

The Cultural Route to Success

Graham Charlton joined IT solutions and services provider Softcat as CFO in 2015, taking the business to IPO within ten months. Here he tells GS-insight what first attracted him to the company and why he believes its unique culture and operational style is one that sets Softcat apart from many other businesses.

The Start of Something Different

When I joined Softcat, I knew very little about the industry, but I was immediately drawn not so much to what the business did, but to its strong, unique sense of identity and its vibrant operating environment. After meeting some of the people I knew it was the right place for me.

Softcat was founded 26 years ago by Peter Kelly. Peter is a larger than life character with immense enthusiasm, drive and energy. He was convinced that there had to be more to corporate life than the grey world of business he'd experienced in his early career. He wanted to bring his own personality and beliefs to the world of work; to create an environment that was fun and exciting to work in - basically somewhere people would enjoy coming to each day.

I think the idea to get into software resale (the business was initially called 'The Software Catalogue') was something a close friend of Peter's in the private equity world first mooted. That initial idea, Peter's enthusiasm and creativity, and a great group of people took the business to £50 million turnover over the next 10 years or so. At which point Peter considered selling the company and although that didn't happen, he realised that new leadership was required to take

the business through the next phase of growth. By this time the business had been renamed 'Softcat', and in came Martin Hellawell who was to be Chief Executive for the next 13 years. Martin had already had a very successful career as part of the leadership team at Computacenter, and he knew exactly what was needed to unlock the true potential of Softcat. He also had the charisma and strength of character to blend in perfectly with and enhance what Peter had begun. So over the next 13 years both Martin and Peter (Peter gradually stepping further away over

the period) propelled the business to a very profitable £600m turnover. It's important to realise that all of this growth was entirely organic - up to the present day Softcat has never acquired another business nor taken on any debt. The reason for going public rather than executing a trade sale or selling to private equity was because Peter loved and still loves the company and its culture. He didn't want to lose the strong identity he'd created; an identity that has been fundamental to Softcat's success. The job of the team running Softcat post IPO has been to stay true to that

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very special heritage and just keep going.

Fast Forward

At the time I joined, the mentality of the business had been to grow in as lean a fashion as possible, so the development of the back-office functions had lagged behind the development of the sales engine. When the time came to commit to the flotation, it was essential to enhance the infrastructure of the business to face the rigours of public life and all of the compliance obligations that brings, and most importantly to establish a solid footing for further growth. Part of that development involved finding a CFO and quite understandably the business set out to find someone with experience of both running an IPO and operating in the lead role in a listed business.

Luckily for me, nobody they saw could tick those boxes as well as fit the culture. So they widened the net and placed a priority on cultural fit coupled with potential rather than experience. At the time I was working at BGL Group as Finance Director of Compare the Market. I had plenty of experience in senior finance roles but, despite 6 years in senior roles at Experian, I had not held the number one job and had not executed an IPO. However, I met Martin and we got on, discovering we had a similar outlook on many things. Our then Chairman, Brian Wallace, decided that I was up to scratch on the finance side and off we went. I joined in January 2015 and we floated in November that same year.

That first year was an incredible learning curve. As soon as I knew I was coming to Softcat, I began to consume every bit of information I possibly could on the IPO process. I think I must have read the London Stock Exchange's own guide cover to cover at least five times! Of course, any properly resourced process brings with it a raft of professional advisors to call on. The most important thing at that time was to use all that knowledge properly and fully. I always tell people that there are two bits to getting an IPO done – the legal bit and the sales pitch. The legal bit comes down to hard work and diligence, and letting the experts guide you. If you organise a team and

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put the work in, you will get it done. The other side, telling the company’s equity story, is something that the management team have to take ownership of. This is what ultimately decides how successful the process is, whether investors feel compelled by your proposition. That part was a great challenge, being so new to the business and the industry, but I really enjoyed it and investors found it compelling.

I didn’t set out to be a public company CFO, I’ve always taken opportunities on their own merit without any fixed end point in mind. But I am immensely glad I’ve ended up being just that at Softcat. I think, quite frankly, it’s just about the best CFO job in the UK. Being a CFO puts you at the focal point of information and insight in a business, and if you use that privileged position well, you can really help drive the business forward. Doing that under the spotlight of the public markets with the opportunities Softcat brings is brilliant fun and I’m very lucky indeed to have this job.

Importance of Culture

People often ask me about the secret of Softcat’s success, and while the answer is easy it’s also hard for people who haven’t worked here to really get it. It’s culture and attitude. People here are given freedom and responsibility within a robust framework of rules and guidelines that are designed to serve the best interests of the company as a whole. We hope our people genuinely care about the business they work for, care about each other, and as a result feel like they are working somewhere special, unique even. If you have that, many other things simply take care of themselves.

While it sounds easy and obvious, creating that kind of culture in my experience is very rare indeed. I’ve seen pockets of it before joining Softcat, but never across an entire organisation (and we’re spread across 8 offices these days). Bringing in large numbers of graduates helps. They’re malleable and looking for leadership and role models, and once they’ve grasped Softcat’s culture and adopted the right attitude, they set the standard for those coming in behind them.

