Business Kapiti Horowhenua Inc

Organisers of the Electra Business Awards

Case Study:
Aura Software Security Ltd

Winner of the 2010 Electra Business of the Year Award

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Synopsis

This is a case study of Aura Software Security Ltd, a security software development company and winner of the 2010 Electra Business of the Year Award. Aura is a different type of business from last year's winner (Turks Poultry Farm Ltd). It is relatively new, it is small, niche focused and operates in the IT sector where rapid technological change is the norm. Its product and competition are global, its aspirations are "galactic".

Winning the Award was based on the same business principles that won the Award for Turks (http://www.electra.co.nz/docs/businessoftheyearcasestudy/turks_poultry_farm_case_study_ electra_business_awards_winner_09.doc). Both case studies offer valuable learnings for business regardless of the sectors they operate in.

Introduction

In 2010 Aura Software Security Ltd was judged Winner of the Electra Business of the Year Award. This case study[1] is about what they did that culminated in winning the Award. Its success is based on visionary leadership, a positive can do attitude, commitment to being as good as possible, sound business practices, being prepared to take calculated risks, learning from their mistakes and employing high quality people.

Although it may have helped them prepare for the Awards, Aura did not win it because of their category wins (in 2010 they won the Hi Growth, Customer Services and New Thinking awards and were finalists in two other categories). They won because they scored consistently high across *all* categories. However, as with previous Award winners and consistent with their philosophy of continuous improvement, Aura know there are areas they need to do more work on, particularly as the business grows and they take on more staff.

Background: Aura Software Security Ltd

Aura employs 16 staff; its head office is in Otaki (on the Kapiti Coast) with offices in Wellington and a sales & business development manager in Auckland servicing customers in Christchurch, Sydney and London.

The principal shareholders are Diane and Andy Prow (75%) with two founding partners as minority shareholders.

The origins of the business began ten years ago when Andy Prow worked as a software developer and IT consultant. After a stint in the UK he had made enough money to set up his own business in NZ. As a budding entrepreneur he realised there were potential business opportunities but felt he had neither the resource nor the experience to take them

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[1] According to the Concise Oxford Dictionary a case study is "The use of a particular instance as an exemplar of general principles."

to market. After researching his options he formed a commercial partnership with a company and although he felt it was an enormous opportunity issues over control of product and marketing and as well as the cost of patents meant it did not work out.

It was a steep learning experience but the lessons from it have lasted to this day. In summary they are:

- Test whether there is a market for your product, the true value of the product, whether it has a life beyond the short term, the most effective way of getting it to market, the nature of future business relationships (including partnerships and joint ventures), and the most appropriate model for your business.

- No matter how much thought and research goes into the business plan and how well it is executed, there is always an element of risk associated with any business venture.

- Relying on a major element of your business success such as a partnership is potentially fraught as its performance (or lack of) can seriously affect your businesses. In short, do not put all your business eggs into one (partnership) basket.

- When working with another business that is responsible for selling your product get to know and understand what motivates and drives them as it may not be the same as yours.

  "As an entrepreneur you have to strike that hard balance between having faith in your business plan that "it's going to work" (even when others can't see it) and having the strength to admit when it's not! Accept that not every business idea is going to work and not every business decision is the right one. They key is to realise when it's not working, and if you fail then fail fast, with as minimal impact and possble - learn and move on!"

  ### Rapid growth – change or perish

Aura has had four distinct stages in its evolution.

In 2001 it started out as Aura Software Architects Ltd; three years later Aura Software Ltd was formed; followed in 2006 by Aura Software Security Ltd and in 2009 Aura Redeye Security Ltd emerged.

Each stage was the result of its owners redefining its core business. This was in response to changes in the software market and because Aura itself was defining its place in this market. It was this defining process where Aura's key point of difference began to emerge – software security.

Over time this was developed further when they became a Microsoft Certified Partner.

  "This gave us a significant and key point of difference against our competitors who were basically "IT Security" experts, but lacked the software development skills that we could provide".

What Aura provides is specialist IT security services to NZ and overseas businesses. Its mission is "*protecting our customers from the bad-guys".* To do this they created what is known as end-to-end IT security consulting services based on "penetration testing" where

they (safely) attack a customer's websites and IT systems, give the customer feedback on how hackable they are, what needs fixing and recommendations on how to fix it.

Aura expects to keep on evolving to reflect the rapid changes in the international software development market. If it doesn't it knows it will lag behind its competitors and eventually perish.

In the process what they discovered is that not only does technology change but customers' expectations and levels of sophistication change with it and they (Aura) have to be able to respond.

