



# Move Fast and Don't Break Things

How Rothy's laid the foundation for rapidly scaling its shoe startup with SAP Business ByDesign.

## ANATOMY OF A SCALING STARTUP:



### Founded / Launched:

Founded 2012, launched 2016



### Employees:

100+ corporate (up from 15 in 2018), 900+ in China  
(up from 400+ in 2018)



### Transaction volume:

1 million shoes sold in 2018



### Revenue:

\$140 million in annual revenue



### Valuation:

\$42 million in investor equity  
\$700 million valuation

By Peter Kowalke

The goal is the same for almost every startup entrepreneur, whether they migrate to Silicon Valley or harbor their dreams from somewhere else: Create a unicorn, a startup that changes the world and has a valuation of more than \$1 billion.

Budding entrepreneurs should keep their eye on Rothy's, a maker of 3D-knit, sustainable shoes. In just three years, the startup has gone from an idea and a small stall in San Francisco's Ferry Building to pulling in \$140 million in annual revenue and capturing a market valuation of roughly \$700 million. Rothy's isn't a unicorn quite yet, but it is getting there in a hurry.



## Unicorns Require Scale

The anatomy of a unicorn is studied and widely known in Silicon Valley. First there's the killer idea and the co-founder, then a minimal viable product and early stage investors. Next comes the grassroots social media outreach and some sales success, followed by massive scaling.

One key aspect that separates the typical startup from the unicorn is the scaling part. Fast growth requires more than just a good idea. It requires infrastructure that supports sustained and rapid scaling.

Roth Martin and Stephen "Hawthy" Hawthornthwaite, the San Francisco-based co-founders of Rothy's that give the company its name, understood the need for this key ingredient. So after the company validated its idea by generating over \$2M in sales in 2016 and grabbing a round of investment in 2017, it turned to laying the right backend foundation for the harder part of scaling fast without breaking operations.

After the initial success of its minimal viable product, in early 2017 the company turned on its own manufacturing operations in China for aggressive, ongoing expansion. Then in late 2017, the company began future-proofing its backend systems for increased automation and the expected scaling of order volume.

"We wanted to make sure that Finance and Operations were evolving with the rest of the business - we didn't want the wheels falling off in 12-18 months" says Ulion Riebe, Rothy's head of finance and one of the team leads for the company's systems upgrade.

The existing backend system was a hodgepodge of technologies stitched together. Shopify took orders from the company's web site, 3PL software handled logistics, and a patchwork of data feeds were shoe-horned into QuickBooks for financial management and reporting. Orders already were automated but reporting and management were messy and manual.

"It was a fine process for the business at the time, but I knew it wasn't going to get us to the next level."

So even though Rothy's was a little more than two years old and had only around 15 employees at the time (they now have over 100), the company began looking for a Fortune 500-grade enterprise resource planning system (ERP) that could automate the business end-to-end and give the scalability for continued growth.

"We had buy-in from the founders and the leadership very early around investing in a strong foundation and infrastructure to support the customer experience and future growth," explains Riebe.

## The Checklist for Growth

First and foremost, Rothy's wanted a system that ensured a consistent and high-level of customer care even as the company grew. An exceptionally strong customer experience is a core tenet of startup culture today, and Rothy's couldn't afford to lose that edge as it expanded rapidly.

"We wanted to be a completely holistic, integrated company with a premium customer experience, not just on the purchase, not just on the product, but end-to-end," says Riebe. "Marketing and product does a great job, and we wanted to make sure that the backend was able to keep pace with that."

That was one of the central reasons for upgrading to an ERP system, since ERP serves as the nerve center for a business and a single source of truth for unified operations.

End-to-end automation also was important for Rothy's, both because the company envisioned lean operations and because the sheer order volume for a consumer business at Rothy's level would be unsustainable as the organization grew.

