

Mover. Shaker. Innovator

She is smart, brave and ambitious. Her business is nimble, disruptive and proudly British. Entrepreneurs like Karen Paterson are creating the industries of Britain's future.

Interview: **Kate Pritchard** Photography: **David Short**

"We need to foster a new climate for enterprise in Britain!" proclaimed Lord Mandelson in the first week of 2010, as he launched the government's Going for Growth strategy. "There is no substitute for this - no substitute for the drive and ambition that it brings. It can sometimes be a touch ruthless and raw. But it is the single most important engine of economic progress. We need to renew our focus on what makes us successful innovators. Our challenge is to transform more knowledge into economic gain."

Our advice to the business secretary? Get on a train to Salisbury. If you're looking for smart, ambitious entrepreneurs - successful innovators who will help lead this country out of recession and create jobs for the future - we have the

perfect example for you in the small cathedral city of Wiltshire.

Karen Paterson, our Entrepreneur of the Year, is the woman behind the world's first internet-based, software-as-a-service (SaaS) global payroll management system. In layman's terms, it's a pay-as-you-go model that can be easily scaled up to 1,000 employees in Mumbai or down to three employees in Malta. It's a flexible and efficient alternative to clunky ERP systems, where country coverage is often limited or has expensive software-license costs to boot. During the past 14 years, Paterson has built up, block by block, a £10.5m-turnover business employing 200 people, 69 of which are highly skilled technical developers (Mandelson's speech went on to talk about creating a new British

technician class, filling a longstanding gap in the UK skills market).

It's the scale of the global market opportunity that makes her business stand out. The SaaS international payroll sector is worth an estimated \$180bn – and Paterson's technology is three years ahead of other known products on the market. She has taken her business into global markets, putting her Salisbury start-up on a direct collision course with technology giants such as ADP and Ceridian.

Paterson's background is in retail banking and corporate finance. It was in 1996, after completing an MBA in international information technology strategy at Southampton University, that she decided to start up her eponymous consultancy business. "It was tax. It was strategic consulting. It was corporate finance. It was basically anything that anybody would pay me to do!" she says, with her wide grin.

One of her first contracts was with Virgin Interactive Entertainment. Paterson had set up a meeting with the board to discuss tax. "I was eight months' pregnant at the time," she recalls. "I'd had to ask someone to drive me to the office because I couldn't fit behind the steering wheel." The HR director caught Paterson just as she was leaving the meeting and asked for help with payroll. It was that accidental run-in that changed her fate.

Virgin Interactive Entertainment had started out with four developers writing games programmes under Richard Branson. When Paterson visited, it had just been bought by Viacom and had grown into a sprawling giant, with nearly 3,000 employees across eight countries. "The HR director had no visibility on headcount," explains Paterson. "She had no idea what the cost of her payroll was. She had no clue whether

“We'd rather employ **talented** Indian developers ourselves. Too many British firms **give away** their **innovation**”

the payrolls were compliant or not. She was tearing her hair out. She'd tried ADP. She'd tried Ceridian. She'd spoken to PricewaterhouseCoopers and Ernst & Young. But nobody could help her – and she needed to have the answers on her desk by the following month.”

Paterson designed a system for Virgin using password-protected Excel spreadsheets. It wasn't fancy, but it worked. Other companies started to come forward with the same problem. As Paterson took on more and more clients, including the likes of Boo.com and Gameplay, she watched and learned. "Many of the companies I worked with had great ideas but no business sense. They made terrible technology mistakes. They rushed into markets like online gaming even though there simply wasn't enough bandwidth over modem connections.”

Paterson wasn't going to make the same mistake with her own business. She waited until 2000 – the advent of broadband – to start assembling the company's signature SaaS platform with the help of John Hollis, the entrepreneur behind Quicksilver, one of the most successful British video-game publishers of the eighties. Although Hollis, a master of Java Enterprise, is the technical brain behind the software, the pair have overlapping skills. Hollis credits

Paterson as being “unusually technically literate for a CEO”. The pair shipped the first release of their international payroll system in 2001.

Paterson began her assault on international markets in 2006, opening an office in Singapore. Again, it was a measured move. Government stability, bandwidth, local skills, exchange rates and currency fluctuations were all on her checklist of considerations. “We chose Singapore as opposed to Hong Kong because, geographically, it's behind Indonesia,” says Paterson. “Even if there's a tsunami, our internet cabling is protected and we don't lose bandwidth.” This woman thinks of everything. After Asia, she took on America, China and France.

