Bootstrapping a SaaS Company

WITH DEB MULLER

APRIL 2021

Deb Muller is a Founder and CEO of HR Acuity, a Software company that provides solutions for employee relations and investigation services. After serving in executive HR roles at numerous Fortune 500 companies like Honeywell, Citibank, and Marsh & McLennan, Deb launched HR Acuity to create technology with built-in expertise and equip organizations to manage employee relations more strategically.

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Aznaur Midov (AM): Deb, thank you very much for being on the podcast. We are going to talk about HR Acuity today. But to start, tell us about your background and the company's story.

Deb Muller (DM): First, thank you for having me. So how did this all start? It was a little bit accidental starting. For many years, I was an HR professional who happened to do a lot of workplace investigations – I dealt with employee relations issues. It is one of those things that the more you do them, the better you get at them, and your company starts handing you more complex cases. You kind of become the go-to person. And while I love that aspect of my job, I never really wanted to continue to rise in corporate America. So it made sense that I would go out on my own. That's how I started HR Acuity, a provider of third-party workplace investigations.

The company started in 2006 as strictly a service provider, and there was no thought of technology. I started going out to my network and saying, "Hey, we're here to do investigations." And as we started talking, I realized that this problem that I knew existed from my own experience doesn't have standardized tools – there was no way to do investigations. It was very desperate; people brought their own way of doing it, there was no consistency. And that was a problem – there was no consistency. There was an awful lot of information that was being left. There was no way to aggregate data to understand if investigations were done right or wrong. So, I decided that there was an opportunity there.

At one point, I was talking with AOL about training and investigations, and they started asking me about my investigation process. I kind of been thinking about what I was going to do. So I said to them, "All right, I'm working on licensing my technology, and I had no idea what I was going to do." When I went home, I thought, "Well, I can't license them what I have, it's sort of Word-based, and they are AOL; they don't use paper. I have to make some type of a web-based tool."

So that you know, I had no technology background at all. My technology of choice was PowerPoint. I didn't have very good assistance throughout my career, so I got really good at PowerPoint. So I sat down, opened my PowerPoint, and drew a login screen. And then I knew

that I would go to some type of dashboard. I just kept going, kind of creating my process in PowerPoint. Before I knew it, I had about 50 screens. So the process was there.

I got HR leaders and lawyers all together around my dining room table. I served them a sushi tray, put on my son's zoombox projector, and showed them this technology I had built. They were impressed and said, "We think you need it. We think this is something there. There's nothing like this out there." So I decided, like I often do, to jump into the deep end. I knew I had a little bit of money that was saved. I didn't think it would take much time. And I thought, "Well, why not?" And there we were off to the races.

AM: How would you describe the solution that HR Acuity offers?

DM: HR Acuity's mission is to create safe and better workplaces. How do we do that? We are the only technology platform built explicitly for employee relations and investigations management. Organizations implement HR Acuity to document day-to-day employee issues such as performance concerns or policy violations and conduct compliant and thorough investigations when there are allegations of workplace misconduct, such as harassment or discrimination. Through the consistent best practice processes and use of data analytics, the organizations then can then proactively uncover trends or biases in the workplace and share trusted experiences with their team members. And importantly, protect their brand from reputation-damaging headlines.

AM: It's obviously software but was it always SaaS?

DM: Early on, one of my investors who worked at Red Hat at the time said to me, "You should do SaaS." And I was like, "What's SaaS?" Remember, I have no technology background; I didn't know what that was. But I did some research, SaaS seemed to be up and coming, and we went with it. It's interesting how I think back to the early days, our discussions with many prospects about whether or not we would install our solution behind their firewall. And thankfully, we held firm, and we never went that way. We developed it as a SaaS platform and never have those conversations today.

AM: Since you started, we've had the MeToo and BLM movements. Has the need arisen for your software? How has the solution evolved over time?

