# Entrepreneur Journeys

# Bootstrapping With A Paycheck

*Sramana Mitra*

To all those 1M/1M entrepreneurs who are bootstrapping startups while also working a full-time job.

# Content

**Yes, it is hard to bootstrap a company while working a full-time job. If the other option, however, is to never get started, this is better.**

**- Sramana Mitra**

## Bootstrapping Using a Paycheck

Entrepreneurs looking to launch their startups are often faced with myriad difficult decisions, chief among them being the question of seed financing. If you've ever found yourself asking, "How can I fund this?" or "Can I fund this on my own, while I'm still holding my current job?" the answer is yes—you absolutely can.

Vasu Akula and his two cofounders launched Voziq in late 2011 with one simple goal in mind: to help companies who purchase advanced analytics and business intelligence solutions better utilize the information they gained access to.

What makes Washington, D.C.-based Voziq unique is that Vasu and his partners didn't utilize outside investors in order to bring Voziq to life. Rather, they funded Voziq themselves while holding on to their day jobs. Vasu is a part of the 1M/1M premium program, and one of the many entrepreneurs who have bootstrapped a startup venture while holding on to a full-time day job.

Vasu and his co-founders had originally toyed with several different ideas. However, Vasu took my advice about bootstrapping Voziq's business through services, while holding on to his paycheck. It was a great way to bring immediate value to the customers, learning about their needs, all the while building a product with the long-term view in mind. Yes, the product has been on a slow-burner, but invaluable customer relationships have already been established, key customer inputs gathered, and of course, cash has continued to flow in.

The idea behind Voziq started with Vasu and two fellow IT professionals, all of whom had spent fifteen-plus years working with over 100 Fortune 500 companies. Vasu realized that while most companies utilized some form of data analysis, they didn't often move past that point. By his estimation, 95 percent of companies that purchased advanced analytics and business intelligence solutions weren't utilizing the data to its full potential. Technology was sitting on shelves, not delivering value.

Vasu realized that there was an untapped opportunity there, and Voziq is the platform that he and his associates built from the ground up. It focuses on social media analytics and helps to reveal the insights in large volumes of data. Using categories, benchmarks, and custom reports, Voziq transforms the voice of the customer, the voice of the client's competitors, and the voice of industry influencers into actionable scenario-based information for various departments within the client's organization.

As a self-funded start-up, Voziq's finances were always tight, and so its co-founders decided to retain their day jobs until they had achieved reasonable validation with actual customers. Vasu says that Voziq was able to reach this goal by utilizing oDesk and other freelance contractors outside of North America, where they were able to obtain quality work for a relatively lower cost.

Voziq's situation illustrates the scenario of a startup with two or more co-founders. Vasu notes that not all of the startup's founders needed to move out of their day jobs at the same time; one or two could continue working while others are firming up the business plan and reaching out to prospects. This way, he says, you can fund your company through your paychecks while others are executing the core ideas of the startup.

He also emphasizes the importance of being willing to sacrifice when first validating the business idea. Since each of Voziq's co-founders maintained their day jobs, they each took a chunk of business and product development tasks and executed these during evenings and weekends. Once they began to see some traction, they each took on roles as independent consultants in related areas to continue to earn a paycheck while they continued to focus their outside efforts on Voziq.

Vasu his associates have transitioned into Voziq 100 percent in 2014, as they bring in more customers and revenues.

While getting off the ground and becoming profitable are the ultimate goals for any venture, these are especially significant milestones for a self-funded startup. With these goals within reach, Vasu says that Voziq plans to continue to follow the 1M/1M methodology, looking to customers rather than investors as a way to further bootstrap and validate their work. They have successfully transitioned into a cash flow-positive scenario, and are ready to take Voziq to the next level of success and profitability.

What I find gratifying about the Voziq story is that it can be a template for numerous other entrepreneurs that we hear from constantly. Hundreds and thousands of professionals around the world harbor entrepreneurial dreams. Most of them lack capital. For these entrepreneurs—heavy in expertise, light on funding—bootstrapping with a paycheck is a fine path to get going!

At 1M/1M, we're formalizing the process of 'bootstrapping with a paycheck' actively, in recognition of the fact that in many parts of the world, there isn't much of a seed capital eco-system. Thus, somewhere between 6-24 months of bootstrapping while holding on to a full-time job is a reasonable option for many aspiring entrepreneurs.

In fact, I would go so far as to say that most aspiring entrepreneurs ought to start their entrepreneurial journey while sitting inside a corporate umbrella. Especially for technical people, it allows for the enhancing of their technical skills, while also developing the bricks needed to build a venture.

One thing you will find, however, that no incubator will be willing to work with you until you have quit your job. As such, we've decided that at 1M/1M, we will support aspiring entrepreneurs while they line up their ducks and start putting together their ventures, without requiring that they quit their jobs.

In a recent paper titled Should I Quit My Day Job?: A Hybrid Path To Entrepreneurship by Joseph Raffiee and Jie Feng of the University of Wisconsin–Madison published in the Academy of Management Journal, the authors cited research and statistics supporting this methodology:

> "According to the U.S. Bureau of Labor Statistics, in 2011, roughly 10 percent of self-employed workers were also employed by existing firms. Going a step further, research shows that many hybrid entrepreneurs ultimately decide to commit to their ventures full time (Folta et al., 2010). Indeed, anecdotal evidence indicates that some of the world's most innovative and successful entrepreneurs started their companies as hybrid entrepreneurs. For example, Steve Wozniak remained an employee at Hewlett–Packard long after co-founding Apple (Wozniak & Smith, 2006), Pierre Omidyar launched eBay while working for the software development company General Magic (Cohen, 2002), and, with the help of investors, Henry Ford founded the Detroit Automobile Group while employed by the Edison Illuminating Company (Ford & Crowther, 1922). In 1997, 20 percent of CEOs on Inc. magazine's 500 fastest growing private companies list indicated that they continued to work a paying job long after founding their organization (Inc. staff, 1997)."

In this volume of *Entrepreneur Journeys*, we introduce you to successful entrepreneurs who have followed this path and take a closer look at how they managed to succeed.

# Interview with Sinclair Schuller, CEO, Apprenda

*Sinclair Schuller is the CEO of Apprenda. With his two co-founders, Schuller has secured $16 million in VC funding at the time of this interview. Investors include NEA, Ignition Partners, and High Peak Ventures. Apprenda delivers private and public PaaS to enterprise developers. The company is headquartered in Rochester, New York, and surprisingly, managed to raise significant amounts of venture capital without having to relocate. Also, the Apprenda team bootstrapped the early phase of the company by holding onto their jobs.*

**Sramana Mitra: Sinclair, let's start with the beginning of your personal story. Where did you grow up?**

**Sinclair Schuller:** I am a first generation American. My father is from Romania and my mother is from Italy. They immigrated to the United States in the late 1970s. My father's family has a tradition of entrepreneurship. I was born in New York City but was raised in a very rural area in upstate New York. I had 20 people in my high school graduation class.

Growing up in a rural area is a bit different. There was not a lot of science culture to be exposed to. I had to figure things out on my own. My father was very interested in science and had started medical school but was unable to complete it for various reasons. He went on to start several businesses in Manhattan before we moved to upstate New York.

I learned a lot about science from my father as he helped me with my homework. He also taught me how to program when I was very young. When I was 7 years old I had an Apple IIe and I learned Basic. I went on to learn C++ when I was 11.

My father passed away when I was 15, and that was a big turning point for me. I no longer had him around to teach me. He also left behind a small business that my mother took over, and I was able to help out with that business. I believe that running the business with my mother really developed my work ethic. I also learned the value of focus when it comes to building a company.

**Sramana Mitra: Where did you go to college?**

**Sinclair Schuller:** I went to Rensselaer Polytechnic Institute in upstate New York.

**Sramana Mitra: What did you do after RPI?**

**Sinclair Schuller:** RPI was interesting because I went in and got a computer science degree along with a math degree. I ended up getting job offers from a bunch of different companies of various sizes. A few of the job offers were focused on the math degree. I received offers from hedge funds that wanted me to do modeling. Companies that were attracted to my computer science background offered me engineering roles.

I ended up doing some internships at Morgan Stanley, and after school I worked there as a software developer in enterprise IT environments. Like in any enterprise IT shop, I received requirements for custom application development, at which point my team would go off and build an application to meet the requirements.

That environment is challenging to creativity. It is also challenging to turn around application development projects quickly. I had a lot of negative experiences working at that size of company. Those experiences eventually led to the creation of Apprenda.

**Sramana Mitra: What did you do after you left Morgan Stanley?**

**Sinclair Schuller:** I went to work for a startup in upstate New York that focused on help desk software. I worked as a Java developer inside of a really small company. At Morgan Stanley I experienced software development in large enterprises, so it was a new experience to work at a firm that small.

**Sramana Mitra: What timeframe was this?**

**Sinclair Schuller:** I graduated in 2004 and I started Apprenda in 2007. I had about three years of experience in the field as a developer.

**Sramana Mitra: In 2007 the iPhone had just come out. What did you notice about the ecosystem at that time?**

**Sinclair Schuller:** The world was starting to focus on the cloud. I looked back at my experiences at Morgan Stanley and the small company I had just left to see where improvements could be made, and that led to creating Apprenda. One of my co-founders and I were college roommates. We ended up working at this startup in upstate New York together. Our third co-founder was also working at that startup as the webmaster and designer.

The three of us started talking about our common experiences. We realized that we had all experienced some common trends. First, inside of large enterprise IT environments, it is very hard to get an application deployed. It is a multi-month process that involves 10 or more teams. It was a process that was mind-boggling to us. We could not understand how enterprise IT could function that way.

Second, we noticed that cloud applications were becoming more prevalent. The way applications were architected was more sophisticated and complex. People were using multi-tenancy, scale-out, and high availability architectures. These were all qualities that were very difficult to engineer, and most developers had no idea how to do it.

The three of us saw an engineering opportunity. First, we wondered if we could build a software layer that would make it simple to get an application up and running on an existing infrastructure. Second, we wondered if we could commoditize the sophisticated development patterns so that an average .NET or Java developer could write an app and actually get a powerful cloud outcome with our technology. That led to the founding of Apprenda in 2007.

**Sramana Mitra: Did you bootstrap the company?**

**Sinclair Schuller:** We invested sweat equity and our own money. After six months we realized the scope of engineering effort our project was going to require. Apprenda is like an operating system layer that sits across the entire data center. We pull the various server instances that are running in a data center into one logical fabric. There are a lot of engineering challenges in doing something like that.

We realized that we had more R&D investment to make, so we brought in $250,000 of friends and family money. We then raised a seed round of venture funding with a firm in the New York area named High Peaks Venture Partners. We had a total of $1 million in funding, and with that we hired employees to add to the R&D capacity of the company.

**Sramana Mitra: You established your company and got it funded in upstate New York. That is not one of the entrepreneurial hubs in the country. Can you describe the environment and what it was like to get a company off the ground in that area?**

**Sinclair Schuller:** It was less challenging than we thought it would be in many regards. In terms of getting the company started, we found that we have a very engineering-centric culture here. There are a lot of computer engineering and computer science graduates. If you look at the density of math and computer science

PhD holders in comparison to the average US population, you will find that upstate New York has a rich talent base.

That was surprising to us in a good way. It enabled us to find good, strong software developers to bring onto the team. Our biggest challenge was finding investors. It's not a hub, so when you go talk to a VC, the first question they ask is why we are located in upstate New York. They were very unwilling to invest in a company from that location.

We started in upstate New York out of pure inertia. We all kept our day jobs while we were starting this company. We ended up being able to raise a $5 million round from New Enterprise Associates. They really took a bet on us in this region. We had originally intended to move to Silicon Valley once we got the company started, but now we are excited to break the geographic boundary here and help jump-start the entrepreneurial scene in this area.

**Sramana Mitra: Your seed round came from friends and family, correct?**

**Sinclair Schuller:** Yes. We also had a small regional VC put in $500,000 at that time.

**Sramana Mitra: What were you able to accomplish as a founding group that led to the seed capital?**

**Sinclair Schuller:** We started with the hypothesis that a software package could be built that large enterprises would want to use which would commoditize all of the complicated workflows and architectures. We invested our own money and time to prove that hypothesis. We worked to get a prototype in place to show that our concept was possible as well as to simplify explaining our goals to potential investors.

We started talking to people we knew inside of enterprises. We took their feedback and incorporated it into an initial build of the product. We then used that initial build of the product to demonstrate to friends and family and give them a view of our vision. We used that same prototype to pursue some seed stage funding.

**Sramana Mitra: You had a prototype. Did you have customers validate that prototype?**

**Sinclair Schuller:** Not at that time. That prototype was purely speculative based on our work experience. We did talk with some potential customers and we solicited their feedback, but we did not offer them insight into what we were building.

**Sramana Mitra: Would it be fair to say that VCs in your neck of the woods don't see a lot of fundable deals?**

**Sinclair Schuller:** Deal flow in upstate New York is very shallow. The typical flow for VCs was from New York City. Most of their deals were consumer oriented.

**Sramana Mitra: In a way, that may have helped you. There was money looking for deals, and you had less competition.**

**Sinclair Schuller:** There was definitely under-leveraged capital sitting on the balance sheet, and they had to do something with it. I think it increases the propensity to invest.

**Sramana Mitra: What happened between your seed round and your Series A?**

**Sinclair Schuller:** Our next step was to put the prototype in a potential customer's hand and have a beta take place. We decided to invest the seed money into turning our prototype into a beta product, with the intention of using the beta version to raise capital. We knew we needed to involve a real customer to do this, and we had to figure out who the first customer should be.

We felt that the enterprise was our long-term vision, but we needed to have a different user base to get things started. We decided to target independent software vendors. They face a lot of the same challenges as enterprise developers. We felt that our technology would also help them transition into the SaaS model. That became our beachhead.

We went off and talked to a few small developers and asked them if they would sign up for the beta. We started accumulating data from them regarding their challenges and then put our technology in their hands. Once we had that program in place, we went out and started pitching for a Series A round. That was a challenge because we were based in upstate New York, and our problem was compounded because we were asking for $5 million.

I did not have a dense Rolodex, so I broke the rules and started cold calling. I built a list of every VC fund I could find, and I prioritized them based on their investment portfolios. I would then target the partner at the fund whom I felt I had to be best opportunity to connect with. I then started sending emails and calling them. Surprisingly, I received a lot of responses and one of them was from NEA.

**Sramana Mitra: You closed a $5 million round from NEA and managed to stay in upstate New York. What were those conversations like?**

**Sinclair Schuller:** Each VC we pitched to expressed concern about our location. We told them we were willing to move but we just wanted to get the deal done. As we started building the company, we never had friction here based on our initial hiring, and inertia has kept us in place. We did not find a reason to move. A lot of our customers are clustered in the Northeast. I would rather be close to my customers. The location has turned into a positive.

**Sramana Mitra: I am a big fan of opening companies outside of Silicon Valley. I think there can be some definite advantages. For one, you did not have to fight the talent war that companies in the Valley have to fight.**

**Sinclair Schuller:** After having started a company outside the Valley, I am also a fan of that approach. The only caution I would point out is that you have to be aware of the pitfalls. We were able to get great engineering talent, but we had a difficult time finding people with experience building companies. That is why we opened an office in New York City as part of our strategic growth plan. There are a lot of people there who ran sales and marketing functions for enterprise IT startups there.

**Sramana Mitra: What were your major milestones after the NEA funding?**

**Sinclair Schuller:** We persevered through a very difficult time for our company. Our strategy to build a beachhead with independent software developers turned out to be a bad beachhead. We went after companies that were making the transition to the software-as-a-service model, and we hoped to license our software to them. We ended up in a scenario where the sales cycle was very long. We would take on an 18-month sales cycle and make $50,000 or $60,000.

That happened because it was a difficult decision for those companies to move to the cloud. They were worried about cannibalization, technical transitions, and other management concerns. All of those decisions were prerequisites for those companies to purchase our tech, and that slowed down our sales cycle. In addition, most software vendors do not have a budget to purchase software. They spend their budgets hiring people. That meant we had to really fight for budget and help them identify how they would spend money.

During that time we saw our original vision start to manifest. Enterprises started downloading our free product. We were not certain why, but when we interviewed a few of them, they told us they were trying to build a private cloud, and they felt we were well suited for that environment. When we asked them if they were funding the project, we typically heard that it was not funded yet but that they were putting together a pretty sizable budget for the effort. Ultimately, we used the Series A money to prove our original thesis and pivoted the company to focus on the original vision.

**Sramana Mitra: How much time did it take you to get the enterprise business going in a significant way?**

**Sinclair Schuller:** We closed the Series A in November of 2009. We ended up spending a year and a half pursuing smaller developers. We repositioned the company at the beginning of 2012. In mid-2012 we did a real launch into the enterprise market. By the end of 2012, we were landing low six-figure deals.

**Sramana Mitra: How many customers do you have right now?**

**Sinclair Schuller:** We have two dozen paying customers and a bunch who are in the pilot or POC stages.

**Sramana Mitra: What demographic are you focusing on?**

**Sinclair Schuller:** We focus on the global 2000, and we tend to work with companies that have $4 billion in revenue and higher. Our average deal size will be in the $250,000 range.

**Sramana Mitra: What strategies are you working on now?**

**Sinclair Schuller:** One important lesson for any startup is to learn the direct sales model. Once you understand the buying model and the basics of your sales process, then you immediately start to look for leverage. Intuition will lead you to partners or channels that give you much more leverage in your model. That is where we are right now. We are looking to amplify our direct sales with strategic partnerships.

**Sramana Mitra: What percentage of your business is product versus services?**

**Sinclair Schuller:** Last year it was about 92% product licensing and 8% services. This year it will be 85% licensing and 15% services.

**Sramana Mitra: A strong services component bodes well for channel partners. If they can wrap their services around your offering, they will be more inclined to help sell.**

**Sinclair Schuller:** I definitely agree. There are also strategic partners we have where we amplify their ability to sell their product by selling our product.

**Sramana Mitra: What does your ecosystem map look like?**

**Sinclair Schuller:** Our vision for a private platform as a service is that it is the equivalent of the application server for the cloud. That requires developers to re-skill themselves to be able to write cloud applications.

When we look at the landscape of cloud computing players, we see three categories. We have SaaS players, who are business application vendors who deliver their apps in the cloud. There is infrastructure-as-a-service, which is the ability to acquire virtual infrastructure in a low-friction way. This is what companies like Amazon do. The layer in between the SaaS players and the infrastructure players is where we live.

**Sramana Mitra: The Force.com platform sits at that layer, although you probably differentiate from them by catering to the private cloud. Is that correct?**

**Sinclair Schuller:** To a degree. If you look at Force.com, you will find that it is an extensibility platform around CRM. We are a general purpose platform for arbitrary .NET and Java apps. It's like comparing JBoss to the Office Extensibility Framework.

Force.com is built with a custom language to expand that ecosystem, whereas we are focused on helping you build apps from the ground up with .NET and Java.

**Sramana Mitra: What is your pricing model?**

**Sinclair Schuller:** Our technology is a peer-to-peer fabric. We will take a bunch of operating systems and stitch them together into one unified piece. We care about the memory footprint of the collective group of servers. We have a per-gigabyte, per-year licensing fee that includes maintenance and support.

**Sramana Mitra: The trend of platform ecosystems is very hot right now. Even small startups have significant platform ecosystems they are running. They can have thousands of developers on their platforms.**

**Sinclair Schuller:** We are changing the IT landscape in a profound way. We are the engine behind lines of code being written instead of infrastructure. That creates deep value with our customers. We are the platform they target when they are writing code. Our accounts make big bets on us, and we like that. We want their production workflow. Companies like JP Morgan have 3,000 applications running on our platform. We are the foundation for their app environments.

**Sramana Mitra: Can you talk through your team building process? I'm interested in how you have built your executive team and how your location has influenced that process.**

**Sinclair Schuller:** We have talked a bit about our location but one thing I want to point out is that we are not bent out of shape when it comes to the location of our team members. One of our VPs, Garry Olah, is in Silicon Valley.

We have focused on building a very experienced management team. Rakesh Malhotra worked for Microsoft for 10 years and is the VP of Product at Apprenda. He ran

Microsoft System Center. Kerry Ancheta is my VP of Sales and he is based out of New York City. He was the VP of Enterprise Sales at MySQL. We have focused on finding the best possible executive management team regardless of where they are.