Equally, understanding the market the business operates in is just as important. For most NZ businesses that have aspirations in the huge and highly competitive international market the niche part of that market is one of the more logical starting places. But Aura found this in itself is not sufficient. Identifying and getting into any market requires research, networks, reliable advice (e.g. from NZ Trade and Enterprise), hard work and perseverance.

Identifying and understanding the market

The security aspect of Aura's business has evolved to become its core driver. Four years ago it represented 10% of turnover; in 2010 it represented 99%.

This is the result of:

- Retaining and growing existing customers and recruiting new ones.

- Growing awareness by the business community about the importance of IT security, especially high level security in fields such as banking, communications, medical, government, military and police.

- Recognition that IT security is a growth area and that it makes good business sense to apply the maxim "go where the money is".

- It is global with enormous untapped possibilities.

  "IT is global and the business behind it knows no boundaries. This means the technology behind Aura is global and enables us to reach and service international as well as local customers".

Keeping abreast of market developments and the competition

For Aura, staying internationally competitive means having to keep abreast of developments in the international IT security market.

This means knowing what is going on, where the cutting edge is, knowing who the market leaders are, identifying niche opportunities and how to enter them (and survive), often against bigger and better resourced competitors.

It is standard practice that every week (often daily) Aura staff spend time searching the web for "where the action is", who is doing what, new developments, where the market is heading, business opportunities and so on. Successful businesses use the intelligence available to them in the market place via the media, conferences, networking, e –technology, government agencies and the like. For them information is knowledge and knowledge is a powerful business tool.

Risk, Mitigation and Continuity Planning

Behind all of this is the question of risk, risk mitigation and continuity planning.

Aura spends time with their customers identifying, assessing and helping them to mitigate software security risk (e.g. hacked or damaged systems and natural disasters –earthquakes, fire, serious power failure and so on). This often involves continuity planning. For instance in a worst case scenario such as a major earthquake this can mean having to operate with minimum capacity (i.e. a laptop) capable of accessing data via servers located in other parts of the country or overseas (i.e. outside the risk zone) and/or using some other device or Cloud-based sevices (i.e. servers and software fully residing on the internet – often overseas) as part of their risk mitigation/business continuity planning.

Aura's aim is to add (significant) value to its customer services

The checks and balance used by Aura to test the integrity of its customers' software security systems are comprehensive as is the processes used during testing. Much of this is confidential to the customer but the thrust is to security test what others have built by evaluating a real or hypothetical security breach, developing scenarios of how/why it happened, implementing recovery, installing security and monitoring systems.

Aura aims to create customer added value from the start by advising the software developer about what is required to ensure security is in place before the system is planned and built and at which point they (Aura) test it to ensure it works.

This is supplemented by their in house training and the introduction of new products, the most recent being the Red Eye external security scanning system (a daily monitoring system that alerts clients about their software security with recommendation on how to fix it).

Aura has created a holistic approach to software security that involves a seven step process with each step adding value to the one before it to create an integrated value added chain (http://www.aurasoftwaresecurity.co.nz)

Another aspect of the value added business approach is IT governance - a relatively recent dimension to IT security. IT security is seen as a technical and an operational matter that is best managed by the IT manager. Many CEOs and boards do not see it as a high level consideration yet business is so reliant on IT and IT security that Aura believes it is only a matter of time before it is elevated to high level governance. When this happens Aura feels it is positioned to take advantage of it and has already started to give "Exec Team" training highlighting real-world business risks in the security of everything from call-centre's customer validation process, sales-teams' laptop to the CEO's home internet.

Governance – one of the keys to being a serious long term contender

Aura knows that to be seen as a long term credible business, and as part of its growth strategy and in order to access its share of R & D grants (e.g. from the Ministry of Science and Innovation and overseas e.g. University of Illinois), it needs a formally constituted governance structure that is capable of applying, testing and evaluating strategies, implementing sound business practices and laying the platform to take the business forward.

This is not unique to Aura. Most growing businesses come to a point where they realise that to take the next step up they have to move from the owner operator "kitchen table" to a formally constituted governance board. Often they evolve from one to the other but Aura fast tracked the process.

Aura's board currently consists of two people, Andy Prow and an external chair (Dion Mortensen, an expert in start-up and small business growth, mergers and acquisitions). The board's remit is to drive the company's strategy and plan, monitor its progress and results and change accordingly. The plan is reviewed quarterly - which gives a clear picture of their successes to date and the opportunity to change if:

- They are not achieving its performance targets

- If events have overtaken it or have changed or

- If the targets have become unattainable.

Aura anticipates there will be further board appointments over the next 12 or so months. The aim is to build a team of high quality people with experience in areas of strategy, exporting and investment.