DM: It's a great question. It's definitely changed. First of all, we launched in the middle of a recession. So that was interesting. In some respects, it was helpful because there is a direct correlation between unemployment and EEOC (Equal Employee Opportunity Commission) claims. If you think about it, when unemployment goes up, claims to the EEOC also arise.

As a practitioner, I knew that there was a need because the employee relations were still very transactional, very decentralized, and there was no consistency; therefore, there was no ability to leverage data, which to me was a huge opportunity. These are your human resources, your most

expensive resources, yet you aren't tracking and identifying their behaviors or their deviations from the norm and what's expected from them. In a world where data is driving everything, this is a big miss for organizations.

But early on, I still needed to find people that got it because they weren't looking for it. No one was really paying attention to this part of the organization or this part of HR. I was fortunate to find early adopters. And as a result, I got some great clients that were ahead of the curve –ADP, LinkedIn, Bloomberg. But as you mentioned, today's world is very different than in 2009 (when we launched). A lot has changed, in that has undoubtedly helped the trajectory of our business and the need for it. As you said, there was a big change in 2016 with the MeToo movement. I think Susan Fowler's blog about her time at Uber was a big turning point for us. That really gained momentum and has only continued to expand.

What's happening now is that every CEO is putting out on LinkedIn or social media their commitment to diversity, equity and inclusion, their commitment to the Black Lives Matter movement, and the social justice reform. How can you make those commitments if you don't know the impact of the behaviors of your employees or the actions taken in your organization to determine if they are equitable?

How do you know, for example, if the managers across your organization are delivering written warnings proportionately to your black and brown

employees versus your white employees? So if you have more than a thousand employees, you need technology. If you can't answer those questions, then there is a gap. And if you are serious about driving change in equity in your workplace, you need these insights, and you need HR Acuity.

AM: Obviously, there is more interest in this subject now. But how did it affect your sales process? Did it increase the inbound interest, or it just made it easier for salespeople to describe the problem you solve?

DM: It's both. We are absolutely seeing the momentum, both in our outbound outreach but also inbound. I can't even tell you how many RFPs my sales team is dealing with right at this moment. Companies are looking for solutions. They realize that doing nothing or even Excel isn't going to work. Many companies have tried to use traditional case management solutions that they use for ticketing or for help desks but realized they couldn't do this type of work, which deals with such sensitive issues with your employees, where trust is so important with that type of a software solution.

AM: When I think about employee relations, I think of it as something done in person. With COVID, people are not necessarily in the same room and can't misbehave. Did it reduce the demand for HR Acuity?

DM: Interesting; I think when COVID hit a year ago, none of us knew what to expect. But it impacted our clients and our

prospects from day one. Employee relations and HR had to drop everything and deal with COVID-related incidents. They were running without a playbook of any sort because no one had done this before. And when it came to documentation, that became critical. So what happened on a Tuesday with one employee who maybe was sick or was exposed to COVID, and how you dealt with them might be very different the next week with a similar situation because perhaps the Department of Labor has now issued new regulations. Organizations recognized they needed to document things immediately.

People were working from home. How are we keeping in touch with that? How are we making sure that managers could work with them could document what is happening? They became the frontline. I've read how a CFO was the frontline during the 2008 financial crisis. During COVID, the Chief HR Officer and the HR professionals became the frontline. So we had to think about how we were going to respond.

We did it in two ways. First of all, many of our prospects weren't that interested in buying software. They have other things to worry about. So we supported them through our community. We have a very large employee relations leader community, and they were all dealing with this simultaneously. We provided them with help; we did surveys and offered shared information so they could see what each other was doing, which supported the community. We also very quickly pivoted and started offering HR

Acuity for free. Any organization could come, and we'd get you up within 24 to 48 hours to use HR Acuity for documenting your COVID-related issues. We also offered free user licenses for some of our clients so that they would have the tools they needed. Consequently, we've converted many of those to paying customers, but we just wanted to do something to support people during these unprecedented times.