Every entrepreneur needs to step back and recognize where the team gaps are and find great team members to fill those gaps. I think we have done a great job of that as a startup. This is important because we are a premium priced product going after enterprises. That is not an easy lift.

**Sramana Mitra: How do you find these people?**

**Sinclair Schuller:** We brought in our VP of Sales through executive search. We have brought in everyone else through relationships. I think that is one of the best ways to find people. You have a lot more color on their ability to perform. My VP of Finance was someone in the Albany area that was part of a company that went public and he ran their European operations. I think that using search to field an entire executive management team would be very difficult.

**Sramana Mitra: What I find impressive is that you were able to build these relationships being so far off the hub.**

**Sinclair Schuller:** Regardless of location it is important to become part of the hub. I am well connected in the Valley now. I know a lot of people in the Boston area as well.

**Sramana Mitra: How has the ecosystem changed in your area over the past five years?**

**Sinclair Schuller:** Upstate New York has been transforming in an interesting way when it comes to technology in general. Albany is a key hot spot for nano tech development. We are seeing a lot of computer engineering and chip manufacturing here. Google acquired a company across the hall from us that built the video codec for YouTube.

The most interesting thing is all of the activity we are seeing in New York City. We are only two hours away now. That vibe has changed from being cash motivated to being equity motivated. A lot of startup activity is happening in the city. That is good for us since we are building an employee base in the city.

**Sramana Mitra: In my opinion New York has overtaken Boston.**

**Sinclair Schuller:** New York City, in my opinion, has the ability to eclipse the Valley over time for a couple of key reasons. On the consumer side, NYC is a retail Mecca. Every retailer buys from New York City. There is an education level around consumer behavior that you do not see anywhere else. On the enterprise IT side New York City has a big play as well. Within 30 miles of Manhattan Island 60% of the world's IT budget is defined. Finally, it is just a dense area and the labor market is very interesting.

**Sramana Mitra: One of the advantages of Silicon Valley has been the VC industry. New York is interesting because it has money. The types of deals people are evaluating are more consumer oriented and that is something that investors in New York are more comfortable handling. There are a lot of trends that favor New York.**

**Sinclair Schuller:** I agree. There are some very interesting dynamics and it is an exciting time to be in this region.

**Sramana Mitra: Thank you for taking the time to share your story.**

# Interview with Itai Sadan, CEO, DudaMobile

*Cloud ventures are great to bootstrap using a paycheck. You already saw Sinclair Schuller bootstrap Apprenda with a paycheck. Itai Sadan did the same, while working at SAP.*

**Sramana Mitra: Itai, let's start with the beginning of your personal journey. What is the story that paved the way for your entrepreneurial journey?**

**Itai Sadan:** I was born and raised in Tel Aviv, Israel. I did have a six-year stint in South Africa, where our family lived for a while. I went to high school in Tel Aviv and met the person who is the co-founder and CTO of DudaMobile during my high school years. After high school I went to the army and served in the anti-terrorist school. After I completed my three-year army service, I traveled the world a little bit.

When I returned, I attended Ben Gurion thanks to a scholarship I received to study computer science. My co-founder, Amir, also received a scholarship to the same university. We did not plan to attend the same university, but it was a great coincidence. We got a lot closer during our university years and we started working on projects together. We eventually became roommates.

**Sramana Mitra: What years did you attend college?**

**Itai Sadan:** I was there from 1998 to 2001.

**Sramana Mitra: The Internet was in full swing, and right as you left school the market was thrown into a tizzy.**

**Itai Sadan:** Definitely. During my last year of school I worked part-time for a startup company as a software engineer. That was my first real-world job. I remember releasing a product and the next day we had an actual person giving away free Ben and Jerry's, and we had alcohol everywhere. Two weeks later, half of the company was let go. I saw the ups and downs of that period of time in tech, and it was very interesting to live through that.

A lot of people I went to school with did not work during their third year. They were at a disadvantage when we finished that year because tech was in a slump. It was really hard for them to find a job, and I already had a full year of experience.

After that startup I got a job at a bigger company called Amdocs. They are a software billing provider and have a couple of thousand employees. It was nice to see how a bigger company operates. I worked at Amdocs for several years before getting recruited into SAP. That is where I worked with very large companies such as IBM and Fujitsu. I got to understand how large companies buy software and the processes they used. I learned how to sell into big companies.

**Sramana Mitra: How long did you work for SAP?**

**Itai Sadan:** I worked for them for six years. During that time I was relocated to Palo Alto, where I spent most of my time. Even within a large company like SAP, I found a way to build my own little startup environment. I have always felt entrepreneurial and have had a million different ideas for things that I would want to do to improve the world with software.

During my time at SAP, I was able to get senior management to buy into an idea I had for a new product. I was able to put a team together and develop the concept into a product that was sold to 3,000 different customers.

**Sramana Mitra: What was that product?**

**Itai Sadan:** It was the SAP Discovery System. I noticed that a lot of our biggest customers were wasting time on hardware sourcing and SAP implementation. They spent very little time proving the ROI. I came out with the idea of doing SAP in a box. The idea was to have an SAP environment where you could just plug it in and it worked. I was able to get a lot of different teams at SAP to contribute their product into the server we built.

Our solution consisted of both hardware and software. We implemented a lot of different SAP products into this one server and had everything pre-installed. Customer just loved this product because everything was pre-configured.

**Sramana Mitra: Did you do that project as an intrapreneurship project?**

**Itai Sadan:** Yes. I did that from 2004 to 2010 within SAP.

**Sramana Mitra: What happened in 2010?**

**Itai Sadan:** I have always had an itch to do something of my own. I had a lot of different business ideas during the years, but I was always able to shoot them down myself. One day in 2008, I stumbled upon an Apple store and picked up an iPhone for the first time in my life. I was amazed. It then dawned on me that the entire Internet was moving to this smaller-sized device. I realized that Amazon and other sites created dedicated websites to capture mobile users. Those sites were a lot different from desktop sites.

I went out and tried to browse to local small business websites, and I found that their sites looked awful. That problem still exists today. A lot of local businesses do not have the time, budget, or skill sets to build sites optimized for mobile users. However, users are going mobile all the time. Businesses that we cater to are getting 20% or 30% of their website traffic via mobile devices. I think Facebook sees 50% of their revenue from mobile devices.

In 2008 my goal was to find a way to help small businesses connect and engage with their customers via mobile sites. That was the genesis of DudaMobile.

**Sramana Mitra: You had the vision for DudaMobile in 2008 but left SAP in 2010. What happened during the in-between years?**

**Itai Sadan:** After I had been relocated to Palo Alto to work in the SAP headquarters, I brought Amir into SAP to work on my team. We were both working in Palo Alto for SAP when I had had the idea. I brought it up to Amir, and we began talking about it. We got all excited about the idea and contemplated leaving SAP, but we kept joking around about different reasons we should stay at SAP. Our bonuses were due in 2009 so we waited for the bonuses.

That really shows how long it takes to develop software. We were working on the project during the evenings and on weekends for that two-year period. It takes a while to write good software, and we did not want to leave the company until we were able to sustain ourselves.

**Sramana Mitra: In our program, we often encourage people to keep their paychecks and work on their businesses on evenings and weekends. You should get validation before you leave your job. When you leave your job, you want to be in a more advanced stage so that you can get to revenues and pay bills. We call that method *bootstrapping with a paycheck*.**

**Itai Sadan:** That is what I tell every entrepreneur I meet. The number one reason your idea will fail is that you will give up. You will run out of money, and you will have pressure from family or other financial obligations. You need to do yourself a favor and work on your idea as much as you can during your off hours. When you hit the point that it becomes impossible to work both jobs at the same time, then it is probably the right time to leave and dedicate yourself fulltime to your company.

**Sramana Mitra: Tell me a bit about the techniques you used to validate your idea.**

**Itai Sadan:** We built the technology to be a mobile site builder. We wanted a DIY mobile site builder where small businesses could come in, push a button, and see their desktop site be transformed into a mobile site. Initially we looked for small businesses that would allow us to provide this as a service. We would use the technology that we developed to build their mobile sites.

We reached out to mobile businesses in our community. We walked the streets, bought advertising on Google, and did anything we could to get the word out. The Google advertising turned out to be the most effective method of getting our first small business customers. We were operating in the early days as an agency, and we used Google as a method to generate leads. We knew that ultimately we would not operate the company as an agency, but this was something that we wanted to do to test the product.

Our agency model of operating the business worked, but scaling the business proved to be very difficult. In early 2010 we got a phone call from David Krantz at AT&T Interactive. He had heard about our technology and he needed it. We never thought that big companies that catered to small businesses would be a business model for us, but it was interesting and compelling. Three months later both Amir and I left SAP, completed building the product, and went live with AT&T.

**Sramana Mitra: What kind of deal did you structure with AT&T?**

**Itai Sadan:** It was a reseller deal. They were using our technology internally and we trained their staff to use our product. That was an amazing QA exercise of our product because we suddenly had 40 AT&T web designers working with our product giving us feedback. We had to quickly integrate that feedback into product enhancements. That really helped us get the product out the door with a higher quality, sooner.

AT&T then sold the product to small businesses. They had hundreds of the thousands of small businesses that advertised on YP.com and those were the first customers getting our product as a white label.

**Sramana Mitra: Was AT&T selling your product as a service or as a product?**

**Itai Sadan:** AT&T sold it as a service.

**Sramana Mitra: So AT&T's 40 web designers used your product to mobilize the websites of small business users. What did they charge for that service?**

**Itai Sadan:** Back then they charged around $40 to $60 for a mobile site and they paid us a quarter of that.

**Sramana Mitra: You effectively established a very solid channel opportunity very early on. How many customers did you get out of that?**

**Itai Sadan:** They are still a customer three and a half years later and they have signed up thousands of small business websites.

**Sramana Mitra: AT&T has turned out to be a major reseller partner for you.**

**Itai Sadan:** Definitely. The brand name was also a huge benefit for us. Everybody knows AT&T and they are a very strong brand. That really helped us get the next business development deals.

**Sramana Mitra: After you closed the deal with AT&T what were your next steps? Did you raise money or continue to bootstrap?**

**Itai Sadan:** We raised money at that point. We tried to raise money earlier but it was very difficult. Once we had AT&T as a customer it really helped our fundraising. We closed our Series A shortly after closing that first deal with AT&T.

**Sramana Mitra: Whom did you raise your seed round from and how much did you raise?**

**Itai Sadan:** The first round was syndicated by Oren Zeev and we raised $800,000. Oren brought in some great investors into that round.

**Sramana Mitra: In 2010 you had $800,000 in financing and a deal with AT&T that is starting to monetize. What happens next?**

**Itai Sadan:** We liked the type of deal that we struck with AT&T and we looked at ways to replicate that deal. We started targeting companies that targeted small businesses and struck our next deal with Webs.com. They are a website builder who did not have mobile capabilities. They were happy to integrate with our product and deliver mobile sites to their customers through us.

**Sramana Mitra: Was it the same type of deal that you had with AT&T?**

**Itai Sadan:** It was different in that it was an OEM deal. Our platform was embedded inside of the Webs.com website builder. Their end users were able to build mobile sites by themselves.

**Sramana Mitra: What was the business structure of that deal?**

**Itai Sadan:** They were selling it for $5 a month and we had a very fair revenue sharing model between us.

**Sramana Mitra: What was your next deal after Webs.com?**

**Itai Sadan:** Our next deal was with Yahoo small businesses as well as with an Intuit company. We have since done deals with companies like Google.

**Sramana Mitra: What was your deal with Google?**

**Itai Sadan:** In 2012 Google had a marketing initiative to get small businesses to go mobile. We co-branded our editor with Google, and we gave all Google customers their mobile sites free for one year. At the end of that first year, everyone that we were able to retain remained a DudaMobile customer. That was a very good deal that brought us huge branding and a large amount of customers. Seeing our brand next to Google's brand was very powerful. Google essentially let all of their AdSense, AdWords and Analytics customers know about this initiative.

**Sramana Mitra: You were primarily focused on OEM or white-label partnerships to this point. Did you have any other revenue models that you engaged in during that time?**

**Itai Sadan:** At a certain point we looked at all of our partnerships, and we realized that our brand was known well enough that we could begin to employ a direct sales model. We just needed to put our platform on the web directly and begin to acquire our own customers. We started doing that in August of 2011.

During the first three months we saw mild growth, and at the end of the third month, it suddenly skyrocketed. It actually grew faster than all of our partnerships combined. We did not expect that, and it was quite phenomenal. It was clear to us that this was going to be the future of the company. We essentially went full circle because the initial concept behind DudaMobile was to be able to go direct to the SMB. The initial deal with AT&T lured us into OEM and white label deals, but when we returned to the direct sales model, we were able to own the customer relationship without a revenue share. We essentially owned our own destiny at that point. We did not stop doing business development deals. We simply evolved to operating with a two-pronged sales approach.

**Sramana Mitra: How did you generate leads for your direct website customer acquisition? Did you use Google PPC?**

**Itai Sadan:** It was driven by paid channels as well as organic growth. Our brand reputation really helped us with our organic growth. Once we did start advertising, we also focused on our SEO rankings. Once we focused on our SEO approach, we were able to get our SEO listings elevated rather quickly. Paid channels are important as are organic channels. We use PR, social media, PPC, and affiliate models in our paid acquisition channels.

**Sramana Mitra: What do you charge for your direct sites?**

**Itai Sadan:** We have a freemium model. You can build a site for free and we will place our own advertisements on the site. Those ads are generally promoting DudaMobile although we do have some advertising networks. Our freemium model does not support our premium features. For users who do not want advertising and would like access to our premium features, then we charge $9 a month.

**Sramana Mitra: What do your premium functions offer?**

**Itai Sadan:** Our premium features help you drive more traffic to your site and grow your business. We have a widget that is called "click to call" that lets users visiting the mobile website click a button and call the business. We have another widget called "click to maps" that helps people navigate to the business establishment. These are the things that small businesses care about. They don't understand page views and unique visitors. They understand what it means when their phone rings and more people walk in their store. That is what we help them do for $9 a month.

**Sramana Mitra: What is your business model for the affiliate relationships?**

**Itai Sadan:** What we have developed is a long-tail reseller channel. There are a lot of groups that cater to small businesses that think that DudaMobile is a great tool for their tool set. These are companies who are web designers and digital marketers. They run agencies. We have a special group today inside of DudaMobile that caters to those partners. We have thousands of those partner relationships today. The great news is that once you establish a relationship like that, you have essentially created a virtual sales force. They evangelize mobile sites and sell multiple sites.

We also make a lot of changes in our product based on what that group of users needs. We have special materials to help them sell and market the mobile sites. Whenever we release a new product or feature, they are the first ones to know and they give us feedback about those features.

**Sramana Mitra: Let's talk more about the financial engineering that went into building this company. You took on $800,000 in 2010. What has been the financing since then?**

**Itai Sadan:** A year later we raised $1.5 million from the same group of angel investors. The year after that, in 2012, we raised our first institutional round from Pitango Venture Capital, which is an Israeli firm. We raised $6 million from them. Earlier this year we raised another round led by Pitango for $10 million dollars. We have raised $18.6 million of total financing.

**Sramana Mitra: Is your growth matching your investments?**

**Itai Sadan:** We have grown this year by 300%.

**Sramana Mitra: How many websites are powered by DudaMobile today?**

**Itai Sadan:** There are over 5 million mobile sites today.

**Sramana Mitra: There have been a lot of attempts to crack this problem and there are typically issues scaling the solution. Obviously you have been able to scale your solution.**

**Itai Sadan:** In the SMB space it is not just about technology. You have to crack the market fragmentation. It is hard to scale to a large size when your primary customer base is SMBs because the market has so many verticals. You can't hire a sales team to go after small businesses. The economics of that won't work.

**Sramana Mitra: At $9 a month you can't afford a sales force.**

**Itai Sadan:** Exactly. We have to rely on marketing. There are a not a lot of companies in our space that have managed to build a brand and become a large company that caters to the SMB space. Google and Intuit are good examples of companies that have been able to make that work.

**Sramana Mitra: What does the competitive landscape look like in your market?**

**Itai Sadan:** We have always been considered the de facto leader in our space. Most companies copy what we do and try to close the game with DudaMobile. They look at our features and will copy them in their releases. As we grow and move into new spaces, we are now starting to enter into spaces that already have established competitors. In those new spaces we are not the de facto leaders, and in fact we are looking at the leaders in those markets much like our competition looked to us in our core market.

**Sramana Mitra: What are the new spaces you are entering?**

**Itai Sadan:** Early on we identified that small businesses would find it challenging to go into mobile. What changes today is that the diversification of screens tends to be an even bigger problem. The devices around us are very diverse, ranging from phones and tablets to 70" Internet-connected TVs. Our vehicle GPS systems are connecting to the Internet, and we have smart watches coming out.

Websites look different on all of those screens, and that is a very big problem for small businesses. Small businesses should expect vendors to solve those problems for them. That is where we are looking to move and evolve. We expect to solve that problem for small businesses.

**Sramana Mitra: Do you have offerings for tablets today?**

**Itai Sadan:** We are in the process of releasing a product that caters to different screens. This new product caters to tablets, desktops, and mobile devices. We will release that product very soon.

**Sramana Mitra: You and Amir started the company while holding full-time jobs. What have you done with your team since then?**

**Itai Sadan:** Amir moved back to Israel very early on. Since he is the CTO, we decided to base the R&D of DudaMobile in Israel. That turned out to be an amazing decision. We hired a terrific group of engineers in Israel, which we would have had a hard time doing here in the Valley. Our initial team expansion was focused entirely on our R&D team, and I was alone in the U.S. for a while.

Eventually I grew the team in the U.S. as well. Today we have 75 people inside of DudaMobile, with about 30 located in Tel Aviv. In Palo Alto we have sales, marketing, support, business development and G&A. Our headquarters are in Palo Alto as well. We have an eight-person sales team in Atlanta and a three-person team in Tokyo.

**Sramana Mitra: What kind of sales are being done in Atlanta?**

**Itai Sadan:** There is a higher end service that we are selling to select customers. Some of our customers want more traffic driven to their sites. That team sells lead generation and traffic to our own customer base. We are like an agency in that sense. We purchase traffic for those customers and send it to their mobile sites.

**Sramana Mitra: Thank you for taking the time to share your story. You have used some interesting strategies, and I wish you the best of luck as you move forward.**

# Interview with Phanindra Sama, Co-founder and CEO, redBus

*Phanindra Sama, otherwise known as Phani, is the co-founder and CEO of redBus. redBus is India's largest bus ticketing company and a Forbes Top 5 Startup in 2010. In 2013, redBus was acquired by Naspers for $130 million. This is the story of the company's fascinating beginning. Phani bootstrapped while working at Texas Instruments.*

**Sramana Mitra: Phani, let's start with your personal story.**

**Phanindra Sama:** I was always good with technical studies and was especially good mechanically. I got into BITS Pilani (Birla Institute of Technology and Science), and I studied electronics because I always wanted to be an electronics engineer. I was always fascinated with electrons flowing through a wire and making a light glow or a fan turn. I used to have a tool kit and repair small electronics.

I graduated from BITS and got a campus placement with ST Microelectronics. I worked there from May 2002 through April 2004. While I was with ST, I worked with FPGAs. The job there did not satisfy me. First, it was in Delhi, where everyone was laid-back. Second, in a full year there I really did not do anything. Our managers gave us some books to read and some architecture to study. Every week we had to present what we had studied. We never actually did any designing.

We did not have any mentorship. You would imagine that you would be given a task and that the managers would then review your work and tell you what was right and how to do the parts that you did not do right. None of that was happening.

It was employee friendly with very few targets. It was not an aggressive company. I decided to apply to Texas Instruments in Bangalore.

**Sramana Mitra: That is a really good company.**

**Phanindra Sama:** Some of my friends from BITS had joined TI, and I kept in touch with them. They were telling me that they were already designing and they kept talking about their designs. I decided to apply there because that is what I wanted to be doing. On my resume, I stated that I wanted to design a chip that would actually be manufactured. I wanted to have a microchip that I designed in my wallet a year from now. That caught the attention of my hiring manager.

When the manager interviewed me, the entire interview revolved around that statement: what I wanted to make, how I was going to make it, and why it was the right decision. I passed the interview and was placed in the ASIC division. There is a subdivision under ASIC for test chips. They make test chips which are very small and built on nanotechnology. They are used to test fabrication accuracy. They have very sharp turnaround times, and it was a good opportunity for me. I could see the complete cycle of my work, and it was fascinating. I was doing very well there. Within two years of starting at TI, I was made a lead.