Shareholding

Currently there are four shareholders but this is being evaluated as the business grows and more senior people join the company.

Aura is aware that to retain quality staff in a highly competitive field they need to find ways to incentivise them. One such way is to offer them shareholding in the company.

The challenge for Aura is to assess the true value of a business that is on a high growth path (projected to continue for some time into the future), and how to factor this into the shareholding evaluation calculation.

Parallel with this is the move to educate potential shareholders about the difference between investing in the business for the long haul as opposed to owning a specific percentage of shares. Aura is considering ways how this can be done in a manner that encourages staff to have a stake in the business without being stuck with the percentage formula as the business grows. Translated, this means showing staff what the actual dollar value of their shareholding is worth.

Management, Succession Planning & Life Balance

The management team has been bolstered with the appointment of a Chief Executive to help Aura grow operationally in NZ.

This appointment is part of its growth strategy and is designed to take the pressure off the owners during times when they are overseas on business or at conferences. In the past this has been an issue as Andy and Diane have had to deal with them on the move. Now they let their managers and the staff run the operational side of the business. This also enables them to remain focused on the business development opportunities that have arisen from their overseas trips rather than having to delve into detailed operational "stuff" on their return.

> *"We want to hunker down the operating part of the business and hand over to others to spend "our" dollars and hire and fire "our" staff". It is not easy but it is in the longer term interest of the business."*

Many businesses go through a transition from being owner operator managed to being managed by staff. Some do the transition well, others do not. In the case of Aura the aim is to plan and manage change by gradually handing over the operational reigns to management and staff while they focus on growing the international side of the business as well as creating a life balance of business and travel (one of their personal goals). In short, their aim is to make a seamless transition from being hands on to a more strategic and international business development role.

> *"Personally, we have a realistic approach about being irreplaceable. We are not and for this reason and for our own well being, we want to create a balance between business and life."*

Strategy & Strategic Partnering

Aura has made a business decision to focus on businesses that align where it is strategically heading which means that sometimes it turns down work that does not meet this criteria.

This is not unique to Aura. There are other instances of businesses that have done the same – that is, made a strategic decision to work with only those customers that align with the strategic direction of the business.

Aura is not the biggest player on the block but it has addressed this by generating its own "critical mass" through a series of strategic partnering. Previous experience has shown them that partnering (defined as working with, rather than being part of another business) is a better option for it than a partnership. Partnering suits its operating style and enables it to move into new markets while at the same time maintain control over the quality of its services and the marketing of them.

A good example of this has been providing their full range of services to Xero (www.Xero.com - "The world's easiest accounting system"). Xero was founded in 2007 by Rod Drury and is on its own global high-growth path, making it an international advocate for Aura's services. Another strategic partner is Endace, based in Auckland, who sell a high-end computer network device globally. Aura has partnered with Endace to provide the ability for their RedEye product to sit on the Endace system, providing Endace with a market differentiator against their competitors.

Aura has learnt the hard way that for a small business international markets and protecting intellectual property rights (IP) against bigger and better resourced competitors through international patents is extremely costly, time consuming and distracting. Their advice is firstly, stay out of litigation and any high risk cost that is difficult to win. Secondly and more importantly, stay ahead of the competition so that in the event they do copy it doesn't overly matter as it has been superseded by new developments.

> *"Run fast and stay ahead, lead the space, understand and pick the battles that need to be won, and grow".*

This strategy is a pragmatic understanding of the realities of competing in a global market. Aura knows it can be a world class business in its specialised field through strategic partnering in a niche market.

For Aura one of its biggest challenges and one that is typical of many small businesses, is "getting its name out there" as cost effectively as possible. To do this it "puts itself about" attending and presenting at conferences and workshops as well as utilising the usual tried and tested marketing techniques.

Finances and KPIs

For reasons of confidentiality the financial position of Aura is confined to the assessors on the Electra Business Awards. Even so, Aura have had a strong financial year and are well on the way to exceeding their financial targets. In 2010 they were ranked 284 in Deloitte's Asia Pacific Technology Fast 500 (this is top 500 revenue growth IT companies in NZ, Australia, China, Singapor, Malysia, Japan and South Korea). This year they are on track to make the Top 50.

Aura apply a key set of performance indicators that they measure and report on monthly and quarterly over five areas – services, customers, staff, financial and strategy. For example customers are measured in three ways:

- Existing customer satisfaction

- New customer value

- Strategic value - (measure the growth of particular services to particular customers).

