[6 - Bryan Morris]

[Beginning of Recorded Material]

Divash B.: Welcome to the Allocators podcast, I'm Divash Basnet the VP of growth at Cardata. I lead the marketing team here, and also build the sales operations and revenue operations teams. I'm excited to be your guest host for this episode of the Allocators. Our guest today is Bryan Morris.

Bryan is the CFO of Demandbase, a leader in account-based marketing software. Once again, thanks for joining, just want to hand it over to you. Give us a bit about your background, and sort of how you got to at this point as a CFO of demandbase.

Bryan M.: Yes, very cool, Divash. Yes, it's great to connect. I just say before I kick off into my background, I think the connectivity between growth teams and marketing is so important. And when it works well, that data-driven approach that you're talking about, from a growth and marketing perspective, crosses over to sales and ultimately shows up from a financial perspective. And so, it's great when you have that end-to-end partnership built, and there's an appreciation for the data focus front of funnel.

So by way of introduction, I'm Bryan Morris, CFO of Demandbase. We are a late-stage private marketing software company, based here in the Bay Area. We provide a go to market platform for our customers who are B2B customers, who are really seeking to get the most out of their go to market investments. So we help orchestrate leverage all key data, signals and systems of record including first party data, third-party data to allow our customers to really orchestrate effective marketing engagement.

I've been a Demandbase for just over three years now. In a prior life, well, I've been CFO at a few different growth stage companies before Demandbase. Spent most of my career on the private growth side, so anywhere from 25 million in ARR to 200 million plus businesses. And yes, I love the act of partnering with great leadership teams and interesting markets, and trying to build something that has a lot of value. So excited to be here with you today.

Divash B.: Amazing, thanks for that intro. So we'll obviously get more details into budgets, we've obviously been through a budget structuring process ourselves. This year obviously as is quite challenging, would love to get insights on that.

But before we dive into that, how does your team sort of look like in Demandbase? And how has it changed over, I think you've been here slightly over three years, how has it changed and how does it look today?

Bryan M.: Yes. So my team specifically, I lead as you might expect Finance and Accounting, I also have legal compliance, privacy and then anything I.T and infosec also reports up to me. I would say in terms of how it's changed over time, I would say as we've matured as a business, we've brought on more kind of prominent key leadership positions.

One of the ones I'd call out over the last couple years is we brought on a chief information security officer. So CSO particularly in today's market when you're dealing with customer data, and really interesting kind of data assets, you want to give your customers, whether they're mid-market or Enterprise, we serve both segments lots of assurances there.

And so, we've made some pretty intentional Investments around information security, that's been I would say a bigger change over the last couple years. In addition to privacy, we're doing a lot of interesting things there. We brought along some of the framework certifications over time. ISO 27001, and sock2, those are both frameworks that we support and are important to us.

I think the other thing I'd say just about the maturity of the team is that as we've gone from kind of like growth stage company, to sort of like really late stage private, we thought more about what it takes to be a public company.

And so, this idea of readiness for being a public company, even though maybe the timing around that is going to be based upon where markets are at, and where our own execution is at. We've spent a lot of time investing in certain roles and functions that really give us that ability to access the public markets at the right time.

Divash B.: Absolutely, that makes sense. I'm assuming you have to be more rigorous about basically everything, right? To become a public company. And running 100 company is much different, but I believe you're probably at about 800,000 people by now and so it's obviously different ball games.

So as I mentioned, and obviously I don't think we need to mention this anymore, because we are it seems like in a state of flux or nobody really knows if we're in a recession, we'll be in recession in three months, or we already have been in recession for nine months. These things tend to be accurately predicted in retrospect, as opposed to while you're in it.

But obviously, I think everyone recognizes that times have changed, and it seems like with higher interest rates continuing for at least the near future, Capital allocation strategy has become front and center of every company's strategy basically, right? That's one of the main things that we do. So I want to start off with how are you thinking differently about Capital allocation strategy overall for let's say the next 12 months?