AM: Who are your typical customers: Enterprise, SMBs?

DM: Typically, our clients start at about 1,000 employees. If they are smaller than that, they are typically fast-growing. For example, some of the listeners might know Magnolia (Chip and Joanna Gaines), that runs a show on TV; they have a big enterprise out in Waco, Texas. They are a smaller but fast-growing organization.

On the other end, we have mid-market companies like Sheetz. And then there are large enterprises, such as ADP, LinkedIn, Lyft, MasterCard, Qualcomm, Verizon, and Adobe. We have clients across every industry. And what's exciting when we look at our client list is that we really think we can name a leader in each industry as one of our clients.

AM: Tell me a little bit about the pricing model. Is it per seat, per module?

DM: When I started HR Acuity, I felt very strongly that we should price based on the number of employees in an organization. So

if you have X number of employees, you pay Y dollars per employee, and then you'd get unlimited HR licenses. And I felt so strongly about this, and I still do today, because if you want to have data you can use, you need to ensure that everybody has the tool available. The data will not be helpful if you just pick and choose based on the limited number of licenses you can afford. And while the process consistency is a value, really understanding what's going on in your organization is just the game-changer. We price our Enterprise model like that. Procurement doesn't like that model because they typically don't see it. So we flex a little bit. We have a Professional model, which has great features, but not as many as our Enterprise model, and we do those on a per-seat basis as well.

AM: I'm wondering about the stickiness of this software. Can you provide some retention numbers, the gross and net, if it's not a secret?

DM: Well, I can't provide the exact ones. But we are very fortunate because we rarely lose our customers. Our gross revenue retention is near 100%. And our net revenue retention is comfortably over 100%. And I attribute that to a couple of things.

First, I've spent years on the receiving end of a terrible HR technology that clearly was not developed by anyone who had ever done anything remotely like what I had to do daily. Clearly, some engineers went into a room and tried to figure out how to do our jobs. But HR Acuity is practitioner developed, it's

purpose-built, meaning we truly understand that the people using our product are doing day-to-day, and we understand what's important to them. And we continue, through both our employee relations community and our clients, to listen to their needs to see what's coming, even before they see it, and think about how technology can solve some of their challenges.

And second, sort of similar, but I also know what it's like not to have a good experience with technology companies as a user. So from very early on, our company's culture and values emphasize truly treating our clients and everyone we work with as partners. And I think that's made a difference in the company's success.

AM: How big is your team?

DM: Right now, we are around 60 team members and growing very quickly. We are in the middle of hiring VP of Marketing Research and Director of Engineering positions, but growing very quickly.

AM: And what's the company's structure?

DM: It's fairly typical. It's hard when you start a company of one, especially when you are bootstrapping, to know when it's time to formalize the company's organizational structure and to be in a place where you can afford to do that or to start growing it. It took us time to build that out.

So, my first hire was a salesperson in 2009, which obviously makes sense. She and I were doing whatever we could together, very

scrappy, trying different tactics, anything to get people to listen to what we had built. And then, I was slowly able to add resources here and there. One of the things you hear as an entrepreneur is that your organization will change when you hit different milestones, like zero to $1 million is going to look very different than $1 million to $5 million and so on.

We've been pretty textbook in that regard. After sales, we needed some more marketing. At first, we brought in some agency help without hiring resources, then eventually, we hired a VP of Marketing. And again, now we're looking for a new VP for Tech and Development. I initially relied heavily on outsourced resources. We are fortunate to have a great partner firm, Chenoa Information, with whom we've worked for years.

But in 2017, I went to the SaaStr Conference. It was in San Francisco, and I was listening to all the seminars from the big SaaS companies on what you should and shouldn't be doing. And my big epiphany, my big takeaway, while I was there, was that I was a tech company without a tech lead. So I hired my first and current CTO later that summer.

