

From Tech-Driven to Customer-Centric: A Transformational Journey

This case study explores the consequences of an industry that placed excessive emphasis on technical and product innovation, while neglecting a customer-centric approach. It discusses how such an imbalance can affect business and end-users.

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Teaching Case Factsheet

Discipline: Management and business studies

Introduction

In 1997 Klaus-Michael Vogelberg was the R&D director and a partner of the German KHK Software group when it was acquired by Sage. Shortly afterwards, he joined Sage, leading on software architecture and technology strategy. Between 2004 and 2007 Klaus-Michael acted as R&D director for Sage UK and Ireland before taking up his current post as Chief Architect and Technology Advisor. During his time at Sage he had the opportunity to collaborate with one of the founders David Goldman, which led to him challenging his perceptions as to why and how product innovation and service delivery should be undertaken.

This case study explores the consequences of an industry that placed excessive emphasis on technical and product innovation, while neglecting a customer-centric approach. It discusses how such an imbalance can affect business and end-users. The case study highlights how Sage, under the leadership of David Goldman, adopted a different and customer-centric approach compared to the industry norm, which led to a distinctive approach that proved to be commercially very successful. It also considers the impact this has had on the technologists working for the firm and its culture.

Background

During the late seventies and early eighties, personal computing was in the process of evolution, making computing more affordable. This marked a significant shift from a previously predominantly white-collar profession, where technology was prohibitively expensive. The market was dominated by well-established players offering computer and software solutions to medium-sized and large

organisations. This dichotomy between the new wave of technology and the established players set the backdrop for significant developments in the industry. Entrepreneurs began developing innovative software in response to the industry's rapid evolution. This resulted in an environment where technology providers frequently introduced new tools, often with little consideration about the impacts these had on end-users and operational continuity. Such a continuous cycle of introducing new must-have technologies fuelled innovation, but also created a technocratic culture within the industry, with providers dictating what was best for their customers.

Within this context, independent software vendors (ISVs) like Sage operated further down the supply chain, adapting their applications to new operating systems. ISVs effectively passed the responsibility for compatibility and migration to customers, pushing them to buy new software versions regularly. This practice gave rise to the perpetual license model, where customers were compelled to purchase updates in order to maintain functionality. Although the licencing business model generated revenue, it also raised questions about its sustainability and fairness.

KHK, specialising in accounting solutions for small and medium-sized businesses in German-speaking markets, experienced success in this environment. However, as the mid-nineties approached, the industry remained fragmented, lacking a global market leader. In anticipation of a global market leader emerging, KHK explored options and eventually sold the business to Sage.

The acquisition by Sage

Around the time when discussions about the acquisition of KHK were taking place, Sage had a particular status and perception within the industry. Sage was not yet the global phenomenon it has become today. It was still recognised as a formidable force in terms of financial power, marketing influence, and customer endorsement. However, there was a sense of curiosity and perhaps even bewilderment among industry players regarding Sage's approach.

What set Sage apart was its unique approach to the industry's rules. In the tech industry, there was a customary practice of following the lead of industry giants like Microsoft when they launched new versions of operating systems. This practice involved a cycle where hardware manufacturers would release new hardware to accommodate the software upgrades, and software developers would release new versions of their applications to align with the latest operating systems. However, Sage stood out because it was not solely reliant on this update game. Instead, it adopted a different business support model that resembled a subscription-type model. While others in the industry were concerned about what they would sell to existing customers if major operating system upgrades became less frequent, Sage's approach prioritised the business outcomes and customer needs over technology updates.

The acquisition of KHK, a technology deep-at-heart company, by Sage was bound to bring about significant changes and challenges. It required a substantial rebuilding exercise that touched on various aspects of the business. One of the most prominent changes was the shift in culture within the organisation. The transition from KHK Software to Sage required a fundamental change in how employees thought about technology and approached their work. This cultural shift was a crucial component of the acquisition process, as it laid the foundation for the transformation that followed. On the engineering side, the acquisition led to a shift in how technology was adopted. Previously, the focus had been on quickly adopting the latest technologies and incorporating them into the product offerings. However, this approach was no longer sustainable, and the company needed to prioritise technologies that resonated with its customers. The acquisition also challenged the existing sales culture. The move towards a subscription-type model necessitated a change in how the company went to market. The traditional aggressive hunting approach had to evolve to align itself with the new business model, emphasising recurring revenue and customer satisfaction.

