

HELP TO GROW.

MANAGEMENT COURSE



MODULE 12 – IMPLEMENTING GROWTH PLANS CASE STUDY: TEXTHELP SYSTEMS LTD CASE STUDY BACKGROUND 2

TEXTHELP SYSTEMS LTD BACKGROUND 2

Market development and the internationalisation journey

Martin McKay identified three distinct periods of development for Texthelp with each presenting distinct opportunities and challenges:

1. Between 1994 to 2014: a period of new business venturing and organic development;
2. From 2015 to 2018: a period of rapid and radical change, with new directions, unprecedented challenges and degrees of consolidation;
3. From 2018 onwards: an ongoing period for new opportunities and the identification of new sources of funding.

Each new period encouraged Martin to develop his management competencies and nurture his growing confidence to lead the transition of Texthelp from a new venture, characterised by organic development, high levels of informality, limitless energy, and a tolerance of risk and limited resources, to an increasingly sophisticated, strategic global business.

Each period combined new learning experiences, strategic and operational priorities and resource demands, with growing skills and competency gaps and shifts in the business model.

Figure 1: Three phases of growth



Phase 1 Early Days (1994 to 2014)

Martin described the first phase as one of uncomfortable risk and uncertainty. The company, particularly in the very early new venturing stages, lacked access to adequate resources, funds and talent, business practices were highly informal, and growth was organic with little strategic practice to support longer term growth.

However, Martin drew on high levels of energy within the developing company to maintain momentum, combined with experiential learning which often involved ‘failure’ as a stern teacher and source of new learning. It was a time for personal and professional development and Martin eagerly exploited every opportunity to develop both his formal and experiential knowledge. Describing himself as a “serial learner” he invested in himself, taking formal leadership and management programmes in leading Business Schools in Europe and North America.

Phase 2 Strategic Growth and Development (2015 to 2018)

Phase two saw good fortune arose when Texthelp successfully developed an exciting new ‘assistive learning’ product for the Google Chromebook system - a strategically important development that mobilised existing technical competencies within the company. Texthelp was first to market with their product and it took off triggering unprecedented growth. This gave Texthelp first-mover advantages, disrupting its erstwhile organic markets and practices. Martin recognised that he had to adopt a whole new mindset - become more agile and strategic – to focus on future business growth.

At the same time, a number of important external funders took the decision to exit the company, impacting the balance sheet hard and presenting new challenges in terms of resourcing much anticipated future growth potential. Significant change was necessary within the company, as Martin described, driven by necessity. In spite of pushing on, growth within the US market and entry to Australasia, it was late in 2017 when Martin felt matters were under control and beginning to ‘settle’.

Phase 3 Investment Inspired Growth (from 2018)

The third phase began with new private equity imposing more discipline and structure. Private equity investors wanted an increasingly professional team and strong investment returns with lower investment risk, but brought a new energy and drive to move the company forwards. The new investors, now members of the company’s executive board, set an aggressive agenda and pushed hard to see results. As a ‘Software as a Service’ (SaaS) company, Martin and his Board members were convinced of the importance of utilising key metrics to understand ongoing business performance and inform strategic decision making. The period saw:

- Restructuring of capital resources
- Some important retirements from the company
- Recruitment of new key staff to support Martin and the Board’s growth ambitions.

Since 2020, Texthelp has doubled its employee numbers, the ‘top-line’ and ‘bottom-line’. New private equity opportunities, new product development and the leveraging of new market opportunities, have characterised the company’s transformation. Several strategic company acquisitions have helped to double its value in the last eighteen months alone and establish Texthelp as the world market leader in the provision of assistive learning education technology – ‘Texthelp are the elephant in the market now!’ states Martin McKay.

FINANCIAL DEVELOPMENT OF TEXTHELP

Phase 1 Early Days

2013 – 2014: PROFIT AND LOSS STATEMENT (FROM COMPANIES HOUSE)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TEXTHELP LTD

for the year ended 30 September 2014

	2014	2013
	£	£
TURNOVER	9,680,834	9,799,093
Cost of Sales	(1,375,949)	(1,280,099)
Gross Profit	8,304,855	8,518,994
Selling and distribution costs	(4,258,742)	(3,854,508)
Administrative Expenses:		
Research and development expenses	(2,320,922)	(1,946,578)
Other administrative expenses	(1,515,278)	(1,449,702)
Total administrative expenses	(3,836,200)	(3,396,280)
Other operating income	109,939	187,652
OPERATING PROFIT	319,882	1,455,858
Interest receivable and similar income	21,120	24,060
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	341,002	1,479,918
Tax credit/(charge) on profit on ordinary activities	14,431	(6,164)
PROFIT FOR THE FINANCIAL YEAR	355,433	1,473,754

2013 and 2014 saw a relatively stable turnover whilst the company was investing heavily in Research and Development and distribution to support scaling and domestic and international market growth. But profit levels for the company fell from 2013 to 2014 – a drop of nearly **75% to £355,433**.

