



## Stanford eCorner

### Overcoming the Mature Market Fallacy

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Video URL: <http://ecorner.stanford.edu/videos/3294/Overcoming-the-Mature-Market-Fallacy>

Hemant Shah, co-founder and CEO of RMS, describes his team's recommitment to growing the business after its acquisition. Instead of letting it plateau and moving on to the next startup, the founders reimagined and reinvented RMS in a way that led to the most significant stage of growth in the company's history.



#### Transcript

And at that point was another key milestone. I have here kind of very grayed out this quote from a strategist, the now deceased C. K. Prahalad who taught strategy at University of Michigan and had extensively written in the Harvard Business Review, had a chance to workshop the RMS strategy before he passed away. And he wrote about what he called the mature market fallacy where often it's not a business that's mature, but in the executive's own conceptualization of the stream of future opportunities that becomes mature. And so you challenge yourself to rethink and reinvent oneself and the notion of how you can grow and add value in order to create a future stream of opportunities for the business. So shortly after the acquisition I sat down with the team and with the new owners and said you know what, I know we think we can grow this business from \$30 odd million to \$40 million, \$50 million, maybe \$60 million. We know you've put in place a very generous earn out for us to earn out our shares and options. And we can see how this story is going to end, like it does in so many of the situations, the start-up team earns out, it moves on and starts up the next business. And the business stays as an interesting niche analytics firm in our case.

\$30 million, \$40 million, \$50 million of revenue is no slouch as a software company. And that's the end of the story. And in this particular case, I am not entirely sure why, maybe future years of therapy will help. But we sat down and we went to the new owners and we said you know we don't think this story is over. We don't think the next chapter is the earn out and success is a \$50 million version of RMS with some real profits. How about a version of this story, which is we can grow to \$100 million in business. And we had several ideas on how we might re-envision our opportunities for growth, and how we can monetize that growth and how about we essentially kind of restart things up again? So instead of these very nice earn outs, how about we re-up with more equity in the business? How about a significant new set of grants devolved down to recruit the team, re-up the veterans who were inclined to stick around for the next phase of growth and let's see we can actually make another run at this. And not just sort of call it a day at a \$30 million-\$50 million specialty analytics business. And to our great surprise, the new parent shareholders said yes. So we re-upped, a lot of equity was dispersed to the team, we implemented some new ideas that were about penetrating more deeply into our customers, not just having them have a license for our models, but really working the models into the heart of their business processes.

We started to innovate, in expanding beyond natural hazard risk into things like terrorism risk and disease pandemic risk and in many ways the decade that followed was the most productive and significant growth stage of the company's history. We went from at the beginning of the decade about \$30 million in revenue to the end of the decade about \$250 million of revenue. We crossed the \$100 million threshold much sooner than we thought. And by the latter part of the decade, the models had been elevated to a whole another class of value in our customer's enterprise and we had really reinvigorated RMS and overcome the mature market fallacy and reinvented who we are, how we add value in the scale and size of the opportunities before us.