We teach our graduates to play the long game. They have a revenue target from the minute they join the sales team. They’re given no accounts to trade with, they’re cold calling, trying to win new customers – it’s incredibly hard work. We’ve created a remuneration structure that rewards results and teamwork. It’s vital that new joiners understand from the outset that they will only thrive here if they’re a team player, with the drive, hunger and energy to do the very best possible job for our customers.

That’s not for everybody, and consequently the first year or two seems many decide a different career would suit them better. But we work hard on supporting them and giving them every chance to succeed. Those who enjoy it and have the ability, resilience and attitude to make a success of it can then look forward to a great career at what we think is one of the best places to work in the world. After those first two years attrition rates drop enormously. The nature of the job changes significantly as well, becoming more about developing a consultative relationship with a set of customers you’ve got to know really well.

Accessing that pool of talent is one of the reasons we have set up our new offices near university towns, but the other is so that our head office doesn’t become an anonymous monolith of 1,500 people where no one knows each other. Each new office is seeded by five or six people who’ve been with Softcat for between three and seven years. Those people who intrinsically understand and enjoy the company culture and who have the desire to build their own new corner of the business.

If you walk into our Manchester office,

it will feel different from our London office, which will in turn feel different to the Marlow office, but you can still tell it's Softcat. People will smile, say hello, ask you if you need any help. There are open communal areas in each office with lots of people talking. It's a relaxed environment, but always with a purposeful hum and buzz.

Moving Ahead, Staying Relevant

When I joined, Softcat had an accounting function that was pretty good at keeping the score and getting us through audits, but we weren't doing enough in terms of plotting the route ahead and planning for growth. There were lots of myths about how the business worked, so a big part of my job, apart from getting the IPO done, was to shed a bit of new light to hopefully enhance the way we were running the business. Using key data and insight to tweak and nudge an already fantastically well-oiled machine into an even more optimal groove. So since that time we've created a new Commercial Finance Team. This team consists of just five people, but it helps inform almost all of the significant decision-making process in the business. That group and the wider team has shown how a well-rounded finance function can really focus efforts and resources and help accelerate growth.

That work gave and continues to give us the confidence to scale-up the organisation at a faster rate. Rather than reaching a plateau on IPO we're now growing faster than ever in absolute terms and have consistently exceeded expectations in each of the four years since the float.

I've been asked about my views on automation in the finance area and, to be honest, I'm sceptical in parts. So often the real value is to be found in the human interpretation of the data. There are definitely processes that we could automate, but if every decision is made only by reference to data you will eventually break something. So for me a large part of the work of a finance function will always be about leadership and judgment.

In terms of our customer proposition, technology is advancing

rapidly, particularly with the large-scale adoption of cloud computing. We have to ensure we stay relevant and understand the technology challenges faced by our customers, helping them evaluate the right model for their business. While we don't really sell the clever applications that sit on their IT infrastructure, we are instrumental in providing the compute power, the storage, the security, the networking and the devices that comprise their technology platform.

Occasionally we might offer to manage some of it for them or to find a partner to help with that, such as maintenance of a security process for example. We're not trying to move away from selling our products, but there are services that we can and will provide that are relevant in assisting them to have the right technology infrastructure in place.

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Figuratively Speaking

When I joined Softcat I spent a lot of time trying to get to understand how this industry works. When you look into the detail of many managed service providers, they might have a great proposition, but delve deeper into the numbers and it's increasingly rare to find a growing profitable managed service company.

I'm not being dismissive of services and the potential they have to generate high margins. If you can find the right niche and get the right scale, you can have a fantastic managed service business. But often there seems to me an almost ideological belief that to survive in this space you need predominantly to be a service provider. This is something our former CEO, Martin Hellawell, always

questioned and having looked at it hard myself I've found his intuition to be very well-founded indeed. It's one of the very many things I learned from him.

At Softcat our P&L doesn't really start with revenue, it only gets going at gross profit. A £10 million commodity licencing deal for a large organisation might only earn us a 3% margin, but that's still £300,000 gross profit towards the bills. That's a deal worth doing; the 3% is far less relevant than the £300k.

We've made a huge effort to not allow being a public company to change this ability to think for ourselves and plough our own furrow. Those that get the principles like the fact we've got clarity of thought on the strategy, and they know the logic is sound because our results bear it out. In fact, when measured relative to gross profit our net earnings are higher now than they've ever been because we train our people to compete on value, not price. What IT managers care most about is that the product works and is fit for purpose. They'll pay for that quality and reassurance, and they'll keep coming back again because they trust you.

So, in terms of what Softcat's plans for the future are, well, it's first and foremost more of the same. Our model works, and the investment strategy is one we're determined to maintain. We think that will underpin further market share gains for us. We only have 5% market share so there is still a massive opportunity still.

And because of this we're still entirely focussed on UK customers. We are investing in overseas branches and overseas relationships with suppliers to make sure that we can deliver worldwide for UK customers, but the plan to put sales teams in foreign jurisdictions to sell to non-UK companies is not yet part of the plan.

We haven't yet made an acquisition but we keep an open mind. We're continually building capability organically but accept that sometimes inorganic expansion can be a great option too. If the right thing ever came up, we'd look at it.

But, as has always been the case, the single most important thing to all of us at Softcat is the health of our culture.