in the original books.

Michele Vaillancourt, an attorney with Minneapolis-based Winthrop & Weinstine, says it's important for Matter of Africa to protect its intellectual property.

After confirming that Dixon had copyright protection for the Papa Lemon character and the books themselves, Vaillancourt says he needs to get that information on the company's Web site.

"You just need a line at the bottom," she says. "Your Web developer should know that."

Also, make sure all contributors sign agreements that spell out what property belongs to them, and what belongs to the company, she

says. Otherwise, one of them can run off and make money off the company's ideas.

On the technology front, scalability is one area Matter of Africa should explore carefully, says Kirk Hoaglund, CEO of Clientek, the Minneapolis-based information technology consulting firm. Shoring up its Web site to prepare for a potential jump in online sales — which could happen any day, especially in the event of some unexpected publicity — will ensure all sales are captured.

James Alberts, a Clientek technology consultant, says the company should also prepare for the increased prevalence of technology for reading books. Instead of lugging around hardbound textbooks, he believes today's young children, upon entering college, will use tablet PCs that contain their curriculum.

"The technology market — and technology itself — is driven by the demands of the people who use it," Alberts says.

With all the red tape and organizational layers that complicate the public school system, Rick Wall, CEO of St. Paul-based Highland Bank, says the company may want to explore the home-school market. "They may want more experiential learning," Wall says. Instead of using the books as curriculum supplements, parents may want to use the books as actual textbooks.

Wall says he wonders if a change in business model is in order. Since school presentations have generated more revenue than actual book sales, perhaps the company should formally shift its focus.

"You wouldn't be the first business that started off with one thing and found out you're really doing something else better."

Paul Dixon, Matter of Africa America Time Corp.: 612.730.8217; info@papalemonedu.com; www.papalemonedu.com

1 If you want to work really, really hard, start a business.

— Craig Murphy, McGladrey & Pullen:
612.376.9295

2 You have to be the expert at everything.

— Lisa Hake, Sociale Make & Take Gourmet:
612.209.2695

3 Timing is everything.

— Jason Hake, Sociale Make & Take Gourmet:
612.209.2695

4 That things are probably three times more expensive than you think.

— Justin Wylie, Advanced Productivity Computing: 952.432.2000

5 That it's a lot of hard work and your job is never, ever done.

— Monica Nassif, Caldrea Co.: 612.436.7314

6 Once you're an entrepreneur you'll never go back.

— Steve Schussler, Schussler Creative:
763.746.3700

7 It's risky to be an entrepreneur but for me it's less stressful than the corporate life. The reason is, you're in control.

— Phil Soran, Compellent Technologies:
952.294.3300

8 Patience and persistence are the two key words.

— Paul Dixon, Matter of Africa America Time:
612.730.8217

9 You get up every morning and you run fast, and those who run the fastest make it.

— Mike Rodich, IntelAccount:
612.605.3161, ext. 711

10 The business plan is always wrong. The trick is finding out what's wrong and fixing it quickly.

— David Crane, IntelAccount: 612.605.3161