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The Halcyon Group: A Case of Relationship Marketing and Partnership Development

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Abstract: This paper explores critical success factors employed in the process of creating and developing a technology business involved with innovative financial analysis software along with the key role of a business school in both beta testing of the software in the classroom then strategizing the marketing of the software into the academic marketplace. It also discusses the role of relationship marketing in the creation and development processes. These factors were essential to business development and success both in regard to the entrepreneurial leadership within the business, the marketing strategy relative to the academic marketplace, the staffing of the business with graduates of the college, economic development issues in the region at that time, and the technological revolution that provided the opportunity for financial analysis software to be created and nurtured at that time. The philosophical underpinning for these processes is a need to build bridges (or relationships) as opposed to moats with partners and stakeholders of the academy. Most of what follows has been adapted from the authors' paper that was presented at the 2012 AMTP Annual Conference and is cited in the reference section (Rudd, Brinson, Brinson, & Kent, 2012).

Key words: relationship marketing and partnership development; leadership and entrepreneurial leadership; financial software development

JEL codes: M13, O31, O32, O33

1. Introduction

Based on history from a personal viewpoint of the Halcyon co-founders as well as an academic partner, this paper shares the history involved with creating and developing a financial analysis software package including the critical relationships involved as well as the latter role of an area liberal arts college. It discusses the critical importance of creating and subsequently sustaining key partnerships and the role of relationship marketing in this process. Our analysis is based on related retrospective and prospective benchmarking of initiatives and their

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success as well as the underestimated element of risk management from the perspective of entrepreneurial leaders, venture champions, and funding sources.

1.1 The Concept of Relationship Marketing

Use of a relationship approach in studies of interactions among customers and product or service providers is comparatively recent, considering that the phenomenon itself is as old as trade itself (Gronroos, 2004). Gummesson argued that relationships are "contacts between two or more people, but they also exist between people and objects, symbols and organizations" (p. 33), and that interactions were the activities performed within relationships (Gummesson, p. 1196). A relationship marketing view encompasses aspects of control, trust, and risks that are not always apparent in studies focused exclusively on transactions and exchange among the parties.

Relationship marketing is a perspective based on the premise that additional value for both customer and provider is created by the relationship, one that exceeds the value of the products exchanged (Gronroos, 2000). As opposed to a simple, dyadic relationship or marriage between supplier and consumer (Dwyer, Schurr et al., 1987), the concept of relationship marketing may be expanded to include all stakeholders involved in the activities, or "neo-relationship marketing" (p. 185), acknowledging that more than one dyad may be involved in any given exchange situation (Healy, Hastings et al., 1999). In this study, however, we focused exclusively on managing success factors related to relationships and champions, since the founding partners were the only likely funding sources for this initiative. Despite finding more than 26 definitions of relationship marketing in his content analysis study, Harker found that seven conceptual categories for the constructs emerged (Harker, 1999). The first two of Harker's seven categories—creation and development of financial analysis software—are the focus of this paper.

1.2 The Concept of Partnerships

> Partnerships are important in 21st-century academic communities as educators seek ways to address the challenges posed by recent pedagogic, demographic, societal, and economic changes. (Mathie, 2002)

In business partnerships among disparate parties, characteristics such as commitment, collaboration, communication, and active participation are widely accepted as keys to success (Cronin, 1970; Mohr & Spekman, 1996). In their study of reciprocity among institutions engaged in international partnerships, Green and Gerber observed that partnerships are seldom sustainable unless benefits are evident to both parties (Green & Gerber, 1996). In a similar study of international institutions by Heffernan and Poole, low levels of internal commitment, a failure to identify key roles and responsibilities, and a failure to establish win/win relationships were among the causes of partnership deterioration (Heffernan & Poole, 2004). Arguably, the lessons learned in these and other studies may have application in studies of partnerships *within* institutions as well, especially those that involve parties such as partners, customers, employees, and even faculty and colleges with potentially disparate interests. Using the frameworks developed in studies of relationship marketing and partnerships, we examined success factors that were in place in order to develop Halcyon, a financial software business, with support from and partnership with a state supported, Liberal Arts College.

