

7 Big Challenges for Venture Capital Backed Growth Companies; or How VC Backed Companies Can Survive and Grow in crisis?

By Henrik Bak, VP of Sales, Ciklum

VC backed companies have big challenges, especially in the current financial crisis times where VC funding is scarce and/or very expensive. Some of the challenges which have grown larger during the crisis are:

- 1) A growth company's time to market (TTM) needs to be very fast and timely as the time window in which it has an advantage over its competitors is shrinking. Ten years ago the time in which a company could capitalize on its advantage before competitors were catching up was approximately double of what it is today. Therefore one needs to develop the concept and idea and take it to market fast.
- 2) This speaks for investing heavily in R&D. However, the capital is always scarce and needs to be stretched as incoming revenue is difficult to forecast. This is especially true today as VCs are hit by a double whammy: they can't exit any of their current investments and need to invest more into their portfolio companies to keep them alive during the crisis.
- 3) VCs want a cost effective R&D to stretch funding over a longer period of time, but at the same time have a fast TTM.
- 4) VCs further want scalability and flexibility to quickly cut down if needed – to adjust to the market situation.
- 5) Growth companies are typically not in a situation where the Roadmaps can be detailed enough in the specifications so that they can be Outsourced as separate projects to the Outsourcing suppliers. The Roadmap and development is dynamic, hectic, and constantly changing to adapt to the market. Thus, the development needs to be In-house.
- 6) These companies typically have an immature development setup. As they are in the early stage of their software development lifecycle, often the architecture and development is described in simple Word or Excel or similar format. This makes it difficult to structure and scale.
- 7) Last but not least is the challenge of attracting good and qualified employees. Especially in the time of financial crisis many good IT developers prefer having a larger and more secure employer.

A solution can be to Insource own IT development team at a Nearshore location. In such a scenario the developers fully belong to and are managed by the client and are a natural part of the company's culture – they just physically sit in another location. Cost savings of 40-70% are realistic when calculating Total Cost of ownership – and such a setup is much more flexible and scalable. However, it is important to have a partner that has experience and core competence in such set ups as well as a proven track record of making the remote Nearshore IT developers, at a minimum, as streamlined and effective as the people in the headquarters.

The Danish company Ciklum (www.ciklum.net) which is Denmark's largest Nearshoring IT provider is one of the companies focused on this area. With 700 developers working for 86 customer and 7 years of using best practice, Ciklum focuses on setting up streamlined and productive IT development teams for Western European customers. Based in Ukraine, where the IT specialists' market is known for its size and qualifications around the World, due to its size and well-known reputation in the country Ciklum has no problems attracting highly qualified and competent developers to fit any of the customers' needs.

Furthermore, Ciklum offers a plug and play development platform and structure targeted at companies in their early stage of the software development lifecycle. This can take a company significantly faster and higher up the lifecycle towards structured, efficient, and qualitative software development.

Despite the crisis times Ciklum still has more developers and customers than we did when the financial crunch started. We further experience right now that CEOs and VC Investors are actively recommending or even dictating to start a Nearshore IT development team. One example is a Scandinavian VC backed company with approximately fifteen developers in Scandinavia. The company has a burn rate of more than 50.000 EUR per month – but will reach a break even via transferring a large part of their IT development to Ukraine and offering a few key employees stationing in Kiev.

The crisis times require challenging and tough decisions but will generate great opportunities for the companies taking the right decisions and planning for the future. Generating a Nearshore IT development team will free resources and funding that can be used for investments in other areas, or stretch an existing funding for a longer period of time.

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