Finally, rebranding from KHK Software to Sage was symbolic of this change journey, but it was not universally liked. Clients who were accustomed to the old way of doing business were initially resistant to the rebranding. Similarly, sales partners and resellers had to rethink their business models to adapt to the new direction.

The new direction: Focusing on the customer

Sage, led by David Goldman, stood out as a unique organisation in the industry. David's customer-centric approach diverged from the technology-driven agenda prevalent in the industry. He prioritised the customer's preferences, even if it meant continuing to support older technologies. He believed that customer needs should take precedence, and technology should serve those needs rather than dictate them. This customer-first philosophy became a defining characteristic of Sage and set it apart in the industry.

David Goldman had recognised that simply delivering technology updates did not ensure that customers could effectively run their business operations. Therefore, he introduced the concept of business support, which went beyond traditional software support. Sage's offering, known as Sage Cover, became a highly profitable recurring revenue stream. David refined the customer experience around Sage's products. For instance, instead of providing customers with lengthy installation manuals, he preferred a more hands-on approach. Customers were encouraged to call a designated number, where Sage's team would guide them through the setup process. This approach was designed to create a positive experience for customers and open opportunities for additional business support contracts.

By focusing on business outcomes and delivering a superior customer experience, Sage deviated from the industry's conventional dependence on continuous technological disruptions. This approach made it possible for Sage to provide value to its customers in a way that transcended the ever-changing technology landscape, ultimately contributing to the company's unique position in the industry.

Personal adjustment

When Klaus-Michael joined Sage after the acquisition, his personal journey of adaptation to the new way of working took approximately two years. Sage was operating very differently to what he was used to. Trips to USA to work with partners like Microsoft used to result in his luggage being full of technologies and ideas that the team would rush to implement. This was not the Sage way, though. Sage's approach was not against new technologies, but rather a different way of applying technology to ensure customer value. The company recognised the need for a balance between technology adoption and customer-centricity, which ultimately led to a unique position in the industry. It was not until Klaus-Michael spent time listening to customer support calls and witnessed the real impact that Sage's products had on small businesses in the UK that the significance of this challenge became personal.

Seeing how Sage's software was affecting the lives of numerous small businesses made him rethink his approach. It was a transformative experience. He went as far as asking himself why he was in this industry and what he wanted to achieve. Was it merely about staying at the forefront of technology, or did he want to make a meaningful impact on the industry and society more broadly?

Ultimately, he came to realise that he wanted to bridge the gap between technologists and those with a strong customer-focused mindset. There was often a disconnect between these two groups, with technologists coming up with innovative but sometimes impractical ideas and customer-

focused individuals dismissing these ideas as irrelevant to real-world needs. Finding the right balance between technology-driven innovation and addressing customer needs has been and still is a recurring challenge. It is essential to avoid swinging from one extreme to the other and instead find a middle ground that considers both technological improvements and customer satisfaction. The code base is not the product. Products should focus on addressing customer needs and solving specific problems. A more customer-centric approach would help in building products that were better aligned with customer requirements. Striving for this harmony between engineering-driven innovation and customer-focused product development still remains a valuable goal as it results in meaningful and impactful innovation.

SaaS without the Cloud

David's approach was focused on customer satisfaction and fulfilling their needs rather than consciously breaking industry norms. It effectively led to Sage adopting a Software as a Service (SaaS) model before this was even possible (at least as we consider it today). A key question arising is whether David's strategy was a good one, or was it a stroke of luck that it worked? Is there something fundamentally superior about this approach, or was it merely effective in its specific context? The effectiveness of such an approach can vary depending on the industry, market conditions, and the company's specific goals. It may not always be the best strategy for every organisation, but in Sage's case, it appeared to align well with their objectives and contributed to their success.

The success of such a strategy could result from a combination of factors, including market dynamics, timing, and the specific goals a company aims to achieve. Choosing a strategy for your company can indeed lead to the creation of different cultures and directions within various organisations. It is crucial to make these strategic decisions carefully because they shape the company's identity and direction.

Being part of any company, but in particular a technology company, one has to make a choice regarding impact and focus. For instance, one strategic option is to aim for the broadest possible market share, targeting the largest addressable market. This approach seeks to capture as many customers as possible and often involves catering to popular industry trends and demands. Another option is to focus on democratising a specific aspect of technology or making it accessible to a wider audience. This approach may involve simplifying complex technologies, making them more user-friendly, and expanding access. Alternatively, some companies choose to prioritise innovation and being at the forefront of technology advances. They aim to set industry standards and continually push the boundaries of what is possible.