**Sramana Mitra: What led you to leave a job that you loved at TI to start redBus?**

**Phanindra Sama:** One holiday in 2005 I planned my trip home to see my parents very late because I had been busy with work. I was very accustomed to traveling by bus, and I used to take several buses in order to get home to see my parents. When I went to my regular travel agent to get a bus ticket, he told me that he did not have a seat on the bus for me and recommended that I try another travel agent. That was the first time he was not able to get me a seat. I could have understood it if he had told me that all the buses were full, but he told me that another travel agent might have a seat.

The first question that came to my mind was, "Why does this travel agent not have a seat when another travel agent has a seat?" I went to the other travel agent and he told me that he did not have a seat. I asked him if another travel agent might have a seat and he told me that it was possible. He gave me a few other travel agents, but overall, getting the names and numbers of the other travel agents was difficult.

I went home and went to sleep. The next morning I was the only person in my flat because all of the other bachelors had gone home. I was doubting myself and was not sure that I had tried hard enough. I thought that there might be some travel agent who had a seat available still. That actually pushed me to go ask a travel agent exactly how the business works to understand why I could not get a seat.

**Sramana Mitra: How does the travel agency business for buses work? Do the bus companies allocate a certain number of seats to each travel agent?**

**Phanindra Sama:** Yes. The next morning I went back to see the travel agent and asked him how it worked. He explained to me that travel agents who sell regularly have quota allocations. If they sell those seats, they can call the bus manager and get more seats allocated to them. Other travel agents who do not sell that frequently receive no allocation. Any time a traveler walks into their office they have to call the bus manager and ask for a seat. That is how it was happening.

Typically a travel agent makes eight calls to sell one seat. If they get a seat after one call, they have just been really lucky. There are other problems as well. Whatever price is written on the ticket becomes the price. I am a regular traveler to Bangalore so I know the price. If I had decided to go to another city, then whatever the price the travel agent likes would become the price for me. There are no published fares anywhere.

Another set of problems comes around preferences. Travelers have preferences for front seats, rear seats, and some don't want to sit behind the driver. Naturally, even I have preferences. I need a window seat when I travel. Every time I ask a travel agent to give me a window seat he would give me a seat number, like 4, which looks like it is a window seat because it is an even numbered seat. To my surprise, when I get in the bus, I may find that it is not a window seat in the front of the bus, but the very last seat on the bus because that bus operator decided to number the bus from back to front because he knows he can't sell seat number 31. Bus operators can take consumers for a ride when they sell the seats.

**Sramana Mitra: You identified a significant number of problems in bus travel. Which problem did you think was the biggest?**

**Phanindra Sama:** The biggest problem of all was that people could not buy return tickets. Every time I arranged a bus to visit my parents I had to call them and have them book a return ticket so that I knew I could get back. I travel on Friday and Sunday evenings, which are the high demand days. That was the only way to ensure I would receive a return ticket.

Consumers in India face a lot of difficulties. If you look at the characteristics of these difficulties, you will see that they all have a common information element. There is information about availability, departure locations, seat preferences, return trips, and many other areas as well.

All of those problems got to me as an engineer. I realized if there was one server that every bus operator could arrange the business with, it would solve all of these problems. I asked the travel agent if there was software that made all of the arrangements available, would he secure his tickets through that software for a small charge? He said, "Absolutely!" Anything that could save him time on all those telephone lines was welcome. He also realized that there were times he could not monetize a customer because he did not have a seat to sell him, even though somebody somewhere probably had a seat to sell.

I realized that I had a good idea, so I decided to go ask bus operators if they would use that type of system if I built it. If they were not going to use it, then there was no use in building it. My travel agent made some introductions to various bus operators. When I asked them if they would use the system, they also said yes. They were also frustrated with all of the phone calls. Every travel agent they worked with would call them at least 10 times a day. That meant the bus operator always had to have someone manning the phone, which resulted in a high variable cost. That also prohibited the bus operators from adding more travel agents to their list because the bus operators would have to hire more people to cover the phone calls. The bus operators realized that with a software system, they could appoint a larger number of travel agents because the system would take care of allocating seats to them.

**Sramana Mitra: You asked the travel agents if they would pay for that service. Did you ask the bus operators if they would pay for it as well?**

**Phanindra Sama:** Yes, and they were fine with paying for it. Both the travel agents and the bus operators were willing to pay for the system. I had not decided at that point how much they should be paying for the system, only that it was a service that they would have to pay for. The benefits were clear to each side.

**Sramana Mitra: After you had talked with bus operators and travel agents, what was your next step?**

**Phanindra Sama:** I thought about the problem and then how to create the solution. On the software side, I knew there would be various different types of people accessing the system and it had to be done by a third party. There would be a travel agent's representative and a bus operator's representative. It was complex technology because the entire industry would eventually rely on this system. The software had to be robust and scalable.

I never had any intention of getting into the software business. Previously I had thought that if I did something entrepreneurial that it would focus on microchip design. That was my background and that is where I had all of my experience. I had spent so long studying electronics that I did not want to let it go.

Over that long weekend, I had four days all alone. I sat down and wrote a note to all of my classmates who were also my roommates. I explained the reason that I did not go home, and what research I had done in terms of talking to the travel agents and the bus operators. I explained that we should create some technology and give it to this industry, and we could also make some money. I wrote my message to all six of my roommates. I did not look at them individually and try to figure out who would be a good co-founder.

I explained what I felt was a possible solution in that note, but that we should implement the solution as a non-profit organization. The money earned would be done so by a non-profit organization and that we would not get involved or do the coding work. We would just get developers from the local area to contribute to an Open Source technology project. At that point, that was the only model I could think of for that idea.

**Sramana Mitra: Were all six of your friends from a microelectronics background, or did any of them have a software background?**

**Phanindra Sama:** They all had different backgrounds. One was from software, one worked with embedded systems, and another with application software. Interestingly enough, none of them were involved with Web technologies. In those days there were not a lot of companies working on the web.

When my friends came back they were excited. They wanted to create something, and none of us were thinking about leaving our jobs. We figured we would spend a weekend making it and then like the other projects we would put it on a server and invite the world to contribute to it.

**Sramana Mitra: Did all six of you decide to undertake the endeavor together?**

**Phanindra Sama:** Yes, and including me there were seven of us.

**Sramana Mitra: The seven of you were doing it only on the weekends?**

**Phanindra Sama:** Exactly. We all lived together, so it would make it easy to work on it that way.

**Sramana Mitra: What was the next step in the development of redBus?**

**Phanindra Sama:** We split up our work. When it came to creating the technology, we realized that none of us knew the technology. We did not know databases, Java, or any of the core aspects of building a Web application. We decided to start studying that technology. We went out and bought books on .NET, databases, and Java. Three of us were supposed to start actually developing the technology, so we started reading the books and experimenting with code. We truly started RedBus with a 'Hello World' program. After we got the 'Hello World' program working, we then decided to go a step further.

There was a huge, and very interesting, learning curve. I often share this with fellow entrepreneurs. If something is core to your business, you have to own it yourself. We heard so many times that because we were in Bangalore, we should use the small shops around to build the architectures. What I learned was that if your biggest contribution to the industry is technology, you must own it. If you are the one who works it, then you will learn the complexities of it in no time. Today, the coding is done on the same architecture that began as 'Hello World'.

Recently the CTO of Amazon was in India, and he took our team out for dinner. He was very impressed with the architecture, scalability, and the robustness of our solution. Four years ago we could have hired someone who had spent 15 or 20 years just doing architectures. The important thing to realize is that if it interests you, you can learn it.

In two or three months, the end view of the project was getting smaller and smaller. We were starting to understand how we could develop the project using an Open Source methodology and we were getting better at our technical skills. At the same time, some of the team was getting increasingly disengaged due to the sheer difficulty of meeting with the bus operators. They were not from our world.

Selling the concept to some of them was a challenge. If you have to get data from somebody regarding the way they operate their business, they get worried because they think you might be taking business from them.

**Sramana Mitra: Selling does not come naturally to engineers.**

**Phanindra Sama:** Throughout school and the early jobs, everyone treats engineers very nicely. They are always pampered. It is a big cultural shock, and it is very difficult to turn into a sales force. Four of the seven on our team lost interest in the project. One took a job in the United States. In the end there were only three of us left, and we are still together today.

**Sramana Mitra: Did you move away from the idea of a non-profit at that point?**

**Phanindra Sama:** We were still not sure that we had a real business, or even a business that would be that large. We did think we had an idea of how to make the Open Source concept work for us. We were involved and building the technology ourselves, and we were putting a lot of thought in our work. We then started getting to the point that we did not want others working on our project.

**Sramana Mitra: Did you keep your jobs the entire time?**

**Phanindra Sama:** Yes, we did keep our jobs. One member of our team did the majority of the work developing the technology. Randomly he stopped going to the office because he was so obsessed with building the software. He would get a call from the office asking where he was, and he would have to come up with something. He would stay up very late at night working on it, and then get up early the next morning and work on it again.

He then applied for a long period of leave from his office, and after a bit more time he resigned. For all practical reasons, he was the first person to resign. I was very sure that we should not do anything unethical. I felt it was incredibly unethical to work on your own company while you were at the office. I went to my manager and told him what I was doing, and I offered to resign if he felt it was unethical in any way. My manager did not feel that there was any problem, and that as long as I was not building the same microchip or using the intellectual property of the company, there would be no ethical problems at all.

He then told me that he was personally concerned about me. He did not understand why I would want to start building software for bus operators when I was doing so well at my job. He felt the bus operators were rowdy and harsh. They had a reputation for being rude, not paying taxes, and not being the type of people you would want to build a business around. He kept reminding me that many of them went against the government and could get shut down on any given day and just vanish. He did not see that as a good home for sophisticated technology.

I had confidence, however, because when I met these bus operators they always spoke very good English, and their children were getting quality educations. They all had mobile phones.

**Sramana Mitra: So you felt you could relate to them and communicate with them?**

**Phanindra Sama:** Yes, exactly. I felt comfortable with them. Reality was very different than perception. My boss and I had a good conversation and I expressed my confidence in the bus operators. He told me he was still worried about what I was doing, but gave me his approval and had me talk with an HR person to make sure there was no problem with what I was doing. The HR person did not have any problems with it either as long as it did not affect my productivity at the company. The HR person also confirmed that it was completely irrelevant to the work I was doing for them.

That was a big eye opener for me. A lot of entrepreneurs have a fear that they will not be allowed to do their entrepreneurial projects while they are still employed at their company. That safety net is required. You can't completely resign and go off on your own.

**Sramana Mitra: I agree with you completely. Bootstrapping the early stages of a company is often a concern for entrepreneurs, and I constantly say that one way to bootstrap is by maintaining a paycheck from another job while you do your entrepreneurial work on the side.**

**Phanindra Sama:** Absolutely. Tell your manager or HR what you are doing. You don't want unethical actions. You will have more confidence. If it is a problem, then you have to find another job. You don't want to be called a thief.

**Sramana Mitra: How far were you able to bootstrap your company while maintaining your job?**

**Phanindra Sama:** The product was completed and ready. To solve this problem, the logical process was to give the software to bus operators. If the bus operators started to use the software, we would have access to inventory. The next step would be to create software for travel agents. The third step was to create a Web interface for consumers.

We made it to the point where we gave the software to bus operators. We had the prototype ready and functioning. By May 2006 we had the prototype software ready for the bus operators. I still had my job, but I was making rounds to the bus operators and started selling the software.

The bus operator who told me it was a good idea and that he would take it decided not to buy it. He kept postponing it and telling us he would buy it later. I could not sell a single thing for two months. We had spent so much time building the product, and then nobody would buy it. They would tell us that computers were very expensive and asked us if we were going to provide one. The ones who had computers did not have Internet access and wanted us to provide that as well.

During that time, The Indus Entrepreneurs (TiE) Bangalore chapter had called for business plans under their Entrepreneurship Activation Program. That was the first time they launched that program, and they called for people who had ideas and just needed mentoring. That fit us perfectly. We had ideas and prototypes, but we needed help to take it forward. We gained three mentors from TiE and they helped us put the business together.

Our mentors told us we were facing a common problem. Customers don't like incremental products. They need a solid reason to purchase the product because they are going to take a huge risk by purchasing it. Bus operators have a very established way of operating, and essentially we were asking them to change the entire way they operated. Our computer-based system was new, nobody else in the industry used it, we were not a proven company, and we were promising a benefit only sometime in the future.

Our mentors asked us to go visit bus operators and ask them questions. They wanted us to understand what it was that the bus operators really wanted. When we did that, we found that the only thing bus operators really wanted was increased sales. When we told that to our mentors they told us to give them what they wanted, which was more sales. That meant we had to start on the consumer side. We had to start selling to consumers, and once people started buying tickets, then when we sold it to the bus operators it would simply be to streamline their supply chain.

The question for us at that point was how to sell with no inventory. If consumers came to the website and did not find an entry, they would just leave. It seemed like a non-workable solution, but we followed our mentor's advice. We created a website and hosted it. We then went to the bus operators and got minimum allocations for two weeks. It took us one month to go live on the site because no payment processor would give us an account. They did not know how the bus industry worked and we were a new company, so they were worried about charge backs.

**Sramana Mitra: How did you gain access to a payment gateway as a new Internet company?**

**Phanindra Sama:** I took a banker's recommendation and accepted personal liability for charge backs. I had to keep a certain amount of money in my account as well. Once we took the site live, we then had to focus on getting customers.

**Sramana Mitra: How did you acquire new customers? The Internet was new in India. The idea of purchasing bus tickets online must have been very strange to customers.**

**Phanindra Sama:** When we were working, we would take a stroll after lunch. There used to be people standing there trying to sell us credit cards. We decided to do the same thing. We created distinct handout cards explaining that we sold bus tickets on the Internet and we asked everybody to give us a chance and book with us one time. We had people hand out those advertisements at all of the tech spots in the city.

That was a good first lesson on being humble. Just a few weeks ago I was on the other side because I was one of the employees coming out on break with these people trying to sell to me. I suddenly found myself standing among the credit card guys and hoping that someone would look at me so I could give them a card. It was obvious that people did not care for me because I was intruding. It was very difficult the first few days, but I got used to it. I had to do it because it was important to reach our allocations with the bus operators.

We did a lot of advertising that way. We all took turns standing there during lunchtime. It had a very high impact. If we were able to hand our card out to one person, he or she would inevitably have a lot of questions. As we answered the questions, the fact that we were the founders would come into the conversation. Suddenly that person realized that we were not just handing out cards blindly and would at least go back and check the website. Then that person would have more questions but he or she knew where to find us to answer them.

The result was that we had a very high hit rate. People would tell their friends all about it, and in a way advertise for us. They would tell their friends they had met the founders. That is how the first word of mouth spread started happening. We then started doing something similar at the bus stops. One of my co-founders ran into a journalist while distributing cards at the bus stop, and that journalist was fascinated, so she wrote about us. That was the first time we had been written about in the news. We gained a lot of traction from that. It was a very consumer-friendly story and people could relate to it. A lot of other journalist started to pick it up and we gained media coverage because of it.

**Sramana Mitra: How many customers does redBus have today?**

**Phanindra Sama:** We sell about 200,000 seats per month at this point (November 2010).

**Sramana Mitra: How many seats were you selling when you met the journalist?**

**Phanindra Sama:** At that time we were selling 10 to 15 seats per month. It was enough to keep our allocations from the bus operators because at least a few seats were getting sold.

**Sramana Mitra: How long did it take for your business to grow to the point that bus operators felt more secure and willing to work with you?**

**Phanindra Sama:** We have achieved that point in the past six months. We experienced a huge change where bus operators now come to our office asking to work with us and inquiring about our terms. In the past there were many phases. In the first phase, nobody accepted us. In the second phase, some people accepted us. The next phase was when we gained a favorable reputation with bus operators, and they were aware of us before we contacted them and felt there was no harm working with us. The last phase is what we just arrived at, where they seek us out. If somebody starts a bus operation in India today, our office is a must for them. They will tell us where they are thinking about putting a route and ask for our opinion.

**Sramana Mitra: How did you get to that point? How did you go from being treated like a travel agent to being a key player whose advice is sought?**

**Phanindra Sama:** A lot of our success is attributable to our mentors. They had us focus on the right things every time. Every day one of the mentors would call me. He was so involved with what we were doing that he wanted to know how many seats we sold every day. That got us to focus on sales. He told us if we made sales, everything else would come our way.

Some of our competitors began operating nine months after we launched because there is a very low barrier to entry for this marketplace. The only difference between them and us is our focus on sales. They would do various tactics. One raised $6 million and no longer exists. In that case, he followed the process of giving software to bus operators and then realizing that the operators were not using the software because they did not have computers, so he bought them computers and shipped them to their offices. Then he bought their Internet and hired people to operate the computers.

At that time, we focused on consumer-side sales. It does not matter if bus operators get used to certain types of software if we have the consumer sales. Our mentors kept us focused. We were scared when the other company brought in $6 million. Our mentors told us to ignore that because it did not matter. The only thing that mattered was focusing on the customer.

**Sramana Mitra: Did you keep word of mouth as your primary means of customer acquisition?**

**Phanindra Sama:** Absolutely. The focus has always been on selling to customers. We focus on engaging customers when they come to the site. There is a lot to that. When we launched we were a brand new offering, so customers were there just to try us out. We had to engage those people somehow, so we put live chat on the website.

**Sramana Mitra: It sounds like you were almost running a call center in the back end.**

**Phanindra Sama:** A live chat call center, but that was not scalable. However, that did make those customers stay with us. We could sell tickets to customers as well as have a person who could call the bus operator to get more seats if they needed more seats than we had on the website. We ran that chat service for one year. Our book to look ratio, a big metric for us, is far better than industry average.

**Sramana Mitra: How did you achieve an industry-leading conversion rate?**

**Phanindra Sama:** We have taken our analysis down to fine details. We have a specific orientation for the bus on the entry page. We have done a sensitivity analysis which shows which orientation gives us the best bounce rate. There are so many other things that are done at the back end that have contributed to our conversion rate. We did not achieve that conversion rate by accident.

**Sramana Mitra: How did you finance your first year of operations, which included live chat support and manual inventory negotiation?**

**Phanindra Sama:** Initially, we had a lot of savings. We had no idea how much money it would require to start a business, and we thought that what we had would be sufficient. We started in August 2006 and we ran the show with our money. Later, when we were selected by TiE, we received a lot of interest from venture capitalists. There were a lot more VCs in 2006 than there were ideas for them to fund.

We had no idea what VCs were, so we went back to our mentors. We asked them to explain what function VCs played, and they explained the entire model to us. They told us we could raise money and what the right amount to raise. We came up with a number of 13 lakh rupees (~$26k) to build this company throughout India and make it profitable. That was the wildest number we could think of.

We went back and presented that number. We were talking with all of the VCs, and they all smiled at us. One of them sat down with us and helped us build a realistic plan. We revised the plan and came out with a plan of 3 crore rupees ($500k) to spend over the next three years to build one phase of the company. As founders, we were shocked to think that we would need 3 crore (~$500k) rupees to build a single phase of the company. If we had that money, we would put it in the bank and earn interest!

That VC told us that he was ready to write us a check for 3 crore rupees (~$500k) for 30% of the company, which implied a valuation of 10 crores. (~$1.6M) We were just six months into business and we could not believe our company was that valuable.

**Sramana Mitra: Which VC was this?**

**Phanindra Sama:** The company was **SeedFund**. We were comfortable with them, and our mentors told us they were good VCs to work with. We raised the money. We did not do any further negotiations. I kept telling them that we would not be spending all of that money, but in retrospect we spent all of the money in two years. I now realize that companies take a lot more money than you can think of.

Many first-time entrepreneurs have those issues. We can't think of the right numbers because they seem too wild. Big numbers become a barrier. Right now, people are saying you need to build a thousand-crore (~$150M) company. In the bottom of my heart, I think that is a very big number, and I have to ask if we are truly making sense or is it just wishful thinking?

**Sramana Mitra: What is the size of the business right now?**

**Phanindra Sama:** Right now it is at 150 crore (~$25M). In the next four or five years, reaching a thousand is viable. The numbers seem wild, but they are viable. We are now looking at an even bigger number.

