



Generating Revenues From the Bottom-Up

Bay Area Startup Makes the Grade with Web 2.0 Marketing Strategy

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Enterprise software veteran Edward Fields launched HotChalk Inc. in 2004 personally fronting most of the \$1 million initial investment. A former executive at Agile Software (acquired by Oracle Corp. in 2007), Fields says he started marketing the classroom management software company based on what he'd learned from his trusted enterprise software "playbook" and expected to reap similar benefits. That included going to trade shows and calling on school districts.

After signing up 700 schools in the first year of operation, HotChalk knew it had something of value but also realized it had to make a fundamental shift in its marketing effort. So, the Campbell-based company took cues from the social networking phenomenon and started relying on user adoption of its free version and word-of-mouth to generate sales. The company now boasts more than 400,000 teachers serving millions of students at 70,000 schools in 188 countries.

"All of the playbook calls I'd used in my enterprise software life went out the window," says Fields, HotChalk's chairman and CEO. "People were rewriting the rules about how and when they wanted to use software. And it was dramatically affecting how much they wanted to pay for it, or whether they wanted to pay for it at all."

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HotChalk's success story underscores how companies of all shapes and sizes must connect with their target market in the 21st Century. And sometimes that includes giving something away to hook customers and providing value-added services that they purchase.

Reaching the Limits of an Old Playbook

Fields says the first incarnation of HotChalk followed a traditional "Sales 1.0" model. Just like enterprise software products he had worked on in the past, HotChalk was created from "millions of lines of Java code" on top of expensive software components and databases. The company went to market in 2003, less than a year after its start, by manning tables at education trade shows and cold-calling school district offices.

The company signed up a few schools and received favorable feedback from teachers, Fields says. But the software was not simple to learn, made painfully clear by a 10-hour training course the company spent \$250,000 to implement and get accredited. At the time, so-called Web 2.0 creations such as the popular social networking site MySpace and an increasingly populated network of Web logs (or blogs) were putting consumers and end-users in the driver's seat.

Meanwhile, HotChalk's current and potential users were beginning to demand something easier to use, that they could try out on their own, and which presented minimal risks to purchasers, namely cash-strapped school districts. Fields got the message.

"It's painful when you've invested in a career and you're 25 years into it, and you think you have a pretty polished playbook and you have a spring in your step because you've had success using that playbook. It's humbling to realize that you have to do a reset," Fields says.

Co-founder Jon Fenner, HotChalk's vice president of engineering, also was cast from the traditional enterprise software mold. He says the first version of HotChalk was geared toward the typical 12- to 18-month development cycle, and that updates required extensive and time-consuming changes to the Java-based code.

"It wasn't until a year or so into the business that we started looking at Web 2.0, mainly just to be able to respond quickly and reach out to our customers," Fenner recalls.

Like small businesses, schools usually lack the funding and information technology staff to purchase and maintain an enterprise-grade software system, says Bryan Stolle, general partner with the venture capital firm and HotChalk investor Mohr Davidow Ventures.

"That's a lot of what drove it," says Stolle, who is also the founder of Agile Software, the company Fields formerly worked for. "How do we really make it easy for the customer to get onboard?"

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Transformation

The first step in transforming HotChalk was to rewrite it using a simpler and more easily maintained code, make it more easily delivered online and amenable to frequent updates. The company brought in a few software developers familiar with a new open-source software platform called Ruby on Rails. Fenner says it took about six to eight months to retool the software onto the new platform.

More universally applicable, though, is how HotChalk took the revamped product to market. Instead of trying to convince buyers at school districts why they should take a chance on a district-wide rollout of its software, Fields says they were able to generate interest among teachers first by giving a portion of it away for free. HotChalk marketed the product primarily online, through postings on blogs and community Web sites for educators.

After getting teachers to sign up for free, he says, it became much easier to contact school administrators and tell them that a certain percentage of their teachers already are using HotChalk. With the aim of selling the premium version, his sales staff could now tell district administrators that teachers are posting quizzes on HotChalk, for example, and saving as much as six hours per week by not shuffling papers.

"When you have that kind of conversation with an economic buyer, it completely transforms customer engagement. Because now you're talking about how you're making an impact, why users have chosen you and how they can get more value by going more broadly with the applications," Fields says.

HotChalk had always generated some of its revenue from sponsorships and advertisements. But as the new model quickly expanded the user base from 26,000 teachers before the switch to about 200,000 teachers within the first school year after its re-launch, he says, those sponsorships became a more valuable source of revenue, while salespeople had more leverage in selling the expanded version.

Advantages of the beefed-up paid version, Stolle says, include access to digitized content from NBC News, PBS, McGraw-Hill, A&E, The History Channel and National Geographic.

Listening to Your Market

The key for virtually any business that wants to thrive is to consider how the marketplace views one's company, not vice-versa, says New York-based social media strategy consultant B.L. Ochman.

"Adopting Web 2.0, which is old by now, means going to where the conversation is and participating," says Ochman, who also applauds HotChalk's strategy of offering the basic product to teachers for free. "I think it's a great approach. Nothing can do more to convince people to use something than to use it."

Software executive Chad Barr describes this method of creating buzz at the customer level and giving them something to chew on (i.e., a free version) as "marketing gravity."

"If done properly, I don't have to worry about picking up the phone and calling prospects. They will find and call us," says Barr, president of CB Software Systems, Inc., based in Shaker Heights, Ohio.

"If you can harness the power of word of mouth in a significant fashion, you will start to see those results." – Penny Sansevieri, Author Marketing Experts Inc.

Like Barr, San Diego-based marketing consultant Penny Sansevieri believes the strategic use of blogs – both creating your own and commenting on others' – is very important in today's environment. She says many of her clients have paid thousands of dollars for radio or print advertisements with sometimes no results, but usually get much more action through their less-costly online efforts.

"If you can harness the power of word of mouth in a significant fashion, you will start to see those results," Sansevieri says.

By letting go of time-tested and ultimately dated strategies and embracing today's customer-centric world, HotChalk has been able to sign up between 500 and 1,000 new teachers each day and has radically increased its paid user base as well (although the company declined to discuss revenue figures). HotChalk also pulled in a \$10.5 million third round of venture financing last year.

But HotChalk's user numbers alone illustrate that marketing is not a static field and that new ways of reaching customers are constantly evolving, particularly for Web-based businesses.

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