The financial indicators include:

- Current annual revenue and EBIT targets

- Monthly budgeted P&L against actual

- Balance available cash with growth expenses

- Value of the company based on historical EBIT and factoring future growth plans

- Revalue the business year-on-year (assess measurable growth in the value of asset)

Business success indicators include the "end game". In brief, retain good people, retain the IP and the values of the business and use its software development and IT security skills to create new security software businesses e.g. Aura RedEye Security (with more new products in the pipeline).

Human Resources & Training - the 3 P's – People, People, People

Aura is aware that to grow and develop it will need to employ more people with specialist skills and as a consequence the business will have to continue to gear up its HR resources. It is accepts this is one of the "prices" of growth but to move from a owner operator business and to set the company up for the future it has to be done. This is work in progress.

"The trigger point was when we reached ten FT people. We are there already. We plan and manage our growth, not let it happen by default."

Professional development and training is encouraged by Aura. This is done by talking with staff about their professional (and personal) aspirations, how they can achieve it and the role of Aura in this.

With an eye for the future Aura is on the lookout for people who can bring to the company skills that complement its existing ones. It has an open invitation on its website to people who feel they have such skills, the right attitude and who could fit in as part of the Aura team sometime in the future. This is different from the usual style of staff recruitment but it works for them. Keenness, enthusiasm, attitude and behaviour is an integral part of Aura's culture and to have a pool of potential experts (currently 12) ready and willing to sign up is an indication of how it is seen in the software development sector.

> *"From an employment point of view it is critical to find, attract and keep the best staff to add to the company's skills in a specialised and highly competitive field".*

Because of the expertise required there is a large amount of ongoing training and certification. Every staff member has an ongoing personal training and certification programme, focussed on their area of expertise (for instance web-site security, or network security).

Further, as some of the fields are "too new" Aura spend time conducting research and development, funded and supported by providing time and resources for staff to research new fields. The end result is greater staff satisfaction and brand-building by staying market leaders.

Every staff member has a development plan, including training, attending conferences, presenting at industry events, writing papers, performing leading edge research and taking strategic roles on strategic projects.

Electra Business Awards

The entry and assessment process of the Electra Business Awards meant Aura had to look at and validate every aspect of its business from vision and strategy through to bottom line financial performance.

They saw the Electra Business Awards as a means of measuring how they matched up against other businesses in the region and used them as a business tool to self assess the state of their business against the criteria in the Awards and as evaluated by the Award's assessors. They used the assessment and follow up report as a tool to improve their business practices.

Winning the Business of the Year Award was a high honour and seen as an endorsement of their business excellence and was used to promote this on their website.

> *"Although Aura has no local customers we are a high exporter out of the region and winning it was a message about what business is about – vision, focus, quality product, customer service - and above all that a small niche business is just as capable of winning the Awards as a bigger business".*

The Future

Looking ahead, Aura is in the process of taking another step up. In this it has a choice – it can choose to be a small NZ business where the owners will eventually get their kiwi version of the "3 B's" – in this case a Koenigsegg (Swedish super sports car), holiday home and a "gin palace" to travel the world in!! - or it can choose to be much more than this. Andy and Diane Prow put it this way:

> *"In practical terms we only have essentially two options: stay small with a close knit group of people and watch others fill the global opportunities out there – which isn't a real option - or we fill them. We have definitely chosen the latter. Aura is no longer just about us achieving our dreams, but will be a vehicle for our staff and the whole team to achieve their dreams too, long after we've moved on in the company."*

The current thinking is Aura is not interested in a buy out (yet) as they want to remain independent and they do not want to be part of a larger organisation. They value their independence and feel they still have a long way to go in terms of growth and creativity. They also firmly believe that the company won't realise its *true* value for a few years yet, and are not tempted for an early under-valued buy-out.

> *"We see Weta Workshop as the type of business we want to evolve into – NZ based, international, specialising in a high value niche market. Aura's RedEye product is an example of this, which we feel has the potential to grow in markets like Australia, USA, parts of Asia and Europe. In fact we are entering the USA market in June this year".*

Conclusion

Aura is a growing, energetic, entrepreneurial business in a very competitive international IT market with a clear sense of where it wants to be. It has identified a niche and is working hard to grow its share of that market. As part of this it is going through its share of "growing pains" of sufficiency of capital; governance and management structures; operating systems; exporting and marketing expertise and so on. But it is determined to give it a real go and by using Weta Workshop as its model it has not only set very high standards for itself but an aspiration that, according the Andy and Diane Prow, is truly "galactic".

Appreciation

Finally, BKH appreciates the time given to the case study by Andy and Diane Prow and Kirsten Kilmister.

This case study was compiled by Chris Ineson of Driving**forces** **for BKH (Business Kapiti Horowhenua)**

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