Things take time. The Product is the same thing. For a while, Product was kind of a game of hot potato where we all played a role, then I, by default, was really the product leader. It was my baby, but we knew that we couldn't scale. So we brought on a product team. I am excited about the new CPO that joined us this past fall. Customer Success has a similar story; one of my very early employees started with me doing

implementations part-time, and I grew to be my VP of Customer Success. But that also has recently evolved. We saw such growth last year that I had to make a strategic decision to separate out Customer Success, which at the time included implementation and professional services, into two functions.

So you know, I tell my team now, I just had a new hire luncheon today, we had a lot of new hires, and I had a virtual lunch with them. And what I tell them, and what I tell people when I interview them, is that the HR Acuity org structure will look different at least every 12 months. And if that stresses you out, if you want to know what your role will be, if you need to know what title you will get next, this is not the place for you. But if that makes you really excited because it means opportunity, then Welcome Aboard! You're going to do just great.

AM: You mentioned that you experienced high growth in the last year or two. What caused it?

DM: It's a couple of things. The MeToo movement, all the things we talked about, really elevated the conversation. Employee relations has indeed become strategic. So, when you start looking at things strategically, you start looking at data, and you want to have insights and stories to tell. And if you don't have the structure, if you don't have the technology to support it, you need to go looking for it. I mean, the other thing, quite frankly, is we took on the investment.

AM: You mentioned earlier that you're bootstrapped, but then it

seemed like you received investment. Walk me through the process - first, decision-making to take the investment. And second, how did you choose investors?

DM: I'm trying to remember if it was 2014 or 2015; I was working with someone who told me I should get some money. He helped me put together a deck and all these meetings for me. And off we went to the races, going meeting after meeting. The problem with that was I didn't believe the story. And so when I looked at it, I didn't honestly believe that if I got X amount of dollars, it would expand my business by whatever percentage we put on there. That was one thing. And that was problematic because I wasn't willing to give up a portion of my company for something I didn't believe I could achieve.

I also didn't like the people that I was meeting. I don't want to say stereotypical VCs, but they sort of were. This is my baby, and I'm passionate about it. I want to make sure the people that I work with are people that understand me, understand our vision, and want to be part of it with me. I also found out that fundraising is extremely time-consuming, and I didn't have a lot of resources then. So while I was attending all these meetings, I was not running my business. And I just had to stop and just say, "You know what? I got to go get more customers." So continued along the path. We were growing at a pretty good clip, not hockey stick growth, but fairly well.

And then, in 2018, one of my longtime advisors sat me down

and said, "I want to invest in your company. I think you need capital, and I'm going to put together an angel round." I said, "Well, that's great. Thank you very much. Let me go back and let me think about it."

I still remember this because he was not happy with me when I went back, and I said, "Steve, thanks very much, but I'm good." I think he was shocked. A week or two later, he called me back and said, "You need to rethink this. I don't want to see you undercapitalized and lose momentum. It's a time for you to raise money." We talked about it, and I agreed.

He led the angel round in 2018. I recognized very quickly that this wasn't so bad – I could make different types of hires, and we could take different types of risks. As the world continued changing, we started seeing this trajectory. I started thinking, "Do I need more? Maybe it is time for me to take on more money." At that time, I was getting daily emails from investors who were just willing to open their checkbooks, or so they said in the emails. And I would speak to them every now and then.

Along the way, I spoke to Steve on the phone at Growth Street Partners. You've actually interviewed him on your show, and it's a great episode, if anybody wants to listen to it, I give it a plug there. I talked to him on the phone. And I really liked him. They were different because previously, it was kind of a low-level associate calling me who probably never worked anywhere in their life. Growth Street – they were the partners

and had experience. We had a great conversation, but I wasn't interested. I think I had just gotten the angel round and didn't think I needed any money. They were coming to New Jersey at some point and said we should have coffee, and I agreed. And then I blew them off. So you know, kind of out of sight, out of mind.