**Sramana Mitra: What percentage of the bus ticket business do you have now?**

**Phanindra Sama:** We are at 1% of total business. We have 70% of the automated bus ticket business. The automated ticketing occurs through a computer-based system, and ticketing is increasingly shifting to that automated bus ticketing system.

**Sramana Mitra: How are you organized as a company?**

**Phanindra Sama:** We have three businesses today. The first one is our consumer-facing travel agency, redBus.in. In addition to the website, we also sell in our call center. We have seven call centers in the country where people can call in and buy a ticket. We have delivery boys who will deliver those tickets to their homes, collect the money, and return. We started that business because consumers needed the service.

The second business we have is the software business where we sell software to bus operators. Some pay on a monthly basis based on the number of buses they have. Others pay on a per-person basis. The fees vary, but they all pay. We do not give anything free. Our mentors have brainwashed us that giving things away for free does not add value to the system.

The third business is a reseller business. We have access to many bus operators, so we give other players who want to sell bus tickets access. We power the back end for them, and we make money on every transaction that they sell.

**Sramana Mitra: The redBus.in operation seems to have logistical complexities.**

**Phanindra Sama:** It is very complex. You can't predict ticket sales precisely to the point that you make the delivery boy schedules optimized. You can't tell how many trips to the same areas they will have to make. If consumers book a ticket but don't actually pay for it, or the delivery boy can't find them, then you lose money because bus operators charge for cancellations. Our innocence got us into that business, but we have not developed a lot of business around it. Today we are the only ones who offer that service. Other players have had to close delivery.

Last year I was invited to speak at an Asia Travel Conference in Singapore. I then realized that there was a company in China whose entire story revolves around their ability to personally deliver tickets. They had 5,000 people in the call center taking calls and making reservations. In September I went to China to speak at a conference, and I found they now have 12,000 people in the call center. The majority of their business happens on the phone. That has given me a lot of confidence that delivery is the right way to go. A lot of people tell me how inefficient that manner of business is, and how cost consuming it is. However, if you work in a profitable manner, everything is scalable, and you need consumers to use it.

**Sramana Mitra: How does your revenue split among the three businesses you have described?**

**Phanindra Sama:** The majority of revenue, 70%, comes from redBus.in. That is our flagship product. The majority of our value as a company is in making sales. We help sell to the consumer, and that is where we have value in the industry. In our third business other companies are making the sell, and as a result we have to part with a lot of revenue.

**Sramana Mitra: What you describe about the call center and the home delivery service is OK for India. In countries that have low-cost labor, there are more opportunities for mixing high tech efficiencies with high-touch customer service. That becomes harder in countries where labor is more expensive. It is an interesting model.**

**Phanindra Sama:** It can also serve as a platform to migrate people onto using these technologies. If a company suddenly puts up a website, then they are doing something that is very different from the way people are used to transacting their business. If you have a call center then they can relate to you and speak with someone. You can then let those call center agents refer customers the website because that customer already trusts you as a business.

**Sramana Mitra: How easy has it been to get Indian consumers to use credit**

**cards?**

**Phanindra Sama:** We have had to teach consumers how to use credit cards. This was particularly true when we first started. In India, when someone purchased a bus ticket over the phone or over the Internet, that was usually the first time they had used their credit or debit card. They have to know where to put the 16-digit number and where to put the CVV number. We would teach them how to do that. We have built internal analytics on the website that allow us to know when consumers have stopped the transaction because they can't get the credit card information correct. We then call that consumer and help him or her through the process. We spend a lot of time teaching people how to use their cards.

**Sramana Mitra: Once you teach them, they become lifelong customers.**

**Phanindra Sama:** Exactly. That makes it worth the effort. Absolutely. That helps us get more customers, which then helps us get more bus operators. That helps us get more distribution partners, which in turn helps us get more bus operators. It becomes a cycle.

**Sramana Mitra: What is the status of the company? Are you planning on taking it public?**

**Phanindra Sama:** I don't think that we will take it public any time soon. There is a lot of work to do internally. We are still working on it.

**Sramana Mitra: Do you have pressure from your investors to take it public yet?**

**Phanindra Sama:** No. I think we had a lot of good things happen to us, and our investors are part of that. We have a very good rapport with them. We have taken a second round of funding from Helion. We are a very capital-efficient company. In all, we have had $1.5 million come into the company. We have significant traffic and sell

2 lakh (200k) seats per month.

**Sramana Mitra: That is fantastic execution.**

**Phanindra Sama:** We have a very conservative, South Indian mentality. That is what people tell us. I attribute it to mentors. They have kept us focused on making money, not on getting eyeballs. We have kept to core principles.

**Sramana Mitra: This has been an excellent story. Good luck!**

# Interview with Hamid Shojaee, CEO, Axosoft

*Hamid Shojaee tried his hands at a startup when he was 22, raised money at dreadful terms, and eventually that company failed. Hamid went to work for Microsoft. While at Microsoft, working nights and weekends, Hamid developed the product that would later become the foundation of Axosoft. The company was already generating revenues by the time he quit Microsoft to fo full-time with the venture.*

**Sramana Mitra: Hamid, tell us a bit about yourself. Where were you born and raised and in what kind of background?**

**Hamid Shojaee:** I was born and raised in Iran. I was 10 years old when we moved to the United States.

**Sramana Mitra: What timeframe was this?**

**Hamid Shojaee:** I was born in 1973. I was there until about the end of 1983.

**Sramana Mitra: Where did you move to in the United States?**

**Hamid Shojaee:** We came straight to Tempe, Arizona. I've grown up here ever since.

**Sramana Mitra: You're still based in Arizona.**

**Hamid Shojaee:** Yes, we are based in Arizona right now.

**Sramana Mitra: What about college? What path did you follow?**

**Hamid Shojaee:** I went to Arizona State University. I never finished my Computer Science degree. I dropped out to start my first software startup. Basically, I'm a college dropout.

**Sramana Mitra: What were the circumstances of founding that first startup? What did you do with that company?**

**Hamid Shojaee:** Ever since I was a teenager, I have known that I wanted to own a software company or do something in software. While studying Computer Science at ASU, I would bug my roommate to brainstorm on potential software companies we could start. Eventually, we stumbled on a company that made fingerprint recognition devices. This is in 1995 when fingerprint recognition devices were very new – at least affordable ones.

We thought, "What if we took this general purpose fingerprint recognition device and start writing the software around these devices to control access to membership?" If you go to a gym, instead of showing a card as your ID, you use your fingerprint. When you go to work as an hourly employee, if you need to swipe your badge to clock in and out, you use your fingerprint to clock in and out. We thought of dozens of applications for using fingerprint recognition devices. We wanted to be the software company that brings all of that to life.

We pitched the idea to some investors and they absolutely loved it. We pitched it as, "We are going to be the Microsoft of the fingerprint recognition industry." We raised some money and dropped out of college to focus on that startup. We quickly learned all sorts of things about how difficult it is to build a successful software company.

**Sramana Mitra: How much money did you raise and who were these investors? Were they angels?**

**Hamid Shojaee:** We raised $300,000 in the form of a promissory note for half of the company.

**Sramana Mitra: Oh my goodness, terrible deal.**

**Hamid Shojaee:** Yes, it was horrible, but we were 22.

**Sramana Mitra: Of course, you didn't know and we've all made mistakes like that. I see this constantly in the program. People are raising money at dreadful terms. I've done that too.**

**Hamid Shojaee:** When you're 22, you don't know.

**Sramana Mitra: Exactly. Nobody's telling you any better.**

**Hamid Shojaee:** If the alternative is not to have done it, I would have definitely taken those terms a hundred more times.

**Sramana Mitra: At 22, it doesn't really matter. It's almost like somebody is financing a business education.**

**Hamid Shojaee:** That's exactly right. Had it been a huge success, it would have still worked out wonderfully, but we struggled of course like most startups do, especially when they're very inexperienced. It was angels introduced through friends who invested in us. We basically built the business with the expectation to have to raise more money at some point down the road. Within 10 months, we ran out of money and we had to raise another round. We quickly realized how the illusion works.

**Sramana Mitra: When you were going in to raise the second round of financing, what were you able to achieve at that time?**

**Hamid Shojaee:** We had created four different products around this fingerprint recognition device. One of them was for picking up your son or daughter at a day care center so that no one else can pick them up unless they had your fingerprint. We had a registration system where you had to register as a parent to pick up your kid. We had a clock in and out system for employers who had hourly employees. No one can clock in and out for other people. We also had a rudimentary system for controlling membership for a club. We had actually built a combination of an all-in-one PC that incorporated the fingerprint device into it. So we had taken all these parts ourselves and built the custom case. We put it all together.

Within 10 months, we actually had some pretty cool products, if I may say so, but we had hardly any customer. We had a couple of customers for our attendance software, which is the one that we had spent the most time on. For the most part, we didn't have a lot of customers. We went in raising our second round with a bunch of products to demo but without paying customers.

**Sramana Mitra: Bottom line lesson from that is that instead of doing a full product portfolio with the first round of financing, you should have done one product and really made sure that you could get customers for that.**

**Hamid Shojaee:** That's exactly right. We made the cardinal mistake of not having focus. That's a very hard lesson to have learned. We had a board of directors. We brought on one of our board members who was a little bit more savvy and experienced at about the 10-month mark when we were doing our second round. His question at the board meeting which changed the fate of the company from that point forward was, "What does this company want to be when it grows up? By the way, you can only choose one thing." By the end of that board meeting, we decided that we're not going to build hardware, day care center software, or the membership thing. We're just going to focus on time and attendance which was the one we had spent a lot of time on.

**Sramana Mitra: With that, were you able to move forward?**

**Hamid Shojaee:** We did and we raised the round. The company started doing better. Of course, we were still negative cashflow. We went through a couple more raises and some mistakes. We had basically made every mistake you could make in the book. After five years of perpetual fund raising, I decided that I was done and I was going to leave and let the company go from there.

We were doing a couple of million in revenue and we had something like 30 employees. We were still bleeding money. I just felt like we were going in the wrong direction with the fund raises. At that point in time, I had so little influence on it because of the percentage I owned. I decided that it was better for me to leave, sell my shares, and be done with it.

**Sramana Mitra: What year are we talking about?**

**Hamid Shojaee:** This is in 2000. We started the company in late 1995 and late 2000 was when I left and went to work for Microsoft Consulting Services. Microsoft has that office in Phoenix. I worked for them for the next four years.

**Sramana Mitra: What happened in 2004?**

**Hamid Shojaee:** First of all, that was a very interesting wakeup call in observing how Microsoft, as a company, operates and how competitive they are, and how laser-focused on competition they are. I got introduced to various different things with respect to talking points. Microsoft was very savvy in execution. I was quite awed by all of that. In a great company, I saw how they operated. They give a lot of power to their employees. I was quite impressed.

My work at Microsoft involved helping Microsoft enterprise customers be more successful in that stack and help bring best practices into their development. A lot of the times, Microsoft enterprise customers would hire Microsoft Consulting Services to make sure that their projects didn't fail – managing a group of developers, and helping implement enterprise applications.

What I realized is that I didn't have the tools to manage my team and see what everyone was working on and what bugs we had in the system that we needed to take care of. Slowly, I started putting together a tool in my spare hours. I started using that tool for myself and put it out on the internet for other people to use as well. Lots of people started using it and gave me great feedback. I started improving it and eventually started charging.

**Sramana Mitra: What was the name of that piece of software?**

**Hamid Shojaee:** It was called On Time. That became the foundation of the company Axosoft.

**Sramana Mitra: This was what year? What year did you leave Microsoft to do Axosoft full-time?**

**Hamid Shojaee:** I left in January of 2004 to work full-time on On Time.

**Sramana Mitra: Before you jumped into it full-time, how much time did you spend from developing that software to getting it out into the free domain and maturing it?**

**Hamid Shojaee:** I basically had two full-time jobs during the time I worked at Microsoft. I was lucky because I worked my typical hours at Microsoft. I didn't have to put in a lot of overtime at Microsoft because the charge rates were quite high for enterprise customers. I was working the typical 40-hour week. My wife was going to school at that time. Nights and weekends were always at the library doing home work for her. I would join her and work on my laptop on the product.

The first version of the product was released in August of 2002. Between August of 2002 and January 2004, there were several versions of the product that came out. The first version was free. Eventually, with the second version, I started charging nominal fee for teams that had more than 10 users but still free for everybody fewer than 10 users. People started paying and I was like, "Wow! This is amazing."

**Sramana Mitra: We have a name for this style of entrepreneurship. This is really becoming a trend these days and we call it *bootstrapping using a paycheck*.**

**Hamid Shojaee:** That's right. What's funny is that I would have never had that option a few years later. Two years later, I had a child.

**Sramana Mitra: January 2004, you had a paying product – a product that is already generating a little bit of revenue. Is it now still just you?**

**Hamid Shojaee:** It's now me and a good friend of mine whom I hired for about four hours a week to help me. I basically paid him for four hours a week because he was also working on a full-time basis.

**Sramana Mitra: What function did he assist you with?**

**Hamid Shojaee:** Programming.

**Sramana Mitra: How long does this mode continue of you and your 4-hour a week friend? How does the revenue ramp?**

**Hamid Shojaee:** The revenue was ramping up very nicely. I actually hired a second person for accounting as well right away. That person was also probably single-digit hours per week. That continued until about October of 2004 when I finally brought in the programmer on a full-time basis. In December, we hired two more people. Basically, for almost a year it was just me and somebody else part-timing.

**Sramana Mitra: What was the revenue at the end of 2004?**

**Hamid Shojaee:** In 2004, we were just shy of $300,000 in revenue – up from $50,000 the previous year.

**Sramana Mitra: What happened in 2005?**

**Hamid Shojaee:** In 2005, we grew substantially. We went from $300,000 in revenue to $800,000. We added a couple more people. We were six or seven people by the end of the year. From $800,000 in 2005, we went to $2.2 million in 2006. Then $3.1 million in 2007.

**Sramana Mitra: Let's step through the customer acquisition strategy. How did this $50,000 to $300,000 to $3 million happen? What was the customer acquisition strategy that was driving this growth?**

**Hamid Shojaee:** While I was working at Microsoft, the way I treated it was that I don't need this extra income. 100% of that extra income went into advertising. I experimented with Google AdWords as well as print ads. Back then, people still read magazines. I took out a full-page ad in MSDN magazine. A full page ad costs $6,000 per month. When we hit $6,000 in revenue, we had a full-page ad in MSDN magazine. 100% of our revenues were being spent on marketing.

**Sramana Mitra: Did you get conversions out of that advertising?**

**Hamid Shojaee:** No question about it, definitely. What was great is that no one could possibly have known how small we were because everything looked very professional. When you are looking at one of the top magazines in the development industry, and you see a full-page ad, you assume that they must be a very reputable company. Then, we started doing the Google AdWords in the early days as soon as pretty much Google AdWords was available, so advertising was really cheap. I remember Google AdWords used to start with a nickel per click. You could get good traffic to your site with clicks that cost only a quarter or 50 cents.

**Sramana Mitra: What kind of keywords were you getting that traction from?**

**Hamid Shojaee:** For our tool, it was bug tracker, development tools, or software languages. They were very cheap so we were reaching developers and letting them know that we exist.

**Sramana Mitra: Was there a segment that you were particularly appealing to? Was it small companies or large company developers? Who was resonating with your message?**

**Hamid Shojaee:** Most of the teams that were using our product were smaller teams. We actually kept our products free for up to two users. Anywhere from three to 50 users were the bread and butter. The size of teams grew over time from there.

**Sramana Mitra: Everything was happening online. People were coming to your website, downloading the free product, trying it out and as they were growing, they were paying for it online. You had no sales involved?**

**Hamid Shojaee:** That's right, although one of our hires in 2005 was a sales person to respond to inquiries. There was no outbound sales activity.

**Sramana Mitra: All inbound.**

**Hamid Shojaee:** That's right.

**Sramana Mitra: I assume that's the growth strategy between $300,000 to $3 million in revenue, yes?**

**Hamid Shojaee:** Yes. All the way through now, the strategy has pretty much been the same.

**Sramana Mitra: From the $3 million in 2007 how did the revenue ramp till now? What was the employee growth that you needed to support that revenue?**

**Hamid Shojaee:** On an average, our employee growth was lower than it should have been. I think I was trying to keep it at approximately $200,000 in revenue for each of the employees that we had. When we had $2.2 million in revenue, I think we had somewhere on 11 employees. That was definitely a mistake.

Looking back, that probably prevented us from being able to do more things later. Most of our revenues came from on-premise. Our average sale was $2,500. We went through the economic turmoil between 2007 and 2009 time frame where we slowed down a little bit. In 2010, the growth restarted.

Something interesting happened 2010 onwards. The on-premise sales started declining very rapidly and then the on demand sales started increasing rapidly. As a result, between 2010 and 2013, we were pretty much flat – hovering around this $5 million number – because one number was decreasing rapidly and the other number was increasing. We expect growth to pick up again this year. We grew a little bit last year but not as much as you would typically expect.

**Sramana Mitra: Talk to me a little bit about competition. This is very standard, right? Going from an on-premise to SaaS subscription model, businesses will always take a hit and then come back to a growth path. That's a very standard process. My next question is more a question on competitive landscape and your ecosystem map. What is your positioning? What makes customers choose you over other competitors and who are those competitors?**

**Hamid Shojaee:** Our biggest and most successful competitor has been Atlassian.

**Sramana Mitra: Australian company, right?**

**Hamid Shojaee:** That's right. What's interesting is that since the early years, the market has changed quite a bit over the years. In the 2002 to 2010 time frame, I'd say that developers were married to the stack of tools that they used. If for example you were a Java shop, you wanted to use Java-based tools. Because I was from Microsoft, our product was dot net-based. Therefore, we grew much more rapidly in the dot net world than the Java world. If you used anything other than dot net, you probably didn't have our product because you have to install dot net on your servers. All that stuff mattered because non-dot net developers would not touch those tools. That's just the way they are.

That started going away once the transition to SaaS started happening because nobody cares now what platform their website is running on. Atlassian being non-dot net grew as a result of non-dot net adoption growing more rapidly than dot net adoption. Microsoft already had a large base of developers that we were selling into. That flattened out fairly quickly. The Open Source world was growing very rapidly. This is all speculation but if I were to speculate, a lot of Atlassian's growth has to do with this Open Source movement over the past 15 years. They have their product that competes directly with our product.

What we have done in the past several years with the way we differentiate our products from everyone is we really focused on user experience much more than most companies do. Our product is a little bit more intuitive. This is something that customers agree on. It's more intuitive and easier to use. If the tool doesn't get used, it's completely worthless. Making sure it's easy to use for the team members is critical.

The other thing we have done is focus on the Scrum community. For the past five to six years, we recognized Scrum as probably one of the best ways to develop software. What we've done is create the educational material to learn Scrum and also create the tools to help you easily implement Scrum within the organization. That's been the key for us to become the number one selling Scrum software.

**Sramana Mitra: You're a $5 million company. You've made the switch from licensed software to SaaS. Are you doing a suite of products?**

**Hamid Shojaee:** Axosoft development tools has a suite of products. It's a Scrum tool, which is our flagship product. We have a bug tracker, which we've made free with the $1 contribution to our Axosoft Startup Grant Program as a means to get every developer in the world to have a great tool to use that's powerful, feature-rich, and free. So, there's no barrier to entry. We have a help desk ticketing tool. That's the suite of development tools. The whole suite is geared towards software developers.

In our history, we've experimented with a variety of different things. Everyone's come out with this Google 20% time. Before we even knew about that concept, what we had implemented at Axosoft and still do to this day, every year after major releases, is that we'll take 30 days off for the bug team and have them work on an unrelated product as a means of education for the teams to be able to expose themselves to technologies that they might not have day-to-day exposure to as well as to try out new ideas and see what kind of soft spot sticks. That 30-day process has created a number of things for the company. We have a website called transferbigfiles.com and that is a result of one of those projects. Now, it's a product that has its revenues. We have another product called Pure Chat, which is also a result of one of those experiments that also has its own product. It has no revenues yet but the user adoption on that is pretty phenomenal.