2. Creation and Development of a Financial Software Business: A History

Given the benefits of hindsight, can the constructs of partnerships and relationship marketing provide insights on efforts to create and develop a financial analysis software business? This business and related model were born of necessity and opportunity. The necessity was that, in the mid 1980's, the entrepreneur and former international business CEO was out of a job, and had just experienced a business failure with a start-up in what would normally be a fast growth business with extraordinary partnerships. He had two children in college with all the attendant obligations. The opportunity was that, in the early 1980's, the PC was just beginning to revolutionize the use of computers in business and his brother was a crack computer programming engineer who just happened to be employed in an organization that would be adversely affected by government cutbacks similar to what this country may be experiencing in the future.

After the failure of his business venture, which involved the production of value-added products from corn (corn starch and fuel ethanol), he took stock of his considerable resources. He had his health, his education, his support group and relationships consisting of a close and extended family, and friends and business associates. He also had the valuable lessons learned from a long career in business as an engineer, financial manager and general manager in both large and small companies, many of which were world class. Another huge asset was his wife, who was an educator that had kept her professional license up to date and had enhanced her education through the years. So her ability to continue in her profession was no small comfort to them and allowed some margin for taking additional risk. He had no capital, having expended all of that in the previous venture, but he had not declared bankruptcy which meant that he did not have the financial and reputational restrictions that would come from that. And more importantly, he knew that, having tasted entrepreneurship through his failed venture, traumatic and depressing as that experience was, he wanted nothing to do with "getting a job" and he had come to realize that entrepreneurship was the only thing that would satisfy him. But what specifically was the proverbial question as it is for so many of us?

One of his stops was his brother. As the head of a programming department at a local DOD operation, his brother recognized the opportunities that would soon be opening in the fledgling PC world. What an intriguing world it was! An emerging industry with the power to change the way business is done. He had numerous ideas as to how it could be exploited, so they were soon deep in discussions and began to develop a plan while identifying key relationships. They would lean on his brother's knowledge of and contacts in the world of computers and on his knowledge of and contacts in the business world. After a few brainstorming sessions and some false starts, they developed their plan.

The reader should realize at this point that they were dealing with a world of small, limited-capacity computers; cumbersome, unfriendly programming tools; and a business climate that was only beginning to recognize and accept the work-place freedom that the PC would ultimately bring. Business was accustomed to large, centralized computer systems with centralized corporate control and responsibility. There was huge resistance to upsetting this paradigm. So, they were not just starting a new business, they were helping to revolutionize the world of business through decentralization of control and decision making. Of course, like everyone else except perhaps the most enlightened of prophets, they had no idea how pervasive this revolution would be!

Back to their plan and key relationships in its inception and development, the entrepreneur's brother was the computer guy and the key person who initiated their desire to explore this intriguing field. The entrepreneur and former corporate CEO was the business guy whose responsibility was to find the business application that made the most sense. They knew they were going to do the deal and "get into the PC world". The question was: What was their product to be and to whom would they market it to and what would be the critical relationships that would make the latter happen? The CEO's experience set led naturally to the field of finance. Starting with an MBA earned from the University of Chicago in the field of finance where he studied under Milton Friedman and carrying through professionally to general management with large corporations and small startups, he had been involved with business analysis and bank financing most of his professional life. He knew how to analyze the financial strengths and weaknesses of a business through its financial statements and he knew what the bank was looking for in making commercial credit decisions. He also knew that banks were very slow to embrace technology. Even though the system of analysis and decision making was well developed to the point that it could be automated, banks were not engaged in the automation process at that time. He also knew that government lenders and guarantors such as the SBA and economic development corporations were in need of decision making tools that were needed by consultants such as SBDCs and accountants who had similar needs. So there was a huge potential across many industrial sectors for the marketing of an automated system for analyzing commercial financial statements. That's where they decided to focus.

