



May 28, 2001

Business

InStep Software LLC

Chicago-based InStep Software LLC is a developer of software products and a consultant for utilities in power generation and distribution, telecommunications and manufacturing. Its software systems collect time-stamped data that helps companies' track and monitor equipment and system performance to improve operations and prevent system and equipment shutdowns. The company's software also provides real-time data to those who buy and sell energy on the trading floor. The six-year-old company estimates that 14 percent of the cellular switches in the U.S. are monitored by its software. Major customers include Southern California Edison, Wisconsin Public Service Corp., Sprint, Verizon and Motorola.

Here are the views of President John B. Kalanik, 41:

CHALLENGES: "[InStep's] challenge is being aware of where the regulatory environment is going. It's understanding what our customers' needs are.

"The power generation market today is going through this massive restructuring because of deregulation. The competition is becoming fierce [among our customers]. Companies that used to be regulated [monopolies] are now competing tooth and nail for every customer they can get, and the problem is that the regulatory environment is changing around that. So reacting to the increasingly competitive market in a changing regulatory environment is a big challenge.

"It's become more important to understand exactly what's going on not only in your generation facility, but also in the distribution systems and with your major industrial customers--how they are using your product--so you can better serve them. So all this information becomes more and more important, and as the cost of electricity keeps going up and becomes a bigger part of people's budgets, they're going to start shopping around more. So our end customers, the generation facilities and the power producers, need to be better prepared to work with [their] customers.

"The way they do that is by improving their operation. [Their] facilities are complex, and [in the] transmission systems as well as the generation systems; minor changes mean millions of dollars. A 0.1 percent improvement in efficiency has a major bottom line impact on a facility. [And for those who buy and sell energy on the trading floor], when you're bidding into these systems now, you have to know what the price of fuel is, what the weather is going to be, what's the going rate for sales of electricity today."

SOLUTIONS: "Our product suite gathers all the information about what's going on and what has been going on in their systems. It gathers all the data and turns it into information that they can use and analyze and predict what they're going to need to do in the future.

"We've got a lot of guys with a lot of experience in the industry. We have great relationships with people that have been in this industry forever. So we know the trends, where things are going. We talk to the regulators as much as we can to understand what's going on. We do the research to see what's the next big thing."

ON SOFTWARE DEVELOPMENT: "A professor once said to me quite a few years ago that 85 percent of the software developed in the U.S. never gets used. I was just blown away by that. If you look around at [some of the dot-coms that failed], people were writing stuff all over the place that never got implemented. When we put a product out there, it's getting used. Our stuff, when it's finished, it's going live."

LESSONS LEARNED: Stay on the course. "We had a great business vision of where we wanted to go. As we were implementing that plan and working out the kinks, what products we were going to put on the market, what customers we were going to try to approach, there was a lot going on in the Internet economy. There were a lot of distracting influences out there in the technology markets. It's very easy to get distracted because there's always a new better life-changing thing on the horizon. One thing we did very well is stay the course, keep our vision on where we wanted to be. That's painful at times. About a year ago, we were getting a lot of pressure from people asking why aren't you in the Internet boom, why aren't you a dot-com. We're glad we didn't go down that road. We stayed our course."

MILESTONE: "Our founding. We identified this niche market that people weren't addressing as much as we felt they should. We started talking to [potential] customers, and we immediately got some great opportunities presented to us. We were able to deliver on and produce for our customers. So that validating of our ideas was probably one of the greatest milestones for us. We saw a market. We went after the market, and it materialized correctly. We were always self-funded, and we've been profitable from Day 1."

OPPORTUNITY: "It's an amazing market for us right now. Our product fits in any industry where understanding rapidly changing information streams can help your business. So we see incredible growth available to us in the power industry. Also, in the telecom markets, we have probably one of the best solutions for companies to improve their customer service. We help them monitor all these switches that are out there flipping your cell phone calls all over the world. [We help companies] monitor the roaming contracts. Our products help monitor [equipment. They can] detect things when they start to degrade in performance. There's a huge market there. We're also working with consultants in other industries to develop strategies on how to get in there."

ADVICE: "Having a good business plan is important. A bad business plan, well funded and well implemented is still going to fail."

STRESS RELIEVER: "I sail a lot, sail race. It's a lot of work and exciting. It's a great stress relieving kind of thing. One of the greatest assets Chicago has is this lake out here. Chicago has some of the greatest club racing."