**Sramana Mitra: This whole phenomenon of having employees engage in Intrapreneurship is a big trend that we're looking at a lot. In our incubation program, we do a lot of corporate incubation. We have this Incubator-in-a-Box program that a bunch of corporations are using to layer upon their own**

**incubation programs. We run, for example, a large program at Oracle where Oracle does this Oracle-1M/1M Intrapreneurship Challenge where employees are encouraged to compete for 1M/1M scholarships. We're very familiar with what you're talking about. It's a smart way to both keep employees motivated as well as fish for ideas that could become sizeable businesses.**

**Hamid Shojaee:** Right, that's exactly what the intent is.

**Sramana Mitra: Obviously, you have a developer community that you cater to. What is the size of that developer community?**

**Hamid Shojaee:** We have over 11,000 customers worldwide in 150 different countries – over 11,000 teams that have purchased the Axosoft tools.

**Sramana Mitra: What percentage of that are small companies versus larger companies?**

**Hamid Shojaee:** It definitely falls more towards the small, but revenue-wise, it's probably fairly even because larger companies pay a lot more for the tool. In terms of how many teams there are out there, that number is probably in the hundreds of thousands. There're over 12 million software developers worldwide. That number itself is several years old. I had heard that number from a Microsoft study with respect to visual studio tools. The market is massive. It's definitely a multi-billion dollar opportunity.

**Sramana Mitra: There's plenty of TAM in the productivity tools space. What is the distribution of your customer base?**

**Hamid Shojaee:** Between being a small company versus larger companies?

**Sramana Mitra: Yes.**

**Hamid Shojaee:** If the purchaser of our products is not necessarily a software company or if it's a development team within a different kind of a company, that team might be small but the company itself might be very large. If you're Nike, you have tens of thousands of employees, but you might only have a couple of hundred software developers. That ratio is skewed. We sell to a lot of teams that are just small teams but in these much larger companies. If we sell a software tool to a 10-person team, we only see the 10-person team, but the company might be 250 to 500 people.

**Sramana Mitra: How many people do you have today? You're just coming back to your $5 million run rate. What is the size of this organization?**

**Hamid Shojaee:** We're now hovering around 40 people. We do have more than $5 million in revenues. We hit the $5 million mark in 2010. The growth has been relatively flat since then.

**Sramana Mitra: Is there anything else that's worth discussing in your story in terms of strategy and moves that led to big losses or wins?**

**Hamid Shojaee:** From an entrepreneurial standpoint, I think that having that focus on a particular market segment is very important and then doing things for that market segment that creates value outside of the product offerings that you have is important because it helps establish credibility. Are things around raising money or things of that nature of interest to you?

**Sramana Mitra: I actually forgot to ask you that. Is this bootstrapped or did you raise money for Axosoft?**

**Hamid Shojaee:** It's been completely bootstrapped. You definitely go through these ups and downs with respect to, "Maybe it would be nice to bring in investors." Because of my first experience, I've probably been a little bit overly shy of considering investment, but we have been approached many times.

**Sramana Mitra: For a software company with $5 million in revenue with significant headroom, I'm sure you're getting investors.**

**Hamid Shojaee:** We end up not talking to them.

**Sramana Mitra: That's primarily because you are gun shy from your last experience?**

**Hamid Shojaee:** For sure. That has left a residual effect. One other thing I wanted to tell you is that what's interesting is that historically, software was this one-time expense kind of deal where you got paid a couple of dollars or whatever your average selling price was upfront. Now, you're average selling price is much smaller on a per month basis. There are two methods of sales. One is on premise and one is SaaS. If you compare the way that revenue grows in those types of companies, the SaaS revenue growth is much more painful and slower. It's much more difficult to create a software company today than it was 10 years ago because of that reason alone. Bootstrapping today is much more difficult than it used to be.

**Sramana Mitra: It's also become a lot cheaper to get things off the ground. Bootstrapping was really hard before when things were expensive. Everything was so much more expensive and now, everything is a lot cheaper.**

**Hamid Shojaee:** Server costs and things of that nature are a lot cheaper today but if you were building a software company in the late 1990s or early 2000s, you didn't necessarily need the servers. In the past seven or eight years, the things that you're building are web-based and you need the servers. That stuff used to be expensive. Now, it's super cheap. If you're just selling software in 2010, all you need to create an app was a laptop essentially, right? You could create your app, put it out on the Internet, have 100,000 users on it, and if you started charging for that product, you might get a million dollars in revenue fairly quickly. Whereas today, everyone expects those super cheap apps to be free.

**Sramana Mitra: That's the real problem. The real problem in today's Internet is this complete hijacking of the industry by free riders. That's a very serious problem. I have to say that I'm a huge advocate of not supporting free riders. I don't believe that everything should be free. People should pay for value.**

**Hamid Shojaee:** Right. It's definitely an interesting debate. Just to compare, if you used to sell an install product for $2,000 on average, now that same $2,000 product is only $50 to $100 a month on average. You get 100 customers before you're going to get $200,000 in sales. Now you have 100 times at the most $100 which is $10,000 in sales. It's a very long curve that you have to survive and pay for all the expenses before you get to this point of survival in the SaaS world, whereas that problem never used to exist in the on-premise world.

**Sramana Mitra: It was a pleasure talking to you. Good luck with everything. Hopefully everything will move well and you will move back to an accelerated growth curve again this year.**

# Interview with Rod Brown, COO, OnceLogix

*We constantly hear from pundits that specific demographic groups face bias in the industry. Rod Brown works with a team of black entrepreneurs in North Carolina, and has a refreshingly positive attitude with which they're building OnceLogix. His simple message: 'Solve problems.' Rod and his two cofounders Trinity and Ty each kept their full-time jobs and ran OnceLogix as a side-project. Within 12 months, all three cofounders were able to quit their jobs and go full-time.*

**Sramana Mitra: Rob, tell us where you are from and what your background is. What is the backstory to your entrepreneurial journey?**

**Rod Brown:** I am from a small town in North Carolina. I went to school at Winston-Salem State University. My background is in financial services. I was in banking for many years before I became an entrepreneur. I worked for a Fortune 500 bank and did Banking Operations for 10 years before I jumped the fence and started doing financial management. I became a licensed financial advisor for stocks, and bonds. I was basically a money manager.

**Sramana Mitra: How did OnceLogix come to be?**

**Rod Brown:** I met my business partners at a local church in Winston-Salem, North Carolina as well. One of my business partners was developing a website for a lady who owned a group home for at-risk youth. As he was building her website, she was complaining about paperwork and documentation. It was a challenge to keep track of various stats and requirements and there was also the overhead of managing her billable work.

As a result of her complaining, he put together a makeshift program. From that point on, in 2005, they went through a cycle of prototyping, engineering, prototyping, and engineering. She would show it to her friends and they ultimately arrived at a place where there was a product ready to go to market.

Once they arrived at that point, he contacted me because he was the guy who could fry the chicken, and I was the one who could run the restaurant. He brought in another one of our friends who had a business mind. We put our heads together and we created a company.

**Sramana Mitra: What did you plan to do with the software?**

**Rod Brown:** Initially, it was just a project to help one customer. After several people liked it and started using it, Trinity, my friend, realized that he had a small group of beta users. One of the people using it told one of his friends about it. We then got a call from someone asking if he could buy the software from Trinity.

When this happened, Trinity sought advice from his father because he did not know what to do. He also sought advice from our pastor. The pastor gathered a group of 12 individuals who were business leaders into a room and we had a meeting. We sat around a table after Trinity told his story and we all had a chance to tell Trinity what we would do if we were in his shoes. Every other person in that room advised Trinity to sell the software. When it came around to me, I told him that if I were in his shoes, I would try to turn it into a product that could be marketed.

**Sramana Mitra: Why did you give the advice to productize the software instead of selling it off?**

**Rod Brown:** I felt that it could become a software solution that was used across the nation.

**Sramana Mitra: When you made that statement what was your vision of what the product would become?**

**Rod Brown:** The product was built for a very specific market so we knew who the customers were going to be. We were in North Carolina and we knew how many potential customers we could have in North Carolina, so we set that as our goal and initial vision.

We did have customers who had relationships in different states. Word of mouth spread outside of North Carolina very quickly. Now we are in nine different states.

**Sramana Mitra: What is the function of the software?**

**Rod Brown:** It is a practice management tool for people who provide behavioral healthcare services. It could be for a behavioral therapist or a psychologist. It could be used by people who provide community-based mental health services.

It manages their entire practice. It keeps track of their progress notes, any assessments that they do, manages all their scheduling, and manages their client and patient records. We also keep track of all their staff records to include credentials and the certification and training that they must keep up with.

It is a web-based tool that manages their entire practice. We also have an iPad application in the App Store.

**Sramana Mitra: What year was it when you had the meeting at the church?**

**Rod Brown:** We met in early 2005. By August of 2005, we had launched the business.

**Sramana Mitra: What was Trinity's reaction to your point of view?**

**Rod Brown:** What I said resonated with him because that is what he had been leaning towards. He knew that running the business would not be his area of expertise, but was confident that he could develop the software. My skillset aligned with running the business operations.

At that point, we brought in one more friend Ty McLaughlin, who was also a financial advisor. He was a good friend of ours. We basically followed the model of "If you can make it, we can sell it". We let Trinity develop and build the software and Ty and I sold it. We created OnceLogix in August of 2005.

**Sramana Mitra: Was there any financing involved when it came to getting the business launched?**

**Rod Brown:** We bootstrapped the business. All three of us had our own full-time jobs and careers. We did this as a side project. We knew it was a side business. We worked some ungodly hours.

**Sramana Mitra: How did you balance starting a company in your off hours as a collective team?**

**Rod Brown:** We mapped out a plan. In the first month that we rolled out our product, we signed up 5 customers. We felt like that was a good start and we knew we could make money after that. We mapped out a plan to have each person quit their full-time jobs once we hit a certain revenue mark. Trinity was able to quit first, followed by Ty, and finally myself.

**Sramana Mitra: How long did it take you to go from the initial launch to having all three of you full-time?**

**Rod Brown:** We started out the company in August of 2005. I was the last person to quit my original job and I joined the company in July of 2006. We made that transition within a year. All three of us had left our full-time jobs and moved over to working for this company full time by that point.

**Sramana Mitra: To the extent you remember, can you talk a bit more about what happened in that 12-month period that allowed you to bring this company together?**

**Rod Brown:** We squeezed every ounce of our time to work on the business. For a long time, we did not take any money out of the business. We put every single dime back into the business. We lived off our individual savings. The first check I received from the company was $600.

**Sramana Mitra: How many clients were you able to obtain during that 12-month period?**

**Rod Brown:** In the first year, we brought on 50 or 60 clients.

**Sramana Mitra: What was the price point? How much did you charge them?**

**Rod Brown:** We were so excited about having a business that we were almost giving the product away. We operated on a SaaS model, so we sold licenses by the seat. We sold them for $15 per user, per month. Our driver is clearly users. We have a recurring revenue model so our goal is to add as many users as possible to the system.

**Sramana Mitra: How much revenue were you able to bring together in the first year period?**

**Rod Brown:** I think in our first full year, we did $320,000. That would have been 2006. I think in 2005, we got to $70,000 or $80,000.

**Sramana Mitra: That is a very good revenue stream for your first year. Great work! By the end of the first year, all three of you had quit your full-time jobs to work on the startup. What happened the second year?**

**Rod Brown:** We just continued to grow. I think 95% of our clients deal with the Federal Government. They deal primarily with Medicaid. That exposes us to risks with the federal budget. Medicaid is a federal program that is managed by the states. The legislator of each state has the ability to direct those funds. The risk to us is that our customers' funding can be affected overnight.

We were at the right place in the right time in 2006. There was a legislative change that changed how mental health services were delivered in North Carolina. Because of that, people had to have increased accountability in record keeping. They also had to hire more staff. That meant they needed more licenses from us.

**Sramana Mitra: What impact did that have on your revenue ramp?**

**Rod Brown:** I don't know the exact number, but I would say that we doubled our revenue in two and a half years. The other factor that contributed to our revenue increase was our expansion into other states. We grew some because of word-of-mouth recommendations from our clients as well as our own efforts to attend trade shows in other states.

When we went to the trade shows, we started to meet other interested parties. That led us to start marketing in Georgia because of a relationship that we established at a tradeshow. We have been the leading provider in Georgia because of that.

We did not do a whole lot of marketing in those first few years. We did not spend a dime on advertising because our market was so unique. We would just go to trade shows and attend very focused events.

**Sramana Mitra: What did the revenue ramp look like over the next few years and what were the strategic decisions that led to that revenue increase?**

**Rod Brown:** The decision to go to other states was key. The other key was adding staff and relinquishing responsibility. I was the sales and marketing guy. For the first three years, I was involved in every single deal. I could not do that forever. We made a great decision to hire some sales people as independent contractors. They could market our software, which was great for me because it freed me up to be a thinker in the business instead of just a doer.

**Sramana Mitra: How did you recruit those sales reps?**

**Rod Brown:** We had a commission-only sales model. We started with our friends who needed a job. Our sales director today is a great friend of ours who was in a car accident. He had been working for UPS and was no longer able to do that job, so he came to work for us. He was a natural and is our sales director today.

Other people came to us from the industry. There is a huge learning curve in the mental health industry. There are a lot of consultants in this business so we made agreements with people who were already prospecting to our potential clients. We basically just added another arrow to their quiver.

**Sramana Mitra: I like the way you positioned your sales force as commission-only independent contractors. That allowed you to use contractors who already had relationships and could augment their own offering with your software. That seems to be a very effective way to scale in the early stages of a business.**

**Rod Brown:** Getting out of our backyard and moving sales into other states was huge. There was some legislative change in North Carolina that was detrimental to our business because it drove a lot of our clients out of business. The demands and requirements were too much for them to meet. We saw 50% of our North Carolina clients go out of business.

Fortunately for us, by the time that happened in North Carolina, we had Georgia to back us up. We then started to market in South Carolina, Maryland, D.C., Virginia, and we are now moving into Louisiana as well.

**Sramana Mitra: How long did it take you to hit a million dollars of revenue?**

**Rod Brown:** We hit a million dollars in revenue around 2009.

**Sramana Mitra: How did the business ramp from that point on?**

**Rod Brown:** From that point on it was a matter of adding to our base.

**Sramana Mitra: So by 2009, you had the business model down? You knew how to sell and what the equation of the customer acquisition, correct?**

**Rod Brown:** Yes, we knew all of that as well as the pain point that our clients faced. When you have a SaaS product, you have to do three things. You have to deliver that product, you have to keep innovating on that product, and you have to prevent people from leaving you.

There is now a lot more competition in the market. We were the first in a lot of markets, but we were not first in many other markets. Now we have to innovate and have a better story. A lot of times, providers just need a better story in order to use a new software product. Our revenue ramped up primarily because of word of mouth and our entrance into other markets.

**Sramana Mitra: You said that you knew your clients pain points. How did you leverage that in your strategy?**

**Rod Brown:** We knew their pain points. When we walked into a new potential client, we knew the potential pain points because we had seen it so many times before. There is one particular company in Georgia that was failing miserably and we were asked to come in and help out. We basically came in and bought that company and it is now a part of our portfolio.

**Sramana Mitra: Does that mean you have started taking ownership of behavioral health centers?**

**Rod Brown:** Correct. That is absolutely what is happening. We have them in Georgia and Louisiana. We own three at this point.

**Sramana Mitra: How big is your SaaS business from a revenue perspective, and how does that compare to your clinical side?**

**Rod Brown:** A little north of $2 million dollars a year in recurring revenue. Last year the other side of the business did about $4.5 million dollars.

**Sramana Mitra: Do you anticipate buying more behavioral health companies?**

**Rod Brown:** I don't think so. We will probably focus more on the software side. We will do more than just the electronic health record software. In this industry, there is a great deal of fraud. We are getting ready to launch a tool that will help reduce fraud significantly. We will be more focused on bringing technologies out to help the industry deal with fraud.

**Sramana Mitra: Why is the SaaS only at $2 million after all this time?**

**Rod Brown:** It has not scaled for a couple of reasons. First, the churn rate is a bit too high. The cause of churn is clients going out of business. We've also had some clients leave us and go with competitors. The churn rate was as high as it has ever been in 2011.

The second reason the SaaS side has not scaled is because the clinical side of our business was distracting from the SaaS side. That is something we have had to address.

**Sramana Mitra: Why did you do that? If I were advising you, I would have told you to stay a million miles away from a clinical business because it is so different than a SaaS business.**

**Rod Brown:** From a financial standpoint, it was a pretty good opportunity. If you manage it right, you have margins north of 25%. We also thought there would be some synergies. We had a guinea pig for our software. We had an agency that functions exactly like our clients. We could be more proactive in identifying the challenges the agencies face.

**Sramana Mitra: The best way to do that is to create a customer advisory board where you can get a window into that environment without having to buy a business.**

**Rod Brown:** I agree and you are absolutely right. We do have a customer advisory board now. At that time, that is why we made the decisions we did. I don't think it turned out like we had hoped.

**Sramana Mitra: Possibly, the right thing to do at this point is to sell the three clinics and focus on the SaaS business. What does it take to do that? The second part of this question is what does it take to check the churn and put this business on a higher growth path?**

**Rod Brown:** I think the answer is simple. We have to either sell the other side of the house or have a separate management team to run that side of the house. Selling is not out of question. When it comes to the software, we have the model. It comes down to us refocusing on a growth plan for that side of the business.

**Sramana Mitra: After listening to your story, it really seems like the software model is the best option for scaling the business and that there is a lot of opportunity there.**

**Rod Brown:** There is plenty of opportunity in the US as well as opportunities abroad. We are looking at an opportunity in South Africa that could double the size of our company almost overnight if we can pull it off. We really just have to execute because we know what we are doing on the software side of the business. It is a matter of re-dedication.

**Sramana Mitra: I saw on your website that you are a group of black entrepreneurs and have won several awards as black entrepreneurs. There is definitely a lot of talk out there that black entrepreneurs face bias against them in the industry. Is that something that you have encountered?**

**Rod Brown:** If there has been any, we have not experienced it. We are problem solvers. At the end of the day, if we can solve someone's problems, then they are not going to care what color we are.

**Sramana Mitra: That is my perspective as well. I think if you are doing the right thing and building a business that solves real problems, then there is not going to be a lot of demographic bias.**

**Rod Brown:** I will say there is limited access to business building resources for African Americans. If you look at my company, we have put together a management company of friends and they look like us. If I were talking to someone else and they wanted to start an incubator, then I would expect that they would start that incubator with people who look like them. That is what non-minorities tend to do. I don't have access to some of the things that they have access to simply because I am not running in their circles and I am not one of them. If I want to change that, then I need to become one of them. Nobody is going to talk about you if you are not a part of their circles. I can solve that by getting in their circles.

**Sramana Mitra: So you are saying it is important to build a network outside of your demographic group?**

**Rod Brown:** Absolutely. If you hang out with a bunch of people who look like you, then you can compete with those people but they cannot complete you. I need people who can complete us. We are actually working right now to expand our network and break into new circles.

We are also working to break into areas known for tech. I am here in Palo Alto and I will be making some connections in this area. I am going to start doing some networking on the West Coast. We have to go outside of our comfort zone.

**Sramana Mitra: It is very important to move outside of your comfort zone. You are not going to grow inside of your comfort zone.**

**Rod Brown:** That is a dangerous place to be. That is where you go to stagnate.

**Sramana Mitra: Thank you for sharing your story. Best of luck as you continue scaling your company, I look forward to following your success.**

# Interview with Paras Chopra, CEO, Wingify

*Paras Chopra started Wingify with full disclosure to his employer. His job and his startup had nothing to do with each other, so his employer did not mind. Working with maniacal intensity, Paras got a version of his product out that received terrible feedback from the market. Not one to give up, he kept at it, and delivered a much better product out on his second attempt, and accumulated 1000 users. At this point, Paras quit his job, and in parallel, started charging for the product. The rest, as they say, is history!*

**Sramana Mitra: Paras, let's start with the very beginning of your story. Where were you born and what are your family circumstances? What leads up to the Wingify story?**

**Paras Chopra:** I was born in Punjab, India. I have been very lucky to have very forward-looking parents. I was introduced to computers very early on. I got access to a computer in my eighth standard year of school. My father had been playing with computers for a long time. He has an agriculture and biochemistry background, but he needed to use computers to conduct his work. He had a computer back when a 200Mhz computer was best in class!

I got hooked on programming instead of the usual things teenagers do. I would rather program than play games. What got me hooked was Basic 6.0. It was a very simple language. I could design entire programs using drag and drop features. I could drag buttons and text boxes, and then I could link the logic using an easy-to-follow language. It was pretty fun being a 13-year-old who could write workable programs used by other people. That was the genesis of where I am today.