Massive hiring would slow down growth and hurt margins, and the headcount needed to process the 1 million pairs of shoes the company sold in 2018, would be prohibitive.

"We had this notion that investing in the right software early would save a lot on labor costs later on," explains Riebe. "But we needed to have these systems all talking to each other in real-time, without a whole lot of manual intervention."

While the ecommerce side was automated, financials largely were not. Sales, returns, discounts and product costs were all journal entries done in Microsoft Excel.

"We used to have these long processes in accounting where we needed to figure out what we'd sold versus what we'd shipped," he says. "We'd pull separate reports, and there would be tens of thousands of lines because of our volume."

This was the second great need for a new system, since ERP collects and automates all aspects of a company's operations, and it generates standard or custom reports from the data in minutes.

"Using the latest technology also is important for a modern startup," explains Riebe, and that meant cloud-based ERP instead of the system that the company currently had.

"I think cloud ERP's have a unique set of advantages versus older, on-premise systems," he says. "They are well-suited to ecommerce brands, direct brands, and provides all the multi-language, multi-currency functionality we wanted without a lot of the legacy processes more suited to brick-and-mortar."



## Scalable ERP in the Cloud

That led Rothy's to [SAP Business ByDesign](#).

Roughly 77 percent of all global transactions come in contact with an ERP system from SAP, and most large enterprises rely on SAP software or similar systems from the likes of Oracle or NetSuite. Naturally, Rothy's looked at all three when deciding how to support continued rapid growth.

"We had some really good debates about it internally because NetSuite has such a presence in the Bay Area," says Riebe.

SAP literally invented modern ERP, however, and it remains one of the most widely used vendors. SAP also has a strong background in the manufacturing industry, and some of the Rothy's leadership had seen it hold up well at a previous company. When Rothy's performed its due diligence and ran through the demos, the choice was clear both from a technological and company fit perspective.

"I remember the meeting," says Heather Howard, one of the team leads on the project and vice president of operations and people at Rothy's. "It was like this kind of collective, 'Yep, this is it.' It was very unanimous. Okay, we speak each other's language."

Rothy's went with Business ByDesign, SAP's cloud-based ERP built from the ground up for small but fast-growing businesses. SAP Business ByDesign features wide-ranging real-time connectivity, an intuitive interface and the easy scalability that startups expect from a cloud service, all without the unnecessary complexity of the larger ERP systems. But it also enables a fast-growing business to seamlessly scale into the larger SAP products used by the likes of Coca-Cola and 3M.

SAP Business ByDesign is a cloud ERP built for startups that are scaling, in other words. This made it a natural fit.

## Iterating During Implementation

Larger companies often will set up a committee for ERP implementation, with dedicated days off for working on the project. As a startup, Rothy's didn't have that luxury.

Howard and Riebe, along with Rothy's controller and the periodic help of the company's director of planning and distribution, oversaw the implementation while juggling their normal job responsibilities. For support and guidance, they hired [Navigator Business Solutions](#), a highly regarded SAP Gold Partner that specializes in SAP Business ByDesign ERP implementations. They also brought in a project manager who had deep experience with ERP implementations, and who had previously worked for Navigator.

“We had a really strong relationship with Navigator,” says Howard. “We could speak incredibly clearly without any nuances. We relied on them as an expert resource for any help we needed.”

Where they needed the most help was with the integrations connecting Shopify and other services--such as their returns provider--with SAP Business ByDesign and their logistics provider, which used a proprietary warehouse management system.

One of the big factors during the selection process was that SAP Business ByDesign makes integrations easier, and Navigator had developed middleware, [iConnect](#), that enables one-click integrations for Shopify and hundreds of other commonly used systems.

“The iConnect integration that SAP and Navigator has was a big component of our selection,” notes Howard. “Shopify is probably our most important linkage. And then the middleware 3PL logistics is the second. To have most of that Shopify to SAP Business ByDesign connection pre-built, tested, and maintained was just one less risk factor.”

