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How to turn an app into a real business

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Fotolia *In a free market, anything is possible for the aggressive, prepared and creative, and a bit lucky.*

In my column last month, I discussed the fundamental conceptual challenges of operating in the world of the average App, and there are many. But if an app developer manages to overcome those challenges, how does an app actually become a business, with the ability to raise capital or sell for material value?

As for the perfect competition paradigm that app companies face as discussed last month, setting up a business is not necessarily about eliminating that paradigm. It is about staying far enough ahead of the curve to maintain an acceptable level of profitability.

But the days of “monopoly rents” accruing to companies that have been fortunate enough to carve out a market position that makes them virtually irreplaceable are largely over. Nonetheless, in a free market, anything is possible for the aggressive, prepared and creative, and a bit lucky.

The following is an overview of how to pursue the fullest extent of what’s financially possible for an app:

Build a scalable, robust software and hardware architecture, whether in-house or outsourced. This is easier said than done. Kevin O’Neil, partner at Sapien Capital Partners recommends companies avoid or minimize hasty programming fixes or patches to save on resources, as they lead to technical debt that needs to get repaid at some future date, and usually when you can least afford it. For many startups, unwinding “quick fixes” that keep causing them pain becomes critical, but infeasible as they are consumed with keeping up with new demands. If they don’t, it could cost them in revenue opportunities and potentially put clients at risk.

Solve a fundamental problem, for someone. You need to clearly understand the root of the business problem (the pain), the value of the problem to your customers (high, medium, low, or discretionary), and exactly how your technology solves it better than anything else (perhaps by being cheaper, or being a more robust solution — it’s hard to be both).

Do the math – how do you make money solving that problem, for those people? Despite the pre-revenue model, billion dollar wonders such as Snapchat and Twitch, the laws of gravity apply to the rest of us. Don’t kid yourself, the social web has truly opened a playing field, evening mass-market channel, but for the vast majority businesses are still built from the ground up with customer unit economics.

Prove out your key theses: Start to show tangible evidence of your value proposition and market traction. Start small, with the goal of showing predictability and repeatability of your value proposition. Perhaps not just over weeks or months, but years. Traction will have very different paces for different applications in different verticals, but even a small sample of paying customers goes a long way to supporting your business proposition.

Stop being a one-person band. You need a team, and a committed one — even if small. And it’s okay to have holes in your team, and for roles to be fluid. The key is to have shown the ability to attract Employee #2 and #3, and so on. This is harder than it might seem, and is the downfall of many promising app concepts,

not to mention more traditional startups. Part-time 'moonlighting' gigs on your team are not absolute deal-killers, but add a level of complexity to growing your company. Will they be available when you really need them?

Show the ability to iterate your product with the needs of the market. Product updates, new products, and new sales channels or key customers are all important. Make sure you listen to your customers and the market for product insight. "Don't think you know their pains better than they do" O'Neil says.

Show you can deliver on your value proposition from the user's point of view. It's all about getting the customer to your product/service and to start using it simply, without problems or cumbersome training. Don't underestimate the value of good UI/UX (user interface and experience) — it could save you millions in customer support costs and in avoiding dissatisfied customers.

Show you can anticipate or react to the changing needs of key customers. The above points are not a static or one-time process. All companies must face this at one time or another, again and again. And for app developers, if you don't, someone else will, and even more quickly than for a more traditional business.

Then there is a whole other level. Do all of the above in solving bigger, deeper, more enterprise-level problems for businesses or consumers.

Don't think the complexity eases as you move from startup to growth company to a more mature company. But if all goes well, you will have more resources to handle the complexities that arise. And they will, whether you're an app or a traditional business.

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