**Sramana Mitra: Did you go to college?**

**Paras Chopra:** I started programming in school during my 9th standard. I stumbled across a book on artificial intelligence, and I got very interested in neural networks. I would spend all of my evenings and afternoons implementing neural networks in Visual Basic. I started doing more complex tasks in Visual Basic, so I started to learn Python. By the time I completed high school, I considered myself an expert in programming. Looking back, I think I was very naïve! When it came time to choose my major I decided to focus on biotechnology.

**Sramana Mitra: Where did you go to college?**

**Paras Chopra:** I went to the Delhi College of Engineering. It is one of the premier colleges in India. My parents were against my idea of studying biotechnology. They really wanted me to go into computers. It ended up being a very good decision for me as well. I learned an entirely different field. I did not know anything about our bodies, DNA and genes. It gave me a very different perspective than I would have had if I had just gone into computers. That has given me a unique perspective to my work and to life in general.

**Sramana Mitra: When did you graduate from college, and what did you do after you graduated?**

**Paras Chopra:** I graduated in 2008. Even though I studied biotechnology, I remained very involved with computers the entire time. My area of concentration for biotechnology was computational biology. In that specialty I would model biological problems using computer programs. I would write programs to simulate protein functions, or anomalies in genes. That morphed into using big data sets.

I started reapplying all of my knowledge of artificial intelligence to this line of study. I did a lot of work with neural networks and genetic algorithms within this data set. As a result of that, I became very interested in data mining and analytics.

During my school years I read an essay titled 'How to Start a Startup.' It was very well written and it made me realize that I needed to do a startup. During my college days I tried three or four different startups. Now that I look back at them I realize they were really just projects. I would do one every time we had a three- or four-month break. One of my startups was Kroomsa, which was a music portal which promoted independent Indian music. That was my first brush with doing a startup.

**Sramana Mitra: During college you were able to toy with an idea to see if you wanted to build a company out of it. Did you morph one of those projects into a full-time startup after gradation, or did you get a regular job?**

**Paras Chopra:** I knew I had to do a startup, so I tried a lot of things. I never did anything alone, but we never had a business model. We always had cool ideas without business direction. After college I went ahead and got a job as an R&D engineer for Aspiring Minds, and I worked in that role for about a year and a half.

Aspiring Minds is a company that makes employment tests. At that time it was the only company to make computer-accessible testing of that manner in India. It is similar to a GMAT where the difficulty of the test adapts to the capabilities of the test taker. That really played well to my analytical skills because it further developed my machine learning capabilities. The company was started by one of my college seniors who did his masters at MIT.

I always knew I had to do a startup. After about a year and a half, I had a cool idea. I made a rational list of my interests. I spent about a month or so just listing what I liked to do. That let me arrive at some key areas of interest. One of the top themes that emerged for me was marketing optimization. That combined my interest in analytics, technology and marketing. That was the genesis of Wingify.

**Sramana Mitra: Obviously you don't have a background in marketing. Typically we see people getting into a field with fairly significant domain knowledge and then building a product using that domain knowledge. You seem to have come into marketing optimization without real knowledge of marketing. How did that work?**

**Paras Chopra:** Looking back I think I was a little bit naïve. I think that led to a little bit of overconfidence. When I started to struggle I thought back to my time in biotechnology. I entered school with very little understanding of the topic but I was still able to perform at the top of my department and I was able to publish some papers. I also remembered how I was able to learn and progress through machine learning. That gave me confidence that I could learn this new field as well.

Marketing optimization did not feel like rocket science. It sounded very interesting and I was passionate to learn the ins and outs of that market. I figured the worst thing that could happen would be me failing.

**Sramana Mitra: How did you go about starting this company? How did you know what to work on? What did the product contain?**

**Paras Chopra:** I started moonlighting while I was still employed. I told my employer that I was working on something that was not in conflict with what I was doing for them. What I was trying to do with my first attempt with the product was develop something useful. Google Analytics was very popular and I started using it. I realized that Google Analytics gives you a lot of insight into what is happening.

They make it possible to know where your business is coming from. Implementing the information in a useful way becomes difficult. You have to change your website which requires a lot of customization and IP. Even then it may not be perfect. So, while you get a lot of insight from Google Analytics you are only able to implement a minimal amount of productivity on your web platform with the information you are shown.

My goal was to build a platform for Google Analytics that would allow users to make changes to their websites in an intelligent way. it would let them implement change based on the information they are getting from Google Analytics.

If you write marketing optimization software on Google you will quickly delve into any number of sub-specialties such as ad optimization. There are threads for the display side of the house as well as personalization products. There were other products when I started my company but they were primarily built for large companies. There was no practical method for small and medium business to run marketing optimization strategies.

I set out to commoditize the marketing and optimization part of operations for small and medium businesses. That is where my scoping started. I really focused on what marketing optimization really meant for a website. I discovered that it meant you had to implement A/B testing features, targeting features, and segmentation and analysis features. I worked on this for about 8 months and I came up with a product that had a lot of features in it.

**Sramana Mitra: Did you build the entire project yourself or did you hire people to help you?**

**Paras Chopra:** I paid about 50,000 rupees for a website design. I did a very basic product design myself. I launched the website on Hacker News, and the feedback I received was horrible. Nobody understood what I was trying to do. I called it a conversion rate real-time optimization platform, and nobody understood what that meant. I was caught in the trap of having an engineer's mindset. The various algorithms I was using came very naturally to me, but they did not mean a lot to anyone else.

I also gave very little thought to the usability of the product. If you were to log in to the product, you would see at least 25 to 30 options. I thought that it would be good to have as many options as possible. I did not realize that this was going to overwhelm and intimidate people. Overall the product launch was a very good learning opportunity for me. It was a bit disheartening because I had worked so hard and all of my past projects had failed as well.

**Sramana Mitra: How did you bounce back from that situation? Did you still have your job?**

**Paras Chopra:** I still had my job although I was living a very crazy life. I was living at one end of Delhi and commuting to the other end of the city for work. I was wasting 4 hours a day in commute time.

I could have just given up, but I realized that the feedback was actually quite relevant. The good thing about Hacker News is that the feedback is very good. I was able to derive a lot of knowledge from it. They told me that I had too many options or that my terminology was too complex. This helped me refocus the product.

I decided that it would be best if I did not try to attack the problem in its entirety. Instead I decided to focus on just one area and keep it simple. I ended up scraping all of the code I had written. I called my second version Visual Website Optimizer. I wanted to learn from all of the mistakes that I had made. I chose to use A/B testing as the focus area. There was a free tool from Google at that time for website optimization but it had very poor user reviews. It was very difficult to use. It required separate versions of your website in order to use it. There were also some high end commercial tools that had subscriptions that cost thousands of dollars.

I felt that this created the opportunity to create a very simple, easy to use, A/B testing tool that could be offered at an affordable rate. I wrote the tool in one month. I used so many hacks to write this version that you would not believe it. I did not even put in a proper design or logo. I bought a $5 website theme and used that for my app. I used the typical structure of a SaaS package from 37signals.com. I did not reinvent a lot of things.

**Sramana Mitra: What timeframe was all of this work occurring in?**

**Paras Chopra:** I started coding the second version in December of 2009.

**Sramana Mitra: You basically bootstrapped Wingify using your paycheck, correct?**

**Paras Chopra:** Yes. I spent about $20 for a domain name and really had no major expenses. I really just invested my time. My living costs were covered because I was living with my parents. I did not need to spend any money. I would not go to parties. I spent all of my time working.

**Sramana Mitra: How was the beta version of your new software received?**

**Paras Chopra:** The comments were very encouraging. I ran a private beta and then I sent out invitations to blogs. Their readers got exclusive access to the software which worked well for me. That created a lot of groundswell and interest. I got a lot of users asking for demos and I received a lot of user feedback. I was very active in soliciting feedback from the users. That helped me define the product which was useful since I did not have a marketing background.

By March of 2010 the growth was more than I could handle. I had over 1,000 users and I realized I had to quit my job. I decided to go ahead and do that so I could focus on Wingify full time. That meant I needed to get money coming in from Wingify. I knew that businesses were going to have to be my primary user base because they would be willing to pay for the product.

**Sramana Mitra: By the time you quit your job, you had a product that was validated and had a definite business need. You still lacked business model and pricing model validation.**

**Paras Chopra:** I had an early user whose email had microsoft.com in it. He had sent me an early email telling me that I had gold in my hands. This was the kind of feedback that made it easier to make the difficult decision to quit my job.

**Sramana Mitra: When did you quit your job?**

**Paras Chopra:** I left my job in March of 2010. I was earning about 50,000 rupees (~$1000) in salary from my job. I just wanted to get the same amount of money from this project. I told my parents that I would be able to get that much money out of this business so they should not worry.

I finally launched paid plans and signed up 10 customers my first day. By the end of the first month I had made $4,000. That was way above what I was expecting.

**Sramana Mitra: How much were you charging?**

**Paras Chopra:** I did not have any real economic rationale for my pricing. I just followed what I saw at 37Signals.com which was to keep pricing under $100. I guess I could have tried to go out and charge a couple of thousand dollars a year, but I went ahead and charged $39 a month.

**Sramana Mitra: It sounds like you had a very good conversion rate.**

**Paras Chopra:** The conversion rate was around 10%. I also got some hate mail from users who expected the product to be free forever. They told me I should be ashamed of myself for charging money and pointed out that Google's products were free. I had to defend myself and tell them that Google was a huge company, but I had to be able to support myself.

**Sramana Mitra: You are running a business, not a charity. Those are the types of users that you do not want to have as customers anyways. There is a big difference between paying customers and free riders.**

**Paras Chopra:** Free riders seem to have the loudest mouths, and it takes some thick skin to deal with them.

**Sramana Mitra: You should only listen to customer feedback. Free rider feedback is irrelevant. It's fine to have free users when you are building a product. Once the product evolves, you only need to worry about those willing to pay.**

**Paras Chopra:** I rationalized that if they were not willing to pay $39 or $49 per month, they were probably not really interested in the product to begin with.

**Sramana Mitra: You had a 10% conversion when you turned on the paywall. How did that evolve along with your customer acquisition strategy?**

**Paras Chopra:** I wrote a lot of content. I had maintained my blog for a long time and I just loved writing. In retrospect I think that was one of the most important things that helped Wingify gain traction. I started writing for places such as Smashing Magazine. I kept the focus on my writing on A/B testing, what should be changed on the site, and what the best practices were. I would discuss the difference between A/B testing and multivariate testing. I wrote about the industry in general. That really generated a lot of interest in Wingify.

**Sramana Mitra: How much did the revenue curve change between March of 2010 and January of 2011?**

**Paras Chopra:** Revenue was growing dramatically. It grew from $4,000 to $8,000 the first few months, and then kept doubling. I was quite happy with that. I was starting to get demo requests quite often, and I would give these one-hour demonstrations quite regularly. It got to the point that I could give a demo with my eyes closed because it was so predictable. By the time January of 2011 came around, Winfigy was generating over $30,000 a month.

**Sramana Mitra: When did Sparsh join you?**

**Paras Chopra:** It was around that time that he quit his job in London and came to work on this project full time. That is also when we hired our first employee and rented out our first office.

**Sramana Mitra: What is Sparsh's connection with the company? You founded it, so did he join as a co-founder or a partner?**

**Paras Chopra:** He joined as a partner. He is involved in everything to do with the company, including all of the financials. It just happened that he did not start the company with me. He came on board a year after I started it.

**Sramana Mitra: What are your primary customer acquisition methods?**

**Paras Chopra:** We are starting to do a mix of marketing and sales. For the longest time we focused solely on our content marketing. We have tried AdWords, Salesforce and even LinkedIn marketing programs. What has worked for us is content marketing.

**Sramana Mitra: This is the case with 1M/1M as well. I don't think we would have existed without the amount of content we have produced.**

**Paras Chopra:** It has to be good content. A lot of people think that churning out garbage content is the same thing. You obviously know it has to be quality content.

**Sramana Mitra: What was your revenue at the end of March 2013?**

**Paras Chopra:** We did around $3.5 million.

**Sramana Mitra: How much did you increase the team from 2011 to 2013?**

**Paras Chopra:** We more than doubled the size from 7 employees to 17. We added most of our positions in engineering, although we did bring on a sales guy, a marketing guy, and two support guys.

**Sramana Mitra: What has been significant for Wingify this past year?**

**Paras Chopra:** Our focus has changed. I have matured as a businessperson, and I have insight into what works and what does not work. The company has always been reactive. We have now determined that we can be proactive. One of my key realizations this year is that if India can make a cost play on IT services, there is no reason that it cannot make a similar play on product as well. My goal is to make Wingify the most respected software company to come out of India. Our forecast for this year is somewhere between $6 and $7 million.

**Sramana Mitra: Have you given some thought as to what your product roadmap will be?**

**Paras Chopra:** There is a lot we can do. The product is evolving beyond A/B testing and moving towards the original vision of Winfigy where it is a layer that sits on top of a website to provide intelligence. I would like to see Wingify sitting on top of every website where we can do testing, targeting, and whatever AI roles they would like performed on their website.

Apart from that, there are other areas where the market is expanding. There are apps that need testing and optimization. There remains a need to test and optimize the entire customer service experience. That includes taking data from different channels and integrating that data to find optimizations for it. There are a lot of things we can test and optimize today.

**Sramana Mitra: The advantage of India is that you can do things at a reasonable cost structure. You have a good culture built in the company, and you can bootstrap these products that will ultimately be adjacent to your core product, catering to your core customer base.**

**Paras Chopra:** I don't think a lot of people realize the advantages we have here in India. It may take Silicon Valley $100,000 to recruit a salesperson. We can recruit five equally bright salespeople for the same money here.

**Sramana Mitra: I have been talking about affordable SaaS since I did the Zoho story. They have built a lot of software products.**

**Paras Chopra:** That is an inspiration to what we believe we can achieve. One of the reasons I convinced myself not to raise venture capital is because I don't know how long it will take to travel this road. We have received many offers, but we have turned them all down to date. I think Wingify is going to have a long journey.

**Sramana Mitra: Thank you for sharing a very inspiring story. It has been a real pleasure talking with you. Good luck as you go forward!**

# Interview with Zephrin Lasker, CEO, Pontiflex

*Pontiflex had three founders. Zephrin himself had a small ad agency, and the other two cofounders each kept their day jobs as the three gathered around Zephrin's kitchen table. The threesome worked for a couple of years for equity only. None of them drew a paycheck from the company.*

**Sramana Mitra: Zephrin, let's start at the beginning of your story. What is your background? Where do you come from?**

**Zephrin Lasker:** I have always been somebody who has had problems with authority. I was born in a small town in north-central Chile. I came to the United States when I was 11 years old. My parents were expatriates. My father founded the first astronomical observatory in the Southern Hemisphere. We eventually moved back so that he could work on the Hubble space telescope.

My schooling began in Chile at a school my parents founded. It was the first international school in Chile, and instruction was bilingual. I was the first student in a class of five. It has grown to be a large institution with 1,000 students. That was the first time I was exposed to a startup environment. I saw growth to the point that the school became a self-sustaining entity.

I went to Reed College, which is a school on the West Coast in Oregon. I did not pursue any graduate studies. I graduated in 1994 and moved to the Czech Republic during what were the early days of the privatization of the socialist market there. My future wife lived there, and I did not know what to do after college. When I visited, I saw a wide-open opportunity, so I moved there to see what was happening. I worked for an Austrian investment bank for two years, after which I moved to New York to join a different investment bank.

**Sramana Mitra: What happened after investment banking?**

**Zephrin Lasker:** My father was a scientist, so I got a lot of the critical thinking that comes along with a scientific background. At the same time, I was always interested in business. I was interested in the financial and marketing mechanics of business. I found as I went out into the workplace that business itself was invigorating to me.

I had worked in corporate finance, M&A, and eventually on the sales and trading desk. I was laid off when our trading desk was shut down due to the financial crisis in Southeast Asia. I received a generous severance, which I used to start my first company, Beautility.com. That is when I started working for myself.

**Sramana Mitra: What was Beautility about?**

**Zephrin Lasker:** The company was trying to leverage the power of the Internet to create an early Amazon.com around small modern design. I noticed there was so much consolidation in retail that regardless of the mall you went to, you saw the same four or five stores. I wanted to use the Internet as a platform for smaller designers who did not have the distribution scale of the larger retailers such as Gap. We found about 100 different designers, but by the time we were raising venture capital it was March 2000 and things were blowing up. In the end, that company did not succeed. I learned a lot about entrepreneurship from that first experience.

**Sramana Mitra: What happened after your attempt to get Beautility up and running did not work?**

**Zephrin Lasker:** I spent time thinking about what to do. I had spent a lot of time thinking about the go-to-market strategies that we were going to use. Some of the people I had hired to work at Beautility ended up working at various ad agencies in the city. They hired me at two or three different advertising agencies. I spent the most time at I33, which was eventually purchased by Commerce One.

**Sramana Mitra: What role did you play there?**

**Zephrin Lasker:** I had a few different roles. I was a technical project manager, which was a great experience. I was managing large advertising campaigns and large corporate redesigns for companies like Sprint. They were very large enterprise projects. I found the intersection of marketing technology with web product sales. That eventually turned into a lot of what became early performance marketing.

We looked at a lot of different ways to acquire customers for Sprint. We looked at CPA, CPL basis, and things like that. That has formed the basis for a lot of what I have done. I quit that job in 2002. I felt I had learned enough and I really wanted to get back to working for myself. I saw a lot of the performance marketing work we were doing and felt it could become something bigger.

I then left and started the North Roads Group. It was a small advertising agency, and I ran that company for four years. That company has grown and become part of Pontiflex. We did some of the first cost-for-lead deals with the New York Times, Monster.com, CareerBuilder, Lycos, United, and other companies. I was representing my customers to publishers, and I would ask them to help me generate leads for customers like eFax. We would generate custom deals for each customer.

The deals took months, but there was high demand for them and they were very successful. I realized that we could not build a technology platform that took three months per cycle. Fortunately, I had developed a great network of friends in New York who worked in marketing and technology. I explained that cost-per-lead would become a great market and that nobody had built a DoubleClick for cost-per-lead, and I pitched the idea of building that platform in 2006.

Eventually we created a new entity which was called Pontiflex. There are three co-founders of this company: Roshan Bangera, who has a Java development background and had come from IBM; Geoff Grauer, who had a security background and came from Amazon.com; and me.

**Sramana Mitra: How did the three of you come together?**

**Zephrin Lasker:** We were friends first. We have known each other since 2001. We worked together at a few different agencies. When I started North Roads, they helped me on a consulting basis. That is a huge advantage because we know how we all work and we have trust in one another's work.

**Sramana Mitra: When you decided to come together and create this company, did you all agree to work for equity?**

**Zephrin Lasker:** It was all based on sweat equity. I had some operations that was enough revenue for one person but not enough to support all three founders. We would have company meetings Tuesday nights around my dining room table. Nobody drew a paycheck for the first two years. We all had other jobs. I was funding the legal fees, which were some of the biggest expenses.

We wanted to have a working prototype that could move data and show ads before we went to try to raise capital. I saw people get funded on paper in 2000, and it ended badly. I wanted to have something solid to raise money against.

**Sramana Mitra: What was the premise behind Pontiflex?**

**Zephrin Lasker:** The initial idea was almost like PayPal for user data. Most online ads will take you to an advertiser's site once you click on that advertisement. Those are redirected ads. DoubleClick has built a pipe for redirected ads. That is a well-understood, defined space with a solid infrastructure.

However, before us, there was no easy way to transfer data. They had tried with XML but did not get enough results. We saw an opportunity for an advertising ecosystem for user data. It is important to note that it needs to be 100% opt-in user data. There was no standard for one advertiser to talk to another publisher.

Before PayPal, there was no method to conduct micro-transactions online. I could not pay you $10 for a book without sharing banking details. Today we can just use PayPal, which is the intermediary between our bank transactions. We have essentially created a similar service for user data.

**Sramana Mitra: Where is the user data residing, and what is the model for using the data?**

**Zephrin Lasker:** If a user is going through a site and sees one of our ads and they opt in, meaning they type in some information into that ad, then that data must go from the publisher site to the advertiser. The reality is that the ads are loading on thousands of different publishers. All of that data needs to be collated and delivered in real time to allow for rapid follow-up by the advertiser.