Then in February of 2019, when I was thinking about debating whether I needed more money, I went to San Francisco. We were doing and continue doing a lot with tech companies, so I was visiting Lyft. They were a prospect at that time. As I was going through their office complex, I noticed a door that said Growth Street Partners. And I thought, "Oh, I think those are the guys I talked to." So I knocked on the door. Nobody answered; they were probably out playing ping-pong or something. I sent Steve an email and said I was in the neighborhood. And he wrote me back and said, "Look, next time you're in town, stop by; we'll have some coffee."

Fast forward to July, back in California, back visiting Lyft in the same office complex; they were now a client. And I told Steve I was going to be there, and he said, "Hey, come by, we'll have coffee." I was not thinking of fundraising from them. For some reason, I thought we had outgrown them. I don't know why, but that was my thought.

On that trip, I brought with me my SVP of Sales. She had not even started working for us yet. She was starting in a couple of weeks, but I was going on this trip and

meeting many clients and prospects, so it was a great opportunity for her to join. I said, "Hey, you know what? We're going to stop by, and we're going to have coffee with these two guys. They're with an investment company, but it's just good to network, get to know them." I mean, who would do that if they were looking for money?

So anyway, we had a really good meeting. I think they had the best interest in our company and would be really helpful. So, we started doing due diligence and going down the path. We closed the round in December 2019, and it's been great.

I think people look at your business differently when you have institutional investors. The money has opened up our ability to hire great talent. It frees us up to be bold, and being bold is one of our values and one of my favorite values. It lets us step up and take some risks that we couldn't have before. And more than the money, it's really provided us with tremendous resources. So Growth Street Partners is growth equity, which is sort of, as you know, sitting somewhere between VC dollars and PE funds, right?

AM: Yeah, this sounds like a pitch. Are they paying you to say all these things?

DM: No, they're not!

AM: OK, let's continue.

DM: And so they invested. I didn't know this, but apparently, the growth equity invests in fewer companies and gives you

operating resources to really help you grow. They are really invested in your success. And they know how to scale the business. So that's been great. They let me run my business. They don't tell me what to do, but they give me the expertise that I need when it's there.

I have to say people ask me often about my investors. I tend to say that a year into the investment, the experience has been totally as advertised. I would just say as an entrepreneur; I'm glad I made the decision. I heard so many times, don't take VC money, hold out as long as you can, hold on to your company. And that wasn't the right decision for us. The right decision was to take money with the right people.

AM: So, what's the long vision for the company?

DM: My vision for the company has really evolved since I started. So early on, I felt we were a niche player, maybe to be hooked onto some larger software at some point in the future. And perhaps that will happen. But what we see now is that the world has changed tremendously. Employee relations is and really should be its own category, given the current work climate, the complexities of our global economy, and the changing role of the empowered employee. Employee relations is its own category, similar to how Customer Success has evolved into its own category over the past few years. Through our thought leadership and technology leadership with the employee relations community, I am confident that HR Acuity will be leading that category.

AM: That's awesome. Some entrepreneurs are listening to this podcast; what advice would you give them, especially those who bootstrapped the companies?

DM: Believe in what you're doing and yourself to get it done, and don't overthink things. You don't have to know how to do everything. I often think about if I early on had researched how to build an enterprise technology solution, what infrastructure I needed, what security, etc. Remember, I had no tech background, so that I would have run away so fast. I would have just said, "Well, that's for somebody else to do. How can I do that?" Because I knew virtually nothing about technology except what I knew as an end-user.

But if you are self-aware of what you don't know, you are savvy enough to get the right people to help you, and frankly, you say goodbye quickly to those who are not helping you, you will be OK. The other thing is just to do it. You know, one of the things that I think has helped me on my journey is that I have a tremendous bias for action. But with the bias for action, you also have to be willing to admit when something isn't working and then just pivot, move on and let it go.

AM: Thank you, Deb, it was great.