Bryan M.: Yes. So the first thing I'd say is I think around Capital allocation, it's important particularly in markets like these to not have a static view. So I think gone are the days in a fast-growing environment where you set a budget, and then you lock it in and you don't change things for the next 12 months.

Like that never happens, no one plans that well, no one can kind of factor in all the things that could happen in the macro or even in the kind of competitive set locally to sort of be fixed around how you're thinking about Capital allocation. So I'd say for me, what I like to do is set up a framework with the executive team around being performance oriented as the year goes on.

So you obviously set a plan for the year, and that's kind of your target. But as you get additional data, and typically, the end of the first quarter is sort of the big dose of reality, right? Kind of both good and sometimes challenging. And you got to adjust. And so I think for me, what's worked really well, because no one likes surprises, certainly myself included is to the extent you can start off the year with a framework that suggests look, here's our baseline plan.

If we exceed it in the following ways, here's the kinds of things that we would do with that surplus if you will from an incremental investment perspective, if that makes sense for the business, and often, it does. And then conversely, if you're falling short on plan whether it's top line, and you can have different top line and bottom-line considerations, here are the things we will likely do.

And most companies head count is almost three quarters of spend, right? For a lot of software businesses, head count is the big expense and related. And so, I think that tends to be the lever that you want to be most aware of, and how you adjust throughout the year. So oftentimes, what we'll do is we'll say hey, here's our plan for the year. And if we're driving to a place where it looks like we're going to be shy on either topline or Ebitda, we may just pull back on hiring, for example.

And I think that framework, almost independent of what the levers you pull are, just having that set with the management team at the beginning of the year is helpful, because it puts people in a performance-oriented mode. They know that there's sort of no free launch around, something that's in the budget, we're doing this as a team and if we all execute great, then yes, we will hire as expected.

If not, then we've got to kind of come back to the table and talk about it. But at least we have the buckets established rather around where we might look at adjusting spend, for example.

Divash B.: Yes, that's also a great segue into budgeting in more detail. So you talk about the base framework that you have at the beginning of the year, that's a great, I think great way to start, also and then adjusting a Q1 based on reality and becoming data driven. How do you think about the initial allocation of buckets in initial framework, right?

So product is coming to you and saying I need a new product manager, right? I need three more product managers obviously me as growth. I'm saying we don't have brand awareness; we need more money for performance marketing, give me another X dollars, right? And then you have GNA expenses that you have to do. What are the guiding principles of thinking about this?

And are there, because if you look at, I bet there are benchmark statistics, right? So I'm most familiar with S&M which is 40% of expenses need to go into S&M so that you can spend a dollar to make every dollar, right? Is that the way you think about it? Or how do you think about it?

Bryan M.: Yes. And I'm smiling Divash, because it's so helpful when your go to market leaders and R&D for that matter have a perspective on benchmarks that are out there.

Yes, absolutely you want to use benchmarks to help guide the discussion. I'm not a big believer that you look at an index of benchmarks for similarly staged companies, and that is absolutely the right path. I think you need to kind of tailor it for your own needs. But benchmarks is definitely an important input.

I think relative to the company and where you're at, I think the competitive set, how fast you're growing relative to the competition, what does your runway look like, right? I mean, we've gone through such a wild period over the last few years of capital allocation. There are so many companies who raise money either in the private or public markets in 2021, at arguably some very inflated valuation, certainly relative today.

Some of them have come down explicitly in the public markets you can see it. In the private markets, it's either inferred or in some cases you're seeing it with down rounds or flat rounds and kind of repricing. So I think that you always have to understand the balance sheet as you're kind of thinking about the plan, right? Because most companies that are private, if we're talking about technology companies, you're playing for your next fundraise.

And yes, you've got to hit certain milestones, but you also, particularly in this market, you don't want to spend ahead of growth. And so oftentimes, certainly for later stage companies, things like rule of 40 become more important. And so that balance of growth and profitability or cash flow is something that I think you want to put on the table, and just have a perspective that's aligned across the management team and the board.