Phase 2 Strategic Growth and Development
2016 – 2017: PROFIT AND LOSS STATEMENT (FROM COMPANIES HOUSE)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TEXTHELP LTD

for the year ended 30 September 2017

	2017	2016
	£	£
TURNOVER	13,599,844	11,804,021
Cost of Sales	(2,561,234)	(1,996,133)
Gross Profit	11,038,610	9,807,888
Selling and distribution costs	(6,749,302)	(5,720,005)
Administrative Expenses:		
Research and development expenses	(2,700,519)	(2,365,853)
Other administrative expenses	(1,754,202)	(1,573,575)
Total administrative expenses	(4,454,721)	(3,939,428)
Other operating income	26,630	40,545
OPERATING (LOSS)/PROFIT	(138,783)	189,000
Interest receivable and similar income	7,539	18,765
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(131,244)	207,765
Tax on (loss)/profit	344,231	811,422
PROFIT FOR THE FINANCIAL YEAR	212,987	1,019,187

By 2017 company turnover had grown by **29%** from **£9,680,834** in 2014 to **£13,599,844**. Despite this growth, Phase 2 was characterized by external funder exits whilst Texthelp continued to develop its international markets through market and competitor acquisitions. This increased selling and distribution costs and administrative expenses in 2017 (totaling **£11,204,023**) resulting in profit for the year falling to **£212,987**. Martin's strategy was to hold steady and carry on.

Phase 3 Investment Inspired Growth

2020 – 2021: PROFIT AND LOSS STATEMENT (FROM COMPANIES HOUSE)
 CONSOLIDATED PROFIT AND LOSS ACCOUNT
 TEXTHELP LTD
 for the year ended 30 September 2021

	2021 £	2020 £
TURNOVER	26,696,533	21,971,391
Cost of Sales	(3,055,868)	(2,661,478)
Gross Profit	23,640,665	19,309,913
Distribution costs	(8,499,561)	(8,191,248)
Administrative Expenses	(7,861,564)	(5,797,746)
Other operating income	156,736	233,016
OPERATING PROFIT	7,436,276	5,543,935
Interest receivable and similar income	14,859	2,338
Interest payable and expenses	(4,508)	(149)
PROFIT BEFORE TAX	7,446,627	5,546,124
Tax on profit	(741,566)	(923,620)
PROFIT FOR THE FINANCIAL YEAR	6,705,061	4,622,504
PROFITS FOR THE YEAR ATTRIBUTABLE TO:		
Owners of the parent company	6,705,061	4,622,504
	6,705,061	4,622,504

By 2021 the financial position of Texthelp better reflects the sustained investment, growth and commitment by the company. From 2020 to 2021 turnover had grown by **£4,725,142** to **£26,696,533**. Indeed, despite servicing markets and customers globally and continuing to explore new markets and products, the company generated a very healthy profit of **£6,705,061** in 2021. When compared to 2014 the company saw a **64%** increase in turnover and 95% increase in profit over this 16-year period, on course with the growth trajectory that Martin had envisioned at the outset.

Whilst turnover continued to grow year on year for Texthelp their commitment to pivot and invest in their expansion and development is clearly evidenced in their financial position and market success today.

Key Learnings

Martin identified a number of key learnings about growth, inspired by the Texthelp journey.

- Growth is always one customer at a time - identify the customer and win the customer and continue to do this - then you grow.
- To grow you must BE better than competitors.
- Continue to be innovative BUT prioritise what you CAN DO.
- External funding includes convincing investors to stay if returns are less than expected.
- Merger and Acquisition of competitors is transformative.
- Changing the team to match the company stage and journey is vitally important. The team at start-up is unlikely to be the team needed at scale-up - this is not easy.
- As the company grows good leadership is critical to:
 - Manage an expanding team.
 - Develop and manage the talent stream.
 - Integrate smaller acquired companies and staff into new structure and culture.
 - Support culture change to start thinking as a 'big' company.
 - Inspire salespeople to believe that scale is achievable.

Looking back to move forward

Martin described the early days of forming Texthelp as full of hard work, relentless, determined effort, high energy and ambition to succeed and grow the company. To support strategic growth Martin's key lessons are:

- Clear purpose and values – When you are clear on your 'why' staff, investors and customers can believe in this and get onboard.
- Identify a vision horizon that works for your business – three years in software – and be clear on what the business will be like in that timeframe. Sales may be a meaningless metric. For Texthelp the vision encompassed the number of people the product suite would have helped, number of staff, the type of work environment and products, markets occupied, media conversations about Texthelp and what Texthelp's Glassdoor scores should look like. This helps to empower people to go after the vision.
- The right teams make the vision and purpose real. Your marketing, product development and sales teams all work towards achieving the vision.
- Making sure that the right people make up teams is critical. Martin argues that "businesses are a set of actions taken by people. They do not happen on their own. The right people minimize risk and maximise speed."
- Support people by investing in them and their skills along with providing career paths.

By taking their own advice, Texthelp software, to date, has helped more than 100 million people worldwide to understand the world! Their product portfolio currently includes a ‘read and write’ product for dyslexia, website accessibility products, reading and assessment websites to help teachers and maths-based products. The core focus of Texthelp’s activities has been the education sector, but the growing ‘diversity, equality and inclusion’ agenda has highlighted the importance of addressing the needs of those leaving education and moving into employment. Future growth for Texthelp sits firmly in the corporate market.

Our thanks to:

Texthelp, Founder and CEO Martin McKay

Texthelp Official Website | <https://www.texthelp.com>

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