Her approach is the opposite to large corporates who wade straight in: “I've considered the Eastern Bloc but those countries still need to mature,” she says. “The big guys – the IBMs and the Accentures – plough straight into these new markets without a second glance. They've all got service centres in Krakow, Warsaw, Budapest, and they will generally take the first cut of the talent. But it's better to let them make the mistakes, stabilise the market and then follow in afterwards.”

Paterson isn't immune to error. She experimented with outsourcing software development to India in 2001 and again in 2006. Both experiences left a scar. “The quality of the work was lousy,” she recalls. She glances across to Hollis and he nods in agreement. “The code was just appalling,” he says. “We chucked a lot of it away.”

Paterson adds: “Outsource to India if you want a project managed from start to finish. They'll build it, test it, support it and maintain it. But if you want a mix, you'll get bad results.”

She won't be going down that

route again. "We'd rather take talented Indian developers and employ and train them ourselves," she says. "Too many British firms give away their innovation – their crown jewels. It's criminal. The government should be giving businesses grants and incentives to actually stay onshore."

Today, the Patersons payroll platform is more than 1.8 million lines of code and available in 30 languages. Nearly eight in ten of the company's clients are US multinationals with offices spread around the world. Global market analyst IDC predicts that the percentage of US firms that plan to spend at least 25 per cent of their IT budgets on SaaS applications will increase from 23 per cent in 2008 to nearly 45 per cent this year. "I often laugh and say that we solved a problem the Americans couldn't solve for themselves," says Paterson. "Go British company!"

Although Patersons is the forerunner in internet-based global payroll systems, new rivals will start to turn the heat of the competition right up. She doesn't look fazed. Her plan of attack is to start buying up the opposition. "We haven't done any acquisitions in the past – but the timing's right," she says. "Businesses are good value. And we're strong in a weak market. We can take advantage. We can buy whole payroll bureaus that we can migrate straight onto our own technology and increase our margins."

To fund acquisitions and global growth, Paterson struck a deal with US venture capitalists Rho Ventures at the tail-end of 2008. Up until that point, the business had been funded solely by Paterson (who ploughed in £1m of her own money in the first three years) and a handful of private investors (two rounds of funding for £150,000 and £3.5m respectively).



KAREN PATERSON ON...

Equality:

"It's easy for a man to be aggressive in business. If a woman is aggressive, people are automatically uncomfortable."

Character flaws:

"I'm 100 per cent honest and far too trusting. I've shared information about the company, thinking people were acting in our best interests – they weren't."

Funding:

"We're a 13-year-old company. Had we taken institutional money in the early days, investors would have dumped us on the market the minute they wanted a return. We weren't ready for that."

Keeping it in the family:

"My son is proud to see 'Patersons' above the door. He said: 'Mummy, if I get the right degree, can I join the business?'" He knows what the ground rules are!

Her peers:

"I admire Lord Sugar in a funny way – he's a bruiser. Do I admire Larry Ellison [CEO of Oracle Corporation]? No, I think his approach is aggressive and arrogant."

But she needed more – so she flew out to the States and spent a total of four months out there meeting venture capitalists. "On one trip alone, I met 36 VCs," she says.

Timing wise, she misfired. The market started crumbling just as she was raising funds. "It was September 2008, just as Lehman Brothers went down. We were one of the few companies in the world that actually managed to raise equity during that period. We signed on December 5, just as the second banking crisis hit."

The company was valued at \$140m at first. But as the economy plunged, so did the firm's price tag: "We ended up with a valuation of \$80m, which pleased me not." Rho Ventures invested \$30m in return for a 35 per cent stake in the business. Paterson herself retains 33 per cent – but she's willing to release more. "We're in the process of going for a second round of funding. I want at least another \$20m," she says.

And then what? "Global domination," replies Paterson without missing a beat.

Vin Murria, a partner at UK venture capital fund manager Elderstreet, and a judge at our Growing Business Awards, says of Paterson: "Instead of 'bust-a-gut' approach, she has grown her business slowly and sensibly in what is a very complex market. She's had growth visions from day one and is now making inroads into overseas markets."

This engaging, bubbly entrepreneur (who danced up to the stage when she was presented with her Entrepreneur of the Year award in November) won't drop the ball. "Don't blink," she says. "That's the best piece of advice I've been given on building a business. Be fearless. Be disruptive. Be creative and be brave. But don't, even for one second, look over your shoulder."