Divash B.: Absolutely. You're saving our cash flow will make my head of finance very happy, because that's, it's like we need a cash flow operate the business, and we talk about cash flow models a lot and it absolutely makes sense. How do you, and totally agree with you here. Just to get a sense for our listeners, especially let's say let's put myself, like let's start with me, right? Me as the head of growth.

What should I be doing? What frameworks or data should I be bringing to the CFO or head to finance, so that the head of finance and CFO can say okay, objectively say okay you get this, you get that are? And related to this is are there key metrics that you are looking at today to monitor and evaluate overall health of the business that the entire leadership team, and honestly the entire company should be plugged into?

Bryan M.: Yes, it's a great question. I think the Holy Grail if you're trying to connect kind of marketing to revenue outcomes is understanding the dollars you put into programs, and initiatives. And so, the, let's call it the cost per program drives a certain amount of opportunities, right?

So let's just in shorthand call it cost per opportunity and then having your finance partners help you then draw conclusions from a conversion ratio of opportunities to close, and revenue to really get to like a lifetime value understanding, right?

Now all businesses have customers with different kind of average lives. Some of them can be as high as five plus years, some of them are much shorter. But that motion that you're driving, Divash, on the front end, you not only as a CFO you want to make sure it's efficient, i.e., the cost per opportunity. But when you measure it against the lifetime value, you're then essentially doing an efficacy calc on that motion.

So efficient is one thing on the front end, but gosh, if certain types of customers are providing more lifetime value, like they're longer lived or higher margin for whatever reason, that's something you want to understand. And if you can affect that through your marketing and growth efforts, that's really powerful.

Now, it's not really easy to do, I'll be honest, because the data goes through so many different systems as you know. And so orchestrating that all, which is a big part of what we try to do on the front end, right? As a go to market platform is sort of orchestrating the digital signals that make sense for a given marketer. But getting that all the way through to revenue, and ultimately, lifetime value, that would be like I'd say the Holy Grail there.

Divash B.: 100%. So you're saying LTV to Cache ratios become super important, but not just that, you cannot look at all your company, all your sort of clients in let's say that you're onboarding 2022 in the same way.

But you do a segmentation of let's say SMB mid-market and enterprise, and you're like you make a decision of oh, LTV, cack and mid-market is the best so far. It's eight as opposed to two or three, and so you basically invest more in mid-Market, because that's the most high performing, right?

Bryan M.: Yes, that's right. Especially if you have multiple segments you're going after, they often are performed differently over time, and they have different cost models in terms of how you go to market whether it's channel or inside sales or maybe direct sales. So yes, I think it is important to have that segment layer as well.

Divash B.: Yes, awesome. This question came up to me, because we've talked about this before, right? And there's always this internal pull between do we go for more enterprise clients or do we go for more mid-market? Or do we just go full PLG and just go for SMB customers? And as a CFO, do you have a preference for the type of customer? Are you looking purely based on these LTP CAC numbers by segment and making a preference?

Bryan M.: Yes. I would agnostic as long as the motion is efficient, and produces over time, right? So at Demandbase, we have a business that is roughly split 50/50, excuse a little bit Enterprise versus mid-market.

I think the question is, especially early on, is how do you stay focused and get something that's repeatably successful in a segment before you expand to another one? So I think it's rarely the case that you can do a good job at SMB mid-market and Enterprise early on, I think you need to focus on the one where you're best suited for, excel at that and then consider expanding. It's not easy to expand into new segments, and there's different buying personas often, certainly different buying groups and the motion is often different.

Now what helps I think many companies in this kind of digital first world is that you're able to connect with people easier, particularly in a world where not everyone is coming into the office for demos of software like we used to do 10 years ago, right? So I think there are some things that maybe are increasing your ability to address multiple segments at once from a go to market motion perspective.

But I still think you want to be careful around the success metrics in a particular segment before you expand into another, because no doubt there will be, I would say even different leadership that's going to be required for different segments.

Divash B.: Yes, that makes sense to me. Yes, it is definitely, I feel like many companies given the different stages of growth are more suited to market towards a certain segment. And yes, if you're a mid-market company, it is difficult to make the transition into enterprise, but not impossible. But yes, it definitely a good advice there for sure.