Our system moves 100,000 pieces of unique user data per day, and we have moved over 35 million since we launched two years ago in 2009. That is rapidly increasing as we scale out into mobile. Our solution lets marketing folks worry about marketing and not technology. They don't need to have various tech teams make their own custom, integrated solutions.

**Sramana Mitra: Have you been able to carry out that model, or have you had to adjust your premise over time?**

**Zephrin Lasker:** Interestingly enough, we still do what our original premise was to do. That has become the data transfer engine, and it is the foundation upon which the business is built. We have since built additional layers on top of that original business. We have a commerce layer that matches advertisers and publishers. There is an optimization layer that optimizes advertisers and publishers relationships based on ongoing metrics. Fundamentally, our first vision was correct. It was not every piece, but it was the most significant.

**Sramana Mitra: When did you first have that original vision?**

**Zephrin Lasker:** I started sketching it out on paper in 2004.

**Sramana Mitra: Mobile advertising had not started very aggressively then.**

**Zephrin Lasker:** It really picked up in 2010. It is growing so quickly that it is almost half of our business now. In our original business plan we did identify two expansion areas, which were mobile and interactive TV.

**Sramana Mitra: Who was your first customer and how did you go about recruiting them?**

**Zephrin Lasker:** Our first customer on the advertiser side was eFax. They were a legacy customer from my previous company, and they definitely helped us a lot. They were a steady customer for several years and we still work with them. We would get paid every time we generated a new eFax for a user. Our first publisher was Demand Media. At the time they were a relatively small company. They are a large publisher today, and we had no idea how big they would become when we first saw them.

**Sramana Mitra: How does your business work? Do you have to recruit advertisers and publishers?**

**Zephrin Lasker:** We work with advertisers and ad agencies. We have a direct sales team and a marketing department that produces white papers. We also actively develop our publisher side. We have thousands of publishers and will soon have thousands of mobile publishers as well.

**Sramana Mitra: When you work with a publisher, are they required to install anything to use your technology?**

**Zephrin Lasker:** It depends on what type of publisher it is. If it is a mobile publisher, then they need to use our SDK in their mobile app development. If it is a Web publisher, then we can just have them include some Javascript on their page, which is very similar to serving Google ads. The difference with our ads is that they are sign-up ads, and there are no click-throughs to landing pages. The nice thing is that you never leave the publisher or the application.

When Steve Jobs said that mobile ads sucked, he was referring to the disruptive nature of mobile ads. One of our key plays when we started the company was a strategy to do advertising that was not disruptive. We now live in an increasingly interrupted media environment. We don't need any more disruptions on top of that. We want to provide advertising media that allow users to pull what they want rather than having things pushed on them. I think that is very important, and I also find it to be very interesting work. That is the whole point of not having a click-through. You simply ask the advertiser to send you the information you find interesting later, perhaps to your Facebook account, when you will have time to deal with it on your terms.

**Sramana Mitra: How would your solution interface with an advertising network?**

**Zephrin Lasker:** We don't work for ad networks and are essentially building our own marketplace that contains publishers. There are a few networks of publishers, but we service them more like an exchange or marketplace. We work directly with all parties, so we don't need the ad network.

**Sramana Mitra: Tell me more about your pricing model and how you fit into the ecosystem of online advertising.**

**Zephrin Lasker:** Pricing has not evolved to a true auction model, but it is set by demand. A typical consumer lead has four fields; first name, last name, ZIP code and e-mail. Right now the price range for that will vary between 88 cents and $1.25 depending on who the advertiser is. A big brand may pay a bit less than a weak brand because they will get a higher response rate, which means the publisher will make more money.

**Sramana Mitra: Who is your competitor in this space?**

**Zephrin Lasker:** That is a very interesting question. When we looked at the lead generation market at that point, we did not like what we saw. We saw a lot of companies that would require data and then would own the data, reselling it a number of times. That does not work for a few reasons. A user who opts in for one offer does not want to be hit with a number of different offers. The intent there is very low as well.

There are some cases where it works. LendingTree is a place where you expect four offers for your loan. For a consumer, a mortgage loan is a commodity because you don't care if it comes from Chase or Citibank; you just want the best deal for yourself. The other space where it works is the education space. We don't work in either the education space or the mortgage space.

We work in brand advertising, and over 91% of our dollars comes from large brands. The key point for them is that we don't own their data. We collect it and deliver it on their behalf. That is where our offer is unique. That makes their advertising 'brand safe' and aligns with my goal to make our company the next major advertising company after Google.

**Sramana Mitra: What is the real value of opt-in advertising?**

**Zephrin Lasker:** If you look at the big list vendors like InfoUSA, you will see a huge industry in which consumers they target have never opted in for anything. They get your data from a post office or a warranty card. Companies sell data to them and to each other. Privacy concerns are changing. With our service, consumers opt in. They indicate that they want to hear from Progressive about car insurance. That is all it is really about. Google is a beautiful intent engine that captures people who are about ready to buy.

**Sramana Mitra: Essentially, you are trying to capture intent in display ads.**

**Zephrin Lasker:** Yes, we are capturing intent inside ads.

**Sramana Mitra: In terms of competition, is there anyone else doing what you are doing?**

**Zephrin Lasker:** Not really. We have seen some startups that are trying to catch us. There are some small companies that people are trying to start. We do not have a large, venture-funded direct competitor. The closest comparable company is QuinStreet, which had its IPO last year. That company works only with the education and mortgage industries. We never bump into them in the market.

**Sramana Mitra: You entered the market in 2004. How long did it take you to get a product out so that you could start working with customers?**

**Zephrin Lasker:** There was an incremental build-up. The first large releases were in 2006 and 2007.

**Sramana Mitra: What has been the revenue ramp between 2006 and now?**

**Zephrin Lasker:** We went from $20,000 a month to close to $2 million a month today. In 2008, we released the full product. We spent 2007 raising institutional venture capital, which was a decision we thought about for a long time. We realized that to get the customers we wanted to go after, we were going to need some sort of sales team and a marketing team.

At that point, we decided to raise capital. We raised $2.5 million at the beginning of 2008. We came to investors as a 'just add water' deal. We knew the offices we were going to rent and whom we were going to hire. A week later we had a full team up and running. The product was polished and ready because it had evolved. I also had legacy deals from my previous work that I was able to seed with.

The market has really been the best teacher. The mobile piece is a classic example. It is easy to think you have a complete vision for what is going to work, but the market is the real truth teller. In some ways, the mobile market was not mature enough until the middle of last year for us to work. Some of it is timing. I love startups because I can fundamentally shift resources and strategies in a two-hour meeting. That is what we decided to do with mobile last year, and that is when business is really fun.

**Sramana Mitra: Where are you finding the best traction in mobile advertising?**

**Zephrin Lasker:** Our product is called AppLeads. It is one of the only pure in-application advertising solutions available. When you interact with the advertisement, you never have to leave the application. Most other mobile applications will launch a mobile browser and take the user away from the mobile application.

With our application, a user just fills out their registration information one time. After that, when they receive an advertisement via our mobile platform, they will just tap to opt into the advertisement and they immediately are back in the app. They can then deal with the advertising information later. Game applications were big in the early days, but today we are finding more and more traction from utility apps. Those are apps that range from finding a name for your baby to turning off your 3G connection to save your battery life.

The mobile space reminds me of 1999 on the Web. It is fast, dynamic, and a really fun place to be. In many ways, the Web has become less dynamic today. It is interesting to see the cycle and the dynamics that are emerging.

**Sramana Mitra: If you were to itemize your top publishers in the mobile space, who would they be?**

**Zephrin Lasker:** We are in confidential discussions with 10 of the largest application providers. We do work with PowerSaver, FreeAntiVirus, and a few other companies. In terms of games, we are in Medieval Lite. We also have a number of different ringtone-maker applications. We are in over 1,000 applications today. There is so much shift in that space that it is hard to pinpoint one publisher as the most dominant.

**Sramana Mitra: If I were going to put an application on your site to monetize a game application, and I have 200,000 users who have installed that game, how would the money flow?**

**Zephrin Lasker:** We have a lot of application developers come to us. We look not only at the volume that the application developer has, but also at the opt-in rate they can provide on our ads. Games may have a very low opt-in rate because people are very into the game and don't want to be bothered. With medium-sized apps our goal is to get them to a thousand dollars a day in relatively short order. Our top 30 application developers all make $10,000 or more a month. That is mind-boggling to most of them because they are used to getting very small checks.

We just did a study with Tesh Interactive that found that half of mobile application advertising clicks are accidental. Users are actually trying to do something with their application and inadvertently hit the advertisement. That is why Google has taken steps to create a two-step click process to remove those accidental clicks. We have been revolutionary for the market because we are opt-in only. That is so much more valuable than just a click. That is why we can get rates up to $100 for a click.

**Sramana Mitra: How does it work for non-mobile publishers?**

**Zephrin Lasker:** Non-mobile publishers have lower CPMs. They can be anywhere from $10 to $40.

**Sramana Mitra: Are you pitching to people who are using advertising networks to move to your network?**

**Zephrin Lasker:** Yes, absolutely. What is nice about it is that they do not have to give up their advertising network because the inventory that we created is green space that nobody was monetizing before. They can still run their normal advertising networks and just use us to create an entirely new strategy.

I hate going into an existing market and competing for existing demand. It is a pain. You are always fighting with somebody, and there is no room to innovate when you are competing on price. We just want to create an entirely new category that we can own, develop, and innovate. The gross margins of the business were 20% when we started and are up to 60% now.

**Sramana Mitra: How much funding have you raised so far?**

**Zephrin Lasker:** We have raised under $9 million, and we have generated three times more revenue than capital raised. We are profitable month to month, but we will be investing a lot in the business this year. We may take on a bit more venture capital because there is so much liquidity in the market right now. Every large investor is trying to give us money.

I think the less venture capital we take, the better off we will be. We have been fortunate to have a flexible board that is willing to let us own and run the business. I feel that investors who want to be in our office every day would not help us out that much. With so much venture capital flying around out there, it has become a badge of success to raise a lot of venture capital. I don't think that is an accurate measure of success.

**Sramana Mitra: That problem started in the mid-1990s with the dot-com bubble. Everyone walked around proud of how much they had raised, but they had no revenue.**

**Zephrin Lasker:** All those things that came out of the crash show the problems. VCs were killing companies then. You still have to build the business even if you get venture capital funding. All they do is open the door; you still have to walk through it.

**Sramana Mitra: There is a trend that I am noticing in the mobile gaming space where publishers that have one very successful title use in-game advertising to sell additional game titles they have created. That is a model that is really booming. Do you see that trend as well?**

**Zephrin Lasker:** We do see that trend. In some ways, I think we can tie it into being in a bubble. The in-game space is so hot right now that if you can show you have a lot of players, you can get a lot of money. I am more skeptical about the value that is actually delivered to advertisers. I don't know if that model is sustainable.

If a publisher spends a large amount of funding to acquire new players and is not able to acquire as much money through advertising as they spend on advertising money to gain those new players, then the loop will close. Everybody is just assuming that the model will work, but I am not convinced because incentivized models are being used to gain those customers, which I believe lowers intent. The customer's intent may not be to sign up for a newsletter; it may be to sign up for an iPod. That confuses everything.

**Sramana Mitra: What is your advice to app developers and game developers on devising a sound customer acquisition strategy?**

**Zephrin Lasker:** When a user signs up and registers for these apps, some of them will opt in to one or more of our ads, and many of them won't. That user registration data is collected by us for the application developer. We are essentially creating a free database for the application developer where they can go out and see which users did not opt in to the advertisement. That is useful because when that developer launches a new application, they can send out a notification to that entire database list to tell them about the new application.

**Sramana Mitra: I have noticed that smaller game developers are monetizing their own applications by using other game advertisements. I am also curious to see if that model will work.**

**Zephrin Lasker:** That happens a lot, and it is all fueled by spending of some sort. I wonder what would happen if you turned off all of the venture money in the gaming world, how the spending rate on those ads would change. I don't know how much true organic revenue is there.

**Sramana Mitra: Are you getting involved in educational applications?**

**Zephrin Lasker:** We are just starting to. We will be rolling out into new sectors this year.

**Sramana Mitra: All the best!**

# Interview with Miguel Valdés-Faura, CEO, BonitaSoft

*Open Source projects are especially good to get going while working a corporate job. Miguel has had a particularly successful experience of following this path. The theme also recurs in the DataStax story.*

**Sramana Mitra: Miguel, let's start with your story. Where are you from? Where were you raised? What is the story of BonitaSoft?**

**Miguel Valdés-Faura:** I am from Barcelona, Spain. Most of the story behind the company and the Open Source software that we push at BonitaSoft was initially built in France. Everything started in 2001 when I was moving from Barcelona to northern France. I was just finishing my degree in computer science, and I was working in a research center in Europe that is pretty well respected. I was working with people who were very specialized in building collaboration solutions.

As we worked through our various research efforts, we talked about collaboration, which inevitably leads to discussions about workflow and process. That was the origin of our technology as well as the company. In 2001 I joined the research lab, and a few years later it became an Open Source project called Bonita as a workflow and business process management solution. Between 2001 and 2003, I pushed hard on our management to promote the technology.

**Sramana Mitra: Did you come up with the technology while working for the lab?**

**Miguel Valdés-Faura:** Yes. My job there was to build this new BPM technology to be more collaborative. I was pushing hard for Open Source capabilities. I told them if they wanted to get huge visibility for all the work their PhDs had been doing for the past year, then Open Source was the way to go. My day-to-day job was to get the Open Source community to start contributing to this project. I was the driver behind the first version of this technology called Bonita. I was also the guy that was coding this version of the software.

**Sramana Mitra: Did the lab give you resources to take this technology further?**

**Miguel Valdés-Faura:** Everyone thought the Open Source concept was a good idea. We were seeing the beginning of the Open Source enterprise software movement in 2001. That was just after the big success of Linux. Other people were working on application servers for business intelligence, databases, content management (including companies and projects such as Red Hat and MySQL). They were all building enterprise software in the Open Source community. It seemed like a good idea at that time to push business process management software into the Open Source space because there was not really anyone else doing it there.

**Sramana Mitra: At that time was Bonita owned by the research lab?**

**Miguel Valdés-Faura:** Yes. Bonita was software that was owned by the lab, but it was using an Open Source licensing model. We would allow it to be embedded in commercial solutions as well.

**Sramana Mitra: What happened next?**

**Miguel Valdés-Faura:** After two years, I thought it was the right time to transfer the technology to industry. When you are working in a research facility, sometimes you can get a bit far away from industry requirements. We had different companies interested in implementing Bonita into real projects.

One of those companies was a French integrator, Bull, that was a hardware manufacturer and services company. They had specialized in implementing Open Source solutions at customers. I decided to move to Bull, and the lab was very happy because transferring technology to industry was part of their mission. I stayed at Bull from 2003 to 2009 until I founded BonitaSoft.

During my time at Bull, I learned everything about this market. Initially I was the head of the Open Source BPM department and later I was head of the BPM division. I ultimately took responsibility of the entire BPM business. During this time I kept a close eye on what other people were doing in the BPM space. I watched Oracle, IBM, and Tibco, along with others. I am thankful to Bull because they taught me how to do everything that I have put into practice today.

**Sramana Mitra: You essentially worked in the lab to build Bonita and then followed the software to a position in Bull. After that you ended up founding a new company, BonitaSoft, based on the original work you started at the research lab and had continued through your time at Bull.**

**Miguel Valdés-Faura:** Exactly. I moved from the lab to Bull, and that was easy because it was an Open Source technology. At that time, some of the IP was owned by Bull, and some was owned by the research lab, but the core pieces were Open Source.

**Sramana Mitra: When you went to Bull, you basically just kept building on top of the Open Source technology that was already out there.**

**Miguel Valdés-Faura:** Exactly. The research lab was very happy with that because I was the project leader, and they wanted a project leader to be working for industry versus the lab because the commercial marketplace would rather adopt a technology that had a commercial project lead.

**Sramana Mitra: What was the size of the Open Source community around the Bonita project?**

**Miguel Valdés-Faura:** When I left Bull in 2009 to start BonitaSoft, the Bonita community had around 300 active contributors. That included developers, individuals contributing to the community of forums, and people translating the product to other languages. The project had been downloaded approximately 100,000 times by that point. During my time with Bull, we had done approximately 40 major implementations.

**Sramana Mitra: How did you make the transition from Bull to BonitaSoft?**

**Miguel Valdés-Faura:** My role at Bull was not only to deploy Bonita. As the director of the BPM division I was there to help Bull services worldwide. At times we implemented solutions that were competitors of Bonita. We have had projects in South America and in the U.S. with Oracle and other systems. I helped with those implementations. We pushed Bonita, but the customer ultimately wanted a different solution. It was important that I was, first and foremost, an expert in the BMP space regardless of the technology used.

**Sramana Mitra: What happened in 2009?**

**Miguel Valdés-Faura:** To be honest, I was thinking about creating a company out of Bonita from the very beginning. I saw a good opportunity. I am from the generation that saw MySQL and other Open Source projects turn into companies. In 2009, I decided that the community was there, and the right team was in place. The other co-founders of BonitaSoft were working with me at Bull. We had the technology, we had the team, and we had knowledge of our competitors.

In early 2008, I met the CEO of Talend. They are a major provider of data transformation technologies and they have 600 employees. They are second to Red

Hat in terms of Open Source vendors. He was a big believer in BonitaSoft and he helped us raise money to create BonitaSoft.

**Sramana Mitra: Can you talk about the structure of creating BonitaSoft? It was Open Source technology that various people had contributed to. What was the premise of what you were going to do on top of that technology to justify a new company?**

**Miguel Valdés-Faura:** The timing was right to leave Bull. They were not a software company. We did not have to pay anything to Bull, and they are not part of BonitaSoft aside from being one of our partners. What we pitched in terms of building the company was to take the technology forward. In 2009, our technology was primarily oriented towards developers. It was mostly about a framework to build BPM applications at a low level. There were no GUIs. Our pitch was to provide an Open Source solution that was complete with a GUI, not just a framework. We wanted to bring BPM to the masses.

**Sramana Mitra: Was the technology you were selling marketed as Open Source or as regular software built on an Open Source framework?**

**Miguel Valdés-Faura:** We sell subscriptions. In our market most of our competitors are selling perpetual licenses. Those subscriptions include maintenance on the software as well as additional features that are not Open Source. At the end of the day, when you purchase the subscription you get access to additional capabilities that are not part of the Open Source bundle. You also get support and maintenance included in the annual subscription.

We built new capabilities for the Open Source edition. We also spent time building exclusive capabilities. We look at what Forrester and Gartner say are the required modules of a BPM solution to be considered complete. Gartner defines 10 major modules, and in 2009 Bonita only met requirements for the engine and the framework. At BonitaSoft, we decided that everything that could make it a true BPM solution in the eyes of the analysts was a no-brainer, and we developed those and made it part of the core Open Source. What we add on top of those 10 major components are what you can get access to via the subscription.

**Sramana Mitra: As you were coming out of Bull and setting BonitaSoft up as a separate company, how did you handle branding? Was BonitaSoft the original brand, or was the brand originally Bonita?**

**Miguel Valdés-Faura:** Bonita was the name of the project. Nobody had the Bonita trademark in the first eight years, so this brand is owned by BonitaSoft. The guys behind the Bonita project are now behind the company as well. That can be tricky in the Open Source community, but I think that we have messaged properly. We have positioned ourselves as adding value on top of the project with the same personnel.

**Sramana Mitra: How is the company financed?**

**Miguel Valdés-Faura:** We have had venture capital from the very beginning. Bootstrapping was not a good option for us. BPM is a mature market, and we were just bringing innovation to this market. We built a global business. In the past four years we have raised $30 million with French venture capital firms. Our first round in 2009 was for $6 million. Since then we have raised additional funds.

**Sramana Mitra: When you went out to raise $6 million from French venture capitalist, you had experience with the team. What about customers? Did you have a set of customers ready to buy your solution?**

**Miguel Valdés-Faura:** That is one of the difficult aspects of having an Open Source company. We had deployed 40 major implementations during out time at Bull. We could hope that some of them would become BonitaSoft customers. However, we built our pitch on the promise of the technology and our knowledge of the market. We referenced those 40 customers as validation, but not paying customers. We positioned ourselves as capable of changing the market globally. We were able to get good traction with investors based on the community that we were able to show and we had a solid business plan with a clear monetization path.