Getting the proprietary warehouse management system (WMS) properly talking with the other systems was an unexpected challenge, though.

“It was a little bit more challenging to integrate with them because they don't have the out-of-the-box kind of WMS that everybody else is working with,” Howard explains.

“Building the middleware that goes from SAP to the WMS, and back to SAP was the hardest integration to build and really took time and several iterations.”

A late decision to change returns providers during implementation also complicated rollout for the start-up.

The ERP implementation was begun with Rothy's existing returns provider, but a promising new provider that offered retail return locations throughout the U.S., [Happy Returns](#), burst on the scene late in the rollout process.

“You can go to any Paper Source in the country, you can go to Cole Hardware, you can go to any FLAX Art Supply store and return your Rothy's,” says Howard. “We really loved the feature. So, we partnered with them.”

This wasn't just a late substitution during ERP system implementation, however. As a fellow startup, Happy Returns literally was building its API at the same time as Rothy's was trying to integrate it.



“It was like building a plane on top of a plane that was being built,” explains Howard, since Navigator had to build the integration for a system that wasn’t fully developed yet.

“But it was mission critical,” she says. “We didn’t take any shortcuts like keeping the old integration and doing a manual entry for it at the end of the month. The vision from the get-go was one holistic, cohesive, integrated system.”

Fast-growing startups are skilled at pivots and uncertain terrain, and the move to the new provider didn’t significantly slow the company down. Rothy’s and Navigator rose to the challenge, and the ERP project was pushed back a few months but still went live in April, 2019, roughly a year after the system upgrade began.

## Scalable ERP in the Cloud

Scaling startups often can’t predict the future. No company in its right mind would roll out a completely new backend system during the busiest sales week in its history. Yet, that’s what happened when Rothy’s flipped the switch and went live with its new ERP system.

“You couldn’t have planned it,” says Howard. But there they were, launching the new system just as orders were spiking.

Thankfully, all systems were go. Nothing broke.

“Were there blips behind the scenes? Yes. But the fact that we implemented this in the biggest week we’d ever had in the history of Rothy’s, and it didn’t go down, was pretty significant. Everybody got their shoes!” remembers Howard.

“It was really, really important to be as thorough and thoughtful as possible, because going down was just not an option,” she notes. “Even being out of whack for two hours meant problems with something like 6,000 orders.”

The reason for this success was the planning that has been a hallmark of the business from the beginning and what has allowed Rothy’s to scale so successfully in its first few years as a company.

“We weren’t testing a few days before we went live. We were doing a day-in-the-life months before,” she says, “flowing through all the orders, making sure everything worked full circle.”

This thoroughness is part of the Rothy's DNA, but having the right technology in place and experienced implementation partners that stressed best practices also helped.

"iConnect was a dream because it was super-efficient and easy to figure out," she notes. "In testing, it was quick to identify what the problems were and fix them. Here's the error and why. Even a layman can figure it out."

"I think we got really great advice," adds Riebe. "We didn't rush it, Navigator didn't let us rush it. They didn't let us gloss over any details that we needed to focus on." began.

## **The Foundation** for Growth

One piece of advice was rolling out the system in stages. While the core system now is in place, integrating Rothy's Chinese manufacturing operations is slated for next year. Rothy's also still is rolling out some of the secondary functionality now that the basic system is operational, and as the company grows.

"We don't use the whole SAP Business ByDesign suite-in-the box," says Riebe. "But having access to the modules that we can turn on whenever, and just not have to worry about a whole new integration, is huge."

Howard concurs. "We absolutely, 100 percent did this at the right time for our business," she says.

There are typical steps along the startup journey. Developing a business plan is a crucial early step, as is funding.

Many businesses nail those early steps. What often is harder is scaling. That is one reason why unicorns are so rare. With its backend systems upgrade and its emphasis on long-term planning, Rothy's might be a textbook case for how to make the transition.