Bryan M.: Yes. Most parties go mid-market to Enterprise over time, but there are some that start in the Enterprise. I would say that's a little more rare.

Divash B.: Yes, absolutely. You spoke about the buying process a bit more, and you also hinted towards people don't go to a demo in office anymore. So we'll talk about the remote first a bit later. But first, I wanted to get your thought of the buying process and how it's changed, right? So for us, our buyers are CFOs ultimately, and now it's turning after the case that CFOs are getting more involved.

I mean, you can't open LinkedIn and not see this as the first point, same force is a new buyer, so you better, I cater to them and make sure that you are checking all the boxes that a CFO is looking for. How is the buying journey changed? How do you as a CFO sort of get involved in your own companies buying decision? And yes, just if you could walk us through a particular a purchase or more generally, how is the process changed around this, give us a sense of how it has changed.

Bryan M.: Yes. So I would say number one in this macro environment, tool spending is increasingly under scrutiny. And the reason is, I mean just from a CFO perspective, one of the things you're paranoid about is this notion of like SAS sprawl. You've decentralized authority around tooling in such a way where any function can purchase a SaaS tool, and assuming it overcomes basic hurdles around kind of infosec and it can be rolled out and administrated at essentially the business function across the org.

And so, what you have is oftentimes for companies over 500 employees certainly over a thousand, it's not unheard of to have well over 100 SaaS tools out there. And the question that goes through my mind is how utilized are those tools? Is the person who bought that tool still an advocate for it? And is it as powerful today as we thought it was a year or two ago when we bought it?

Did we buy it under the right terms? Meaning, did we get into a multi-year deal for something that we haven't really utilized to the extent we thought we would. And then how do they kind of talk to each other? One of the things that we're seeing, particularly in our space, if you look across kind of the revenue tech, marketing tech landscape, as you know there are thousands of businesses, many of them subscale and by subscale, I mean, less than 25 million in ARR.

Not that some of them won't get there, many of them will. But there are many who have kind of withered at that subscale zone, but they haven't yet gone away. And so it creates a lot of confusion if you're a marketer around who does what in the stack, and gosh, do I want my data in a point solution that isn't really talking to my other systems of record, probably not.

And so I think integration of data within a particular tool to other key tools, so that that tool can be more effective is kind of a sometimes an understated issue. And so you think about all these things. So I think the one thing that I really impress upon my teams when they come to me with like tool requests, is I really test the champion around how critical it is, who's evaluated it, and the use cases for which will determine success.

So a year from now, how will we determine success around this tool investment or not? Show me your metrics today, and then we'll talk about them down the road. I think that's sort of the basics around buying. It is typically not a good sign if the CFO gets involved directly, because for me, it's clear that my business champion hasn't done a good enough job convincing me that this is a great investment for the business, and I've kind of got to go deeper.

It's not to say you can't just go deeper on just negotiation and pricing, that's also a motion that many CFOs are good at. So I think it's a combination of business suitability, and then making sure you're getting the right deal, and the structure of the contracts sufficient.

Divash B.: Now, that's a great response. Thank you so much for this clarity. Because I do think there are a lot of tools for, and for every single point solution, and me as the primary purchaser of all these tools in the past for my company, because I set up sales ops and rev ops functions, it is a difficult journey, right?

And just you want let's say attribution software for marketing and there are like 15 of these leading software’s on G2 and then you go through a demo, and you feel like oh, the features all the same, but what's the real value? And it is quite challenging and that makes a lot of sense.

Going back to people and remote first, right? So as you said, the biggest resource that we all allocate are people, right? And so you mentioned two-thirds, that seems to be the case for most companies. So about 70% off our resources are people, and so that's how we got it. We got to allocate that resource properly, and ensure that all of the management systems and processes are in place for maximum productivity, right?