With the technology and general management sides covered by the brothers (and partners), they decided that they needed a partner who could handle the marketing side of the business. Their brother-in-law had just left a lifetime in the retailing business and thereby knew a lot about marketing. He was also available. They invited him to join this growing partnership, thus forming a critical mass. With all due respect to the fact that, with his business education and experience, the entrepreneurs should have known better, their business plan was strikingly simple: Each of the partners would put $5,000 in the pot and pledged that they would grow the company through internally generated cash flow. This was a huge restriction that would lead to enormous discipline while minimizing risk management on their part. All three partners bought into it. It was ultimately the critical factor in venture success. Operationally, the division of labor was: the entrepreneur would provide the product design and functionality as well as the selling, his brother would program it in his spare time, and the brother-in-law would head the marketing effort. The rest is history. Twelve years later, when they sold the company for multimillions of dollars, the assets that went with the sale were booked at $35,000.

In their first year, 1984, they logged their first sale. The buyer was a Small Business Development Center which became the critical relationship in fostering further business among this kind of client or customer. Product pricing was in the range of $300 to $400 per copy and was delivered in hard cover form on eight "floppy disks". Again, the entrepreneur's brother did the programming in his spare time at his home. Production, administration, marketing, and sales were done in a spare bedroom of the entrepreneur's condo. Their next sale was to a franchised business consulting and accounting firm in the region. The franchisor was General Business Services out of Maryland with hundreds of franchisees nationwide. The nationwide connections through SBDCs and GBS got them kick-started and they were off and running. Sales efforts with banks in the state yielded no results as yet, but they were generating capital now and felt the bank market would soon come around. Client and prospect feedback from SBDCs, GBS and banks had given them some product improvement goals as well. As they accomplished these, they put some serious money into marketing: visiting conventions, direct mail campaigns, cold calling, testing new markets, etc. The policy and best practice was to "stick their toe in the water" with each new marketing initiative and never risk much money on any initiative until they were sure they wouldn't LOSE any money on that initiative. Any initiative that they could confirm would at least return the investment necessary, they went ahead with.

Product development and marketing efforts finally yielded fruit with the banking industry. They found a niche with considerable and highly valued relationships with the $100-$600 million asset banks, known in the trade as community banks. This niche was in desperate need of affordable, reliable loan decision-making software. There were two serious competitors in that market, Baker Hill and a company in Indiana that has since been sold and shut down. The rest of the competitors were disorganized and poor competition. In addition, through the

SBDCs, they were introduced to the Small Business Administration in the state. That led to contacts in Washington, which lead to another nationwide network of prospects, SBA offices throughout the country. Economic Development companies, of which there are hundreds nationwide, were a natural extension of the work with the SBA. In addition, the successful work and related relationships with GBS led them to look for other national business service chains, some of which they were successful in selling to. Their organization was carefully growing to meet the needs of these diverse markets, and new ones that they were exploring, such as corporations and education.

By the late 1980's, much sooner than they expected, it was obvious that the software development need necessitated that the "expert" brother would have to come on full time. Business success was requiring the expansion of the business in all areas, including technology development. He decided to take early retirement from the government organization and join the growing venture full time, taking on the responsibilities of growing the technology side of the business. That became the key to the venture's ability to take on the challenges of this rapid growth.

Within a few years, as they became successful in the markets that they were serving, they could track growth in both revenues and earnings at 20+% per year. Their flagship financial analysis product had now developed a couple of offshoots for specialized markets and, internally, had grown to become an "expert system" that included narrative reports on the trends of a company's finances, warning indicators, and projections. Regular testing of the market for price elasticity had led them to price increases into the $1,000 to $1,500 range and more for enterprise-wide deployment.