David's approach seemed to lean heavily towards customer-centricity, with a focus on addressing the needs of Sage's customers. This strategy probably played a role in Sage's success, particularly as it fostered strong customer loyalty and satisfaction. Additionally, by understanding and adapting to customer preferences, Sage could make more informed decisions about the development and delivery of their products and services. The culture you encourage within your organisation can influence the types of employees you attract and the technologies you develop. If your culture emphasises hiring the best and the brightest who are passionate about knowing what is best, you can potentially create technologies that are distinct from or not aligned with mainstream trends. However, to be successful, it is essential to assess the market opportunity and ensure that your technology aligns with the needs and preferences of your target audience.

A different way of reflecting on the question may be to consider if David's customer-centricity was an end in itself, or did it serve as a means to achieve broader objectives, such as gaining a larger market share? It appears that David's inherent understanding of his customers played a pivotal role

in shaping his approach. Unlike many others in the industry, who might not have comprehended their customers' needs fully, David seemed to intuitively grasp what his customers required. One notable example of David's customer-centric approach was his recognition that customers still needed stationery alongside their software needs. In a tech-driven industry where such concerns were often delegated to others or overlooked, David took a different path. Instead of sending customers elsewhere for stationery, he saw it as a customer problem to solve. David's approach, therefore, seemed to stem from a deep understanding of his customers and their needs, rather than a conscious decision to do things differently merely for the sake of differentiation. His actions reflected his commitment to delivering comprehensive solutions to his customers, even if it meant extending beyond the traditional boundaries of a software business.

Business model innovation

For Klaus-Michael, it is fascinating to contemplate how David might have approached the current SaaS and cloud-centric world and learn from him. The industry and the whole world have significantly changed around us since David was at the helm of the company. Would his approach make sense today or would he have followed a different one?

Given David's customer-centric philosophy and his ability to think outside the box, it is likely that he would have continued to prioritise customer outcomes and may have even played a pioneering role in shaping the SaaS landscape. In today's SaaS world, where software is delivered as a service over the internet, customer satisfaction and ongoing value delivery are paramount. At the same time technology also creates new obstacles. Instead of inviting customers to phone the company during the installation they can seek to interact with it via AI agents and chatbots. Human relationships and communications are mediated by technology, which can distort the message. While technology can automate many tasks and interactions, the essence of personal human connections remains crucial. Technology should be used to streamline mundane tasks, allowing more time for meaningful human interactions. AI and automation should serve as enablers rather than replacements for human interaction. They can handle repetitive tasks, freeing up time for humans to engage in more valuable and empathetic conversations with customers.

Also, while structured market research has its place, individual conversations with customers often provide valuable insights that can be missed through large-scale research. Customers may not always articulate their needs clearly, and understanding their underlying problems is essential. Engaging with a diverse customer base helps prevent patronising assumptions that technology comes naturally to everyone. Customers who do not fit the mainstream profile can offer unique insights and uncover unmet needs. Understanding the challenges different users face ensures more inclusive and empathetic product design. For example, early adopters and laggards experience frustrations differently, which can lead to valuable innovations. Finally, recognising the importance of digital inclusion and diverse perspectives is vital for designing products and services that cater to a broad range of users. It is crucial not to make assumptions based on the experiences of early adopters alone.

Conclusion

Innovation often comes from those who are willing to explore the cutting edge and challenge the status quo. These pioneers push the boundaries and can sometimes appear to have a questionable

attitude toward conventional approaches. They are essential because they drive progress and inspire new possibilities. However, innovation alone is not enough. Companies often need to take a step back and ask, "What is the right way to serve the people?" This perspective is customer-focused and ensures that technology is developed and deployed with the end-users' needs and preferences in mind. Ideally, an organisation would have both elements—innovators who dream big and customer-focused teams who translate those dreams into practical solutions. The challenge lies in finding the right balance and bringing these two approaches together to create products and services that not only push the boundaries of technology but also meet real-world needs effectively.

Innovation and customer focus do not have to be mutually exclusive; there can be a middle ground where the two perspectives can coexist and collaborate to drive meaningful progress and create successful products and services. Finding that balance is a key challenge for technology companies today and one that Klaus-Michael and his team at Sage need to continue achieving just as David did 20 years ago.

Reading List

Chesbrough, H. (2007). Business model innovation: it's not just about technology anymore. *Strategy & Leadership*, 35 (6), 12-17.

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