And going back to sort of, I want to get a sense on the future of work. Like how do you see in maybe six months, twelve months or whatever time frame in the immediate future. How do you see the future work? Is it still going to be on remote first especially for tech companies? I see a lot of tech companies have adopted the most remote first model, or will hybrid ever make a comeback?

My assumption and I don't know if you think differently, is that a fully five days nine to five is probably difficult especially for the tech industry, or I don't know other Industries? But what is your view on the remote first versus a hybrid model?

Bryan M.: Yes. Look, I think remote first can often mean that you get together when it makes sense in person, and those are really effective interactions. That's what we do with Demandbase, I think the pandemic was a catalyst for a lot of digital transformation. So I would say arguably if your business somehow plays into digital transformation, you probably have some bias around remote working being efficient at some level.

Now, I don't think it's perfect, so we can talk about some of the challenges. But I think what's worked for us over the last couple of years is we've hired with intention outside of the bay area, so I happen to be based in the Bay Area and most of my team's here. But I would say there's a slight preference for Bay Area, but it is not critical, especially in many roles. We're really all across the US for our domestic positions, and then we've got a big size team in India as well. So we're pretty open to hiring the best talent where they're at.

Now, I think the challenge is for many managers are how do you get the most out of your employees? How do you ensure you've got employee productivity? And how do you deliver constant and critical feedback in a remote first world? It just so turns out that I think for most people, it's easier to deliver feedback in person. And this interacting over video is really great and easy, but you should not sacrifice some of the things you would do naturally if you're in person.

Now, I love for longer form deeper conversations to be in person. So my teams are getting together at a minimum quarterly for longer form high quality discussions, and our broader teams are getting together in person at least twice a year, and we're having really I would say thoughtful produced tracks over the course of a couple days that tend to be pretty effective.

Now, that's worked for us, but it does I think take a little bit of a mindset shift to make sure that you're checking in with people. One thing that I would say is it's definitely harder with a remote first policy is kind of how you onboard, and how you deliver feedback. So kind of that people motion of welcoming people in, it's just different when it's remote. So I think you got to take advantage of the opportunities to get in person in those situations.

Divash B.: Yes, absolutely. That's a great comment. When in my previous job, I remember we were obviously fully in person and then we went fully remote, and then we had a bunch of people joined after we went fully remote, and the relationship between the people that I knew in person and the people I've never seen, and this was like mid-2020s, so it was at the height of the pandemic, there was no chance of you even like going out of the house then. And so, the relationships were very different, right? Because you've never seen this person ever, there are a bunch of people you've seen before.

So onboarding, I can see how they've become challenged. But I feel like now there is more flexibility because you can actually technically go out and meet people. And so you can actually intentionally build those in-person relationships, so that working remotely becomes more easier as you mentioned. So that's definitely I think something that's productive for the future as well.

One final question, and obviously we're at 30 minute and we'll let you go. And this is not a question, but I just want to give you a chance to share anything else that you will want to show other Finance leaders or CFOs even as they go about navigating a fairly uncertain world in the next hopefully not too long, but 12 to 18 months?

Bryan M.: Yes. I mean look, I don't have any particularly remarkable crystal ball here. I think for me, I really value the network of CFOs that I've been able to engage with over many years, and just the broader ecosystem of service providers, to kind of really share thoughts. There are some wonderful CFO networks and if you're not part of one and I can help plug into one, love to do that.

But I think just leveraging each other for areas where you're dealing with something for the first time, we had a bit of a banking crisis a couple months ago where it happens so quickly, and I was so kind of amazed by the power of the network to share information on kind of a very real time basis, in order to help each other out and that was really powerful.

So I love trying to be resourceful and stay connected with communities for sure. So I would just say spend enough of your time doing that, so that you feel like you've got that outlet when you might need it.

Divash B.: Amazing, great thoughts there. Absolutely, thank you, Bryan, that's all the time we have today. I will not take more of your time. I really enjoyed this conversation, and thanks for all of the insights and nuggets of wisdom that you've shared today.

Bryan M.: Yes, I really enjoyed it, Divash, thanks so much.

Divash B.: Thank you.

[End of Recorded Material]