With this, they established a goal to aim at continuing their 20-25% growth curve. This alone led them to several important imperatives and improved relationships: (1) Customer Service. Getting a new customer was expensive. They knew they had to keep their customers in order to get continuing revenue from annual updates and technical support fees. That meant they had to keep the customer satisfied. Their answer to this was to make the customer king. The product had to be good going out the door and when the customer called in with a problem or comment, they had to respond promptly. Thus, an incoming caller was greeted by a human voice, not a recorded message, and the problem was solved using every resource at the company's disposal. Almost all tech support problems were solved the same day; (2) Product Development. They were in a relentless search for and implementation of new product developments. This was necessary to stay ahead of the competition. Their competition, though it tried hard, was never able to match the in-depth probing of financial statements or the "bells and whistles" that this software had. They were always a step ahead; (3) Cost Control. They were in a relentless pursuit to keep costs under control, resulting in regularly generating 35-40% profit on sales. The only way they could do this was by watching every penny that went out the door. This did not mean that they abused their stakeholders by, for example, keeping wages and benefits below market. It meant that they used innovative approaches to problem solving. For example, the brothers were discussing the need to hire more tech support personnel to handle the incoming call volume. They knew that the size of their tech support department was well within industry norms for a company their size but they were uncomfortable with something. Why did they have so many incoming tech support calls? Why did they have **any** such calls? So, instead of hiring, they decided to explore. They began a program to track each call not only for response time but for basic cause. Within two weeks they were able to determine that 95% of their calls were attributable to a half-dozen basic product problems. They redirected their efforts to reprogramming to resolve those problems, delivering the solution to their customers. Call volume was decimated. They ended up with a better quality product, better satisfied customers and a reduction in tech support personnel. From then on their policy and best practice was to solve the customer's immediate problem in a timely manner, as in the past, then to **resolve** the problem so they would never see it again. As a result, the firm had the smallest tech support staff in the industry; (4) Growth Control. A 20-25% growth rate was a sustainable growth rate—one that could be financed from internally generated cash and one that they could assimilate from an organizational standpoint without straining the infrastructure. It was also one that, if they were successful at attaining it, would make their company very valuable in the marketplace; and (5) Pricing. They continually tested the market for price elasticity. There are two ways to grow revenue: increase volume and increase price. But increasing price can be a trap that leads to **lower** revenue if the products are over-priced. So they kept testing for price resistance, keeping the product price at the highest levels the market would accept.

Their search for new markets was exhaustive. They went everywhere that financial statements were analyzed, including business schools at the undergraduate and graduate levels. In that pursuit, they presented the concept to the dean of the regional business school. He was intrigued by the software product and saw potential in it for the education environment. His beta test worked in several classes and his advice in product design; packaging and distribution (including strategic marketing) were invaluable in getting the venture established in that market. At one time, the software was adopted by more than 80 business schools nationwide. The financial return was not large but costs were covered, they gave something back to the community, and this initiative developed a student-user base that would one day, perhaps, be professional users.

Along the way, the brother-in-law elected to leave the firm for other pursuits. His work in marketing had been a major impetus to the success of this fledgling venture and critical relationships. Many of the marketing principles he introduced are still practiced today. The brothers negotiated a buyout package and he left the firm. Due to the nature of the business they were in, the brothers could never find an appropriate exit strategy. They had several options: (1) they could simply pass the company on to their sons, who were valuable parts of the business; one on the technology side and one on the sales side, both of whom were graduates of this local college that became over time a key source of staffing. However, the brothers knew the sons couldn't pay anywhere near the fair market value based on its profitability and growth potential. On a discounted cash flow basis, that computed to multimillions of dollars; (2) they could sell the company. But to whom and at what price; and (3) they could just let the product die, milking it as a cash cow until advancing technology and competition rendered it valueless. This was their baby, though, and they didn't like the latter option at all.

Then, two things converged to settle the issue. First, a company that they had developed a strategic relationship with came courting. Second, emerging technology, including the internet, required that they make major product upgrades and redesign. Neither brother was interested in investing the level of cash that would be required to meet these new challenges. The time frame was now in the mid-90's and, just as was true 12 years before concerning the future of the PC, no one really knew where internet technology would lead. But this time they were talking about the investment of serious money, money that was in the bank, and they were talking about risking it just to keep the product viable. These things helped shape their consensus around negotiating a deal with their courtier, a west coast company with back office software for bank lending operations. They had been searching for the functionality that this software had for some time. They negotiated with this firm for over a year before striking a deal, which closed in the spring of 1996. The west coast firm would take over all aspects of the business, funding the development of the upgrade, integrating the software into its basic platform, and taking on all marketing and sales efforts. The brothers had a cash deal and were given five year employment contracts to help with the integration while almost all of the current employees were retained as well.