**Sramana Mitra: How has your business plan played out in the real marketplace?**

**Miguel Valdés-Faura:** Our first year was focused on building out key features. We added a marketing team. They did a lot of social and viral marketing. We got a lot of people coming to our site to download the software. We were able to start engaging with a lot of people because they were downloading our software.

**Sramana Mitra: You said you were starting with a community of 100,000 people and did further viral marketing. Did you have a sense as to what part of that community was going to monetize?**

**Miguel Valdés-Faura:** We made it very clear up front that the individuals who were going to manage the community would be different than the group of people that were monetizing for BonitaSoft. We created a community management team dedicated to support the Open Source community. That remains their role today.

We know what kind of people will monetize. We see a lot of freelancers, system integrators, and people who work in large organizations. We saw all of those people in the community. The software was available for free without contact info required. When you needed resources for the software, you could subscribe to that information from the corporate site. The sales funnel starts when someone fills out a form requesting more details.

**Sramana Mitra: What is the profile of the customers who were willing to purchase subscriptions?**

**Miguel Valdés-Faura:** We wanted to focus on technical people in medium and large organizations. We believe that those are the people who will influence a purchase. We have kept that target today because that is the market that will purchase subscriptions. We have 600 paying customers from over 60 countries, and of that group, 75% are medium or large organizations.

**Sramana Mitra: How much are the subscriptions?**

**Miguel Valdés-Faura:** The subscriptions are sold for 1 year at a time. Our pricing is based on the numbers of CPUs on a server. Typically when companies deploy new projects they do not deploy them on the same servers so they come back and purchase additional subscriptions.

**Sramana Mitra: What is an average deal size?**

**Miguel Valdés-Faura:** The very first project was between 10,000 and 30,000 dollars per year. That was a small amount, but they have done other projects since then. In one year you can sign a customer and upsell them three more times. In 12 months we can get three contracts and some of those later contracts will be 100,000 dollars annually or more.

This is one of the things that excite our investors. We have a lot of people using our software who can potentially become customers. Then, once they become customers chances are they will grow over time.

**Sramana Mitra: What type of sales infrastructure do you need for a global sales process?**

**Miguel Valdés-Faura:** That is one of the most difficult aspects of scaling an Open Source company. We have sales people dedicated to geographies. We started in Europe, then we moved to the US and South America. We also have prioritized two or three more geographies, and we have dedicated teams for those geographies.

China is a new geography for us. When we go to a new geography, the first question we ask is if we have enough Open Source adoptions to look at that region. Then we look to see if the number of leads is sustainable. We hire a young sales guy, usually an inside sales guy. Most of our sales are done remotely so we typically do not meet our customers. We have a very defined process when it comes to opening a new geography.

We use GoToMeeting or WebEx to do demos of the software. We start with young guys, and then, as we scale, we start to add more senior people. We have found that if you try to hire experienced people from Oracle or other places, they are not going to be successful. They don't know how to sell small and grow. They target large deals up front and that is hard to do without a lot of reference accounts in similar industries. Regions need to be established before we can go after accounts like that. Our approach is to hire people and let them grow with us.

**Sramana Mitra: What is the profile of a good inside sales rep for selling your product?**

**Miguel Valdés-Faura:** We have found good luck with recent MBA graduates and we have some good relationships with some MBA schools. Typically we are hiring people into their first or second job. These are typically young, smart people who have a real desire to start their careers.

**Sramana Mitra: Where is your inside sales operation?**

**Miguel Valdés-Faura:** With the exception of the U.S., where we have our inside sales people based in San Francisco, we base our operations in France. From there they are selling into 59 other countries. We are not only hiring MBA graduates, but we also hire people who have the right local culture. The guy selling to Germany is from Germany. The guy calling Costa Rica is from Costa Rica. MBA schools are good options for us because they bring students in from all over the world.

**Sramana Mitra: What MBA school gives you that diversity of nationality?**

**Miguel Valdés-Faura:** I would rather not divulge that because that is a big part of our secret recipe. Most of our guys are based in France, so we hire from business schools in France as well as other countries. We also hire from non-MBA programs. We just have some nice contacts with MBA schools in France.

**Sramana Mitra: What is the extent of your U.S. operations? To date, all of your VC money has come from French venture capitalists.**

**Miguel Valdés-Faura:** We have taken funds from four different French VC firms. In our last round we did have some discussions with some of the U.S. VC firms, but for us, the timing was still better to use French VCs.

**Sramana Mitra: Why are you living in San Francisco? What is the U.S. strategy and how are you steering that?**

**Miguel Valdés-Faura:** When I pitched BonitaSoft in 2009, part of my pitch was the need to come to the U.S. as soon as possible. It is difficult to build a global company from France. First adoption can happen from anywhere, but at some point you need to establish a presence in the U.S. to have the right technical partners. In terms of the commitment, I felt that it was best for me to move to the U.S. I want to be attributed to being a U.S. software company. That has had a good impact in Europe. It has increased our credibility in Europe and in Latin America.

The U.S. market is a huge market. We felt that we could start selling remotely to the U.S. from France but that we would have better luck with a solid establishment here. We feel that our biggest growth will be from the U.S. We now have a dedicated sales and marketing team here in the U.S. and it is already our second-largest country in terms of sales. We expect a lot more here as well.

**Sramana Mitra: How many people do you have in San Francisco versus France?**

**Miguel Valdés-Faura:** In France we have our headquarters and engineering based in one location, and our sales and marketing based in Paris. We have 70 people in our headquarters and 30 people in Paris. We have 25 people in the US, most of them in San Francisco. We also have some consultants that are based around the country. In total there are 125 people.

**Sramana Mitra: When did you start generating revenues?**

**Miguel Valdés-Faura:** We started in 2010. Our sales machine ramped up in 2010 and 2011 was our first full year of sales. We basically spent the first 10 months of 2010 preparing the funnel. We connected our website with analytic tools and we put all the processes in place.

**Sramana Mitra: How has your sales and growth progressed?**

**Miguel Valdés-Faura:** The target has been ambitious from the beginning and we are delivering on that. We are growing at a rate of over 100% worldwide. Some geographies are growing over 200%. In 2011 and 2012 we had over 100% growth and we fully expect the same in 2013.

**Sramana Mitra: What is your impression of the startup environment in France right now?**

**Miguel Valdés-Faura:** It is better than you would expect it to be if you read the news. In the US people are saying that everything is terrible in France. In France I have personally met the Minister of Innovation who takes time to meet with entrepreneurs. I can tell you that for me France is still one of the top two countries in Europe for innovation along with Germany and the UK. No doubt about that.

The Government is still helping a lot. They are helping people create companies and innovate. There has been some news in the past 6 to 8 months that the Government has made decisions that could impact innovation in France. I am happy because I am seeing signs from the Government that they are changing their positions. They are spending time with investors and entrepreneurs. It is not as good for companies as it was four years ago because of the difficulty with the economy, but I am seeing positive signs. There are some good moves being made to allow investors from around the world to invest in French startups.

**Sramana Mitra: How many French technology companies are getting some level of traction?**

**Miguel Valdés-Faura:** I am seeing a lot of them, such as Neolane. The investor in Neolane is also an investor in BonitaSoft. I am seeing different people and the good thing is I am seeing a lot of young people building companies around big data. I am seeing a lot of know how in France. Some of them are coming to the US to create companies here.

**Sramana Mitra: That has been the case for a long time. There is a very significant French entrepreneurial tradition here in the Valley. I know many of them quite well. I think that phenomenon has been very prevalent in the Valley.**

**Miguel Valdés-Faura:** That is true. We cannot compare the French economy with the US economy. It is difficult to become the worldwide leader in the software industry if you are outside of the US. If you look at the case of BonitaSoft, it may be hard to believe that there is a software company that got 30 million dollars from French investors. Even if I am not French by birth, I have spent most of my life outside of Spain. I work with investors and the Government to make this investment pattern a habit. I am happy that the Government is working with people like me. It is one of the top three countries in Europe to curate innovation.

**Sramana Mitra: Thank you for your time and willingness to share your story. Best of luck as you press forward.**

# Bootstrapping Couples

# Interview with Sangeeta Banerjee, CEO, ApartmentADDA

*Sangeeta Banerjee and her husband are the cofounders of ApartmentADDA. Sangeeta kept her job at SAP, while her husband went full-time with the venture. Eventually, both were able to go full-time, as the startup gained its stride. In a market like India where seed capital doesn't flow as abundantly, many entrepreneurial ventures have seen the light of day because they have been started in a bootstrapping using a paycheck mode.*

**Sramana Mitra: Sangeeta, let's start at the beginning of your story. Where are you from, and what were the circumstances of your childhood?**

**San Banerjee:** I am from Kolkata. I grew up in a very conservative environment. Where I was from, girls were not supposed to ride a bicycle. I went to school on the other end of the city, and I commuted to school by myself. I would ride a bicycle to a ferry, then once on the other side of the river I would take a bus to school. Many people felt that my parents were careless with their daughter's safety, but my parents really wanted me to be self-sufficient. They wanted me to know how to take care of myself. My belief that I can do anything I want to stems from my parents. I used to face a lot of ridicule for riding a bicycle. They would tell me to stay off the road and tell me to keep my cycle on the playground.

**Sramana Mitra: What did your parents do?**

**San Banerjee:** My father was a government employee who worked his way through the ranks to become a senior official. He became a Registrar of Companies. My mother was a homemaker.

**Sramana Mitra: It sounds like you are the first entrepreneur in your family. Did your family have any entrepreneurial background?**

**San Banerjee:** Not at all. I was the first woman who got an engineering degree in my entire family. My grandfather had a writing school, but that is the closest thing I had to an entrepreneur in my family.

**Sramana Mitra: What did you do after your higher secondary education?**

**San Banerjee:** Since my father had a government job, we moved around a lot. I lived in West Bengal, Delhi and Chennai. In every location I lived in an apartment. I did not live in an individual house my entire life. I have been a part of a community since my childhood. I did my college in Chennai, where my father was posted at that time. I went to the College of Engineering, Guindy. It is a top 10 engineering school in India. I earned a degree in electrical engineering.

**Sramana Mitra: What did you do after you graduated?**

**San Banerjee:** I went to work for Tata, where I focused on mainframes. I did a lot of work with Cobol and JCL. I was there for a couple of years and had a couple of promotions.

**Sramana Mitra: What timeframe was this?**

**San Banerjee:** I started college in 1995. I graduated in 1999 and I worked for Tata Consultancy Services from 1999 to 2003.

**Sramana Mitra: You left TCS in 2003. What was the reason for that move?**

**San Banerjee:** I got married in 2003 to Venkat Kandaswamy, and I also wanted to pursue my MBA. I had taken my GMAT earlier, so I applied to Louisiana State

University and was accepted there. My husband, who is my business partner now, was doing his MS there. I chose LSU for my MBA since he was already in school there.

Upon graduation I was recruited to work for Capgemini in the U.S. I did a lot of work there with SAP and ERP systems. In that job I essentially lived out of a suitcase. I would fly out on a Monday morning and return on a Friday evening or Saturday. I lived that way for one year before I realized that was not the way I wanted to spend my life.

We made that decision in 2006 which was around the time that India started to emerge with a great story for the world. Venkat and I both wanted to return to India. After we returned, the main difference we started noticing was that compared to the US, our people used very little tools/automation. I remember standing in the train station and watching the reservation list being put up on each coach of a train. The railway employee would dip his bare hand in a can of glue and then spread the glue on the wall of the coach, then stick the list to it. This he did for each coach. For the life of me I could not understand why he did not use a brush. Was he too lazy, or was it too hard to find the right tools for the job? I noticed this attitude in every walk of life.

We both settled down into our new lives. I started working with SAP in India doing ERP consulting. I still had quite a bit of travel. In 2008, we decided to stop renting and purchased our own flat in Bangalore. We moved in as the sixth family. There were a small group of us owners who had a lot of problems in the apartment complex. We had problems with things like plumbing, electricity and water supply. Some of the construction remained incomplete, and none of this was transparent from the builder. Different owners would receive different answers when they asked the builder a question. He did everything he could to keep the owners from coming together to talk to him.

By this time Venkat and I were used to global standards. We had plenty of exposure to life outside of India, so we decided to start to think about ways that we could fix this dilemma. We noticed that some of our neighbors started a Yahoo group to help owners communicate, but they quickly found out that as a solution it was inefficient. They wanted to know which owners belonged to which flat. When they were dealing with people through the Yahoo group, they did not know if they were talking to the owner or a tenant.

We really felt there should be a way for homeowners to discuss these issues in privacy. We found that we were spending every single weekend we had in various discussions with homeowners. We talked them through things like forming a homeowners association, how to collect money, and how to assess legal fees. There was no knowledge base for any of these topics online. None at all. Google came up with zilch.

**Sramana Mitra: When you realized there was very little information available on the Internet to assist you with establishing an owners association, what did you do?**

**San Banerjee:** We recognized that there was a huge vacuum. Apartment complexes were growing very fast in India and owners were looking for information. They were also looking for assistance with the processes for managing their complexes. Once an association was formed it was responsible for running the apartment complex. Associations had to pay for security, grounds maintenance, and everything else. There was nowhere for owners to turn to, to get assistance with those functions. This was frustrating, especially for first time homeowners.

Venkat and I looked for any software solutions out there for managing and association and we could not find any. Venkat had a high performance computing background and I had an ERP background. We realized that an online mini-ERP solution would be sufficient to help these various associations manage their complexes. We knew that if we built a solution it had to be low budget. Associations are non-profit organizations and they do not have a lot of money to spend.

In 2008, Venkat took a sabbatical and started working on the technical solution. We launched our solution in three months. We offered a prototype that had 5% of the functionality that we offer today. We went to the market with that. We showed it to our apartment complex as well as a few other apartment complexes around. People were very supportive. We then went out and contracted a graphics design firm to develop the UI. The owner of the graphic design firm loved it so much that he did a demo of our solution for his apartment complex. His complex was a bit of a high end complex and they went ahead and purchased a subscription for the product. Within two months of launching the site we had our first paying customer.

**Sramana Mitra: How much does a subscription cost?**

**San Banerjee:** Our fees were 100 rupees per flat, per year. Our first complex had 300 flats.

**Sramana Mitra: Who was the customer? The association or the individual homeowners?**

**San Banerjee:** The association was the customer. They represented the apartment complex. In India the Managing Committee is equivalent to a Homeowners Association in the US. The management committee is a group of owners elected by the other owners. There were typically 6 to 12 members on a Managing Committee and they are the ones responsible for selecting vendors.

**Sramana Mitra: So your sales cycle was primarily focused on the Managing Committees?**

**San Banerjee:** Exactly. They made all of the decisions for the properties as a whole. They were the ones who contracted for grounds maintenance or purchased contracts for security guards. It was a natural fit for us to sell our software to them as well.

**Sramana Mitra: You had established your company and sold to your first customer by the beginning of 2009. Venkat was on sabbatical from his job. Did you keep working full time?**

**San Banerjee:** I worked at SAP when we moved to India and stayed there through almost all of 2009. It was interesting for a while because we had our baby in 2008. At that point I basically became the project manager. I gathered the requirements and researched the market need. [My husband] focused on engineering and developing the product. I had to keep my job with SAP because it was the only income we had.

My mother-in-law was also living with us. She was the main reason why we came back to India. We originally planned to make a lot of money in dollars before returning to India. My mother-in-law, who was a widow, wanted to join us in the U.S. However, her visa application was rejected twice because she did not have a husband or any other source of income. That was a harsh reality for us. We had to stand and beg outside of the consulate of a foreign country to have our own parent join us. That was a big reason why we decided to return to India in 2006.

My mother-in-law is very efficient and is a person who loves owning the kitchen. Right from day one she took over that area. That arrangement enabled me to keep working and supporting our living expenses while we started our company.

**Sramana Mitra: The *Entrepreneur Journeys* series has fabulous role models of female entrepreneurs. When I talked to those entrepreneurs, I asked them how they handled issues such as raising children. In most cases they were stories**

**where in-laws played a very big role. You are reinforcing everything else I have heard.**

**San Banerjee:** I would not have been an entrepreneur without her.

**Sramana Mitra: Your mother-in-law is a venture capitalist, and the other venture capitalist was your paycheck.**

**San Banerjee:** Absolutely.

**Sramana Mitra: In the 1M/1M program we have a formalized methodology of entrepreneurship that we call bootstrapping with a paycheck. We encourage entrepreneurs to hold on to their jobs and do the entrepreneurial tasks in a creative way until they have a steady revenue stream. There really is no substantial seed capital money in India. Investors want validated businesses which take time to build. That's true in the U.S. as well to an extent, depending on which geography you are in.**

**San Banerjee:** There is another thing that worked out well for me. Our customers were managing committee members who also had their own jobs on Monday through Friday. Most of our customer demos happened during the evening hours or on weekends. I never had to compromise my primary job. Most of my work was done on Saturdays and Sundays.

**Sramana Mitra: What was your sales process like?**

**San Banerjee:** Our first customer gave us a lot of word of mouth [publicity]. People would approach us and ask us to show them what we were doing. We would go to their apartment complexes and present the product to them. In the early days we were more interested in their input than anything else. We received excellent inputs from each demo we conducted. For the first two or even three years, our sales meetings doubled as requirements gathering meetings.

**Sramana Mitra: What property management function was the most important to automate?**

**San Banerjee:** We learned very early on that accounting was a very important aspect. Neighbors were not comfortable asking each other to pay their maintenance fees. They would rather have a system that automatically reminds everyone to pay and informs them of the penalties as necessary. All of the money management features were important to our early adopters. Even today that is one of our most sticky features.

**Sramana Mitra: Over the course of the past four years, what have you built into the product?**

**San Banerjee:** The idea behind an apartment complex is that each family owns their own flat but the common areas have maintenance which is done by independent vendors who are paid by all of the owners. The associations cover the cost for housekeeping, grounds keeping, and security.

There are three main aspects of running an apartment complex. The first is communication. There is a need for private communications to allow neighbors to discuss their issues. There are also communications from the managing committee to the residents.

The second aspect is management and upkeep of the property. This involves servicing of the transformer or generator and handling the complaints of residents. There are also taxes to be paid and all of those decisions.

The third aspect is the billing and accounting. Each owner needs to pay their share of the expenses. All of the associations need to have their statements audited at the end of the year and filed with the registrar. It is very much like a small and medium sized enterprise.

We identified these three aspects as key areas to develop technology to fix. We built various applications for each area. For example, we have an online forum to assist with communications. We have a vendor directory to help people find companies to fix problems such as a broken sink. For the management aspect, we built an online help desk with a calendar and a meeting tracker. We also developed automated bill generation which emails every resident with an integrated payment gateway to allow online payments. We were the first ones in India to do that.

We spent a lot of time building a complete accounting system. That was very important to our customers. It was a lot of work because our only developer was Venkat. He had to develop that while sustaining the overall software. It took us close to two years to build out the accounting software.

**Sramana Mitra: What happened in 2009 on the customer front? How many customers were you able to get?**

**San Banerjee:** In 2009 we had a lot of free users. We operated on a freemium model. We ended the year with eight paying customers.

**Sramana Mitra: How much were you making off your paying customers?**

**San Banerjee:** They were paying us anywhere between 100 and 350 rupees per flat, per year.

**Sramana Mitra: How much revenue did that generate in 2009?**

**San Banerjee:** Our third customer was one of the most well-known communities in Bangalore. When we went there and did our demo, one of the people who heard it turned out to be a former entrepreneur. After we were done, he approached us and told us that our pricing was too low. They went ahead and bought a three-year subscription and paid for the full three years up front. That gave us 1.5 lakh ($3k) right there. We also signed on a complex that had 3,000 units. In 2009 all of our customers were marquee customers.

**Sramana Mitra: In 2009 was it still just you and Venkat working on building the company, or had you started hiring people yet?**

**San Banerjee:** In 2009 my neighbor, Ashika Sripathi, was just getting back to her career after having a child. She had a background in sales. We had a good discussion on our front terrace, and she agreed to join and head up our sales. In 2009 Ashika and Venkat worked full time and I was part time. Today Ashika is our COO.

**Sramana Mitra: How long was your sales cycle?**

**San Banerjee:** It took anywhere from four months to two years.

**Sramana Mitra: That is a problem with Indian customers in general.**

**San Banerjee:** Not only the traditional