3. Discussion/Conclusions: Lessons Learned or Best Practice

3.1 For the Entrepreneur and Relationship Marketing or Partnership Development

Many lessons learned for the entrepreneurs include the following: (1) need to know oneself, one's passion relative to career development and related choices, and undergo the associated self-analysis in order to make sage choices that will be consistent with what Steven Covey might say in terms of a personal vision/mission statement (1989) or Bill George might suggest in terms of one's True North (2007); (2) if uncertain regarding knowing oneself, it is never too late in life to undertake this process (including transitioning from an US CEO of a global corporation to becoming an entrepreneur) while allowing as Peter Drucker might suggest deductive reasoning to surface poor choices in this never ending process (1984); (3) entrepreneurial or career choices that lead to failure including a business start-up can be learning tools rather than obstacles for examining further venture opportunities; (4) one should never overlook potential opportunities when there is radical change in the world of technology or economic landscape since for many problems, there are associated opportunities; (5) never overlook relationships that have been ongoing (yes, including family) that could provide the expertise necessary to tackle one of these opportunities thus creating a portion or even a complete team essential to going forward with a business plan and a financial strategy; and (6) in the process of focusing on initial customers and associated relationships, don't overlook potential relationships and partnerships with local colleges and universities especially those that have an associated economic development strategy along with faculty that are champions of same.

3.2 For Venture Creation, Development, and Exit Strategy

In this arena, there are also many lessons learned or best practice. We will mention just a few that the authors view as best practice of a software development business. These include the following: (1) after the initial capitalization, the decision to expand using only internally generated cash flow at any one time while carefully evaluating market opportunities before plunging ahead. Thus there were no "burn rates" to deal with. Associated with this is careful attention to costs and no bank loans or outside investor interference with interest or dividend issues to drain profits; (2) a focus on growth through key customers and associated relationships such as the SBDCs which resulted in numerous referrals. This is a small version of relationship/partnership building similar to what large suppliers such as P&G do for Wal-Mart where several hundred P&G employees are actually housed at their headquarters; (3) a focus and discipline associated with contact to sale cycle for potential customers which in this software business should be around 9 months and if this does not happen, cash flow will dry up; (4) the need for all employees in the software venture to understand that everyone's mission is marketing/sales; (5) the key to abnormally high profit % was the decision to minimize tech support calls by addressing problems that came in and resolving them quickly. That alone increased profits by some 12-15% by reducing tech support to abnormally low levels. This discipline imposed also was exercised in other expense categories including development, production, sales, marketing, and administration on a regular basis through basic cause reasoning and other best practice tools; (6) from an external or benchmarking viewpoint, the executive committee always looked at the question—"What was the company worth?" That led them to place the emphasis on maximizing profitability and new customers while retaining old customers which in turn led to customer satisfaction being their #1 priority. In turn, profitability, growth, and an expanding customer list were the key to increasing company worth or value; (7) from a defensive standpoint, the partners were driven to constantly improve the product (yes, product innovation) in order to stay ahead of the competition. At that time, they were unique in this. In addition, none of the competitors were regularly providing new functionality. At best, they were redeveloping to stay up with technology. This leading innovator was alone in exploring pedagogy into the product with examples being Altman Z-Score bankruptcy predictor, Strategic Profit Model, Index of Sustainable Growth, use of IRS Industry Norms, leading indicators of financial weakness, etc.; (8) there was in existence some appreciation for succession planning or exit strategy but not sufficient by any means. This key success factor or element of many externally funded ventures did come about but not in the way it should have and this point is certainly emphasized by Brodsky in his recent article in *Inc.* (2013); and (9) if Collins' principles (2001) were available at that time to be integrated into the development process, the outcome could have been even better relative to time frame as well as more manageable growth. That said, the lessons learned have been utilized in the sequel that will be left for a future discussion.

3.3 For the Entrepreneurial Leadership Team

From an entrepreneurial leadership best practice viewpoint, we might think of lessons learned based on vision, mission, goals, and roles similar to what Covey might suggest. Or we might use the innovative conceptual framework called The Leadership Behavior Inventory (Kent, 2004) where we could reflect on the five factors measured by the inventory. The Leadership Behavior Inventory or LBI has been shown to measure five kinds of behaviors employed by leaders. These are not management behaviors, but behaviors engaged in by leaders. The five behavior types have been shown to hold up in various cultures including Spanish-Central American (Quesada, 2008) and European (Rudd, 2009). The five behavior types include Visualizing Greatness, Empowering the "We", Communicating for Meaning, Managing One's Self, and Care and Recognition.

Visualizing Greatness includes the leader's efforts to see and design a desirable future for the organization. It includes those behaviors that subordinates see as talking excitedly about the future of the organization, sharing what they see in that future, discussing the values that are important to them and their organization, and more. Entrepreneurs certainly must start here. They must certainly have a dream of what they hope to create and what it will someday look like. In this case that was certainly the reality. The three partners began by talking about those possibilities and potential for creating a provider of unique financial decision making tools. In a short time the picture evolved to include the important methods for achieving success including providing excellent customer service, creating a customer oriented product development process, outstanding cost control, and carefully planned growth control. The Halcyon Group always knew that they were on the cutting edge of interpreting financial statements for, literally, anyone. At the time, they were a mystery to most people, even bankers who should know better! This led to the quest for functionality that would address this need. They came up with such things as narrative reports that verbally decoded the statements, scoring creditworthiness, links to environmental information and other important links, forward indicators which are used to determine the direction in which a company is heading, good or bad, and many other functions. They also knew that greatness would come only if they really "knew" the customer. Thus, they would contact customers, listen to them and respond with product changes and improvements. That still goes on today following the (re)acquisition of the business.

Empowering the "We" is the name of the behaviors that leaders engage in to unify, activate, and energize the team that works for and with them. It involves employing each person to their fullest—stimulating their minds and using the ideas that spew forth to meet the challenges faced by the organization. It involves creating a sense of one-ness among the members of the organization such that each person can say they are part of something and such that they are fully engaged and committed to the success of the organization. The leaders of the Halcyon Group seldom gave problem solution into the hands of a single person. Resolution was always a result of group discussion, which produced a culture of everyone knowing that they had a place at the table. The annual retreats were another way of empowering everyone on the Halcyon team. The senior staff was involved in every step of the strategic plan, whether it was in their organizational line or not. Result: Everyone was kept on the same page. The "culture" knew the direction the company was taking. No need for pronouncements from on high about that.

The act of communicating is critically important and everyone would acknowledge such. But the communication of most people and the communications of leaders are by their very nature different. ***Communicating for Meaning*** is related to an exchange for the purpose of changing peoples' attitudes, values, perceptions, and ideas. It is difficult work and different from communicating facts and information. In a way, we might say that communication for managers is about facts and information while communication for leaders is about values and ideas as Drucker might suggest (1984). Through the retreats and the weekly highly participative group meetings, they developed a set of core beliefs that everyone knew and adopted. Also, their principle that "Every customer is a reference" led them to really know every customer and deal with their problems and frustrations as theirs and sharing in the successes as well.

Managing "One's Self" is the act of controlling one's energies, attitudes, demeanor, and focus – the internal stuff that makes up a human being. The result of managing one's self well is a sense among subordinates of calmness, focus, steadfastness, perseverance, and certainty. Managing one's self well is what creates a sense of trust between the leader and the led. No one will follow a leader whom they do not trust unless the risk of not following him or her is much greater than the risk of following them. A leader who does this well is, in a sense, predictable. Followers need a degree of predictability among their leaders—it is the essence of trust. The principle of growth through internally generated cash flow was a major management tool at Halcyon. It ended up managing every aspect of the company's business, from sales to development right down to minor expenses. Also, the group was pretty good at allowing individuals to set their own goals and time lines. But they held them accountable for doing what they said. Also, their principle of "Customer is King" led to everyone knowing that they could (must) suspend their work to deal with any customer problem.

Care and Recognition. Leaders show what they care about and recognize those who care about the same things and strive to accomplish those same ends. The entrepreneurs had no rigorous way to recognize individual achievement, as they recall. However, in another way, they were a family, caring for each other as such, whether on the job or off. They knew who was hurting. The result was good morale and VERY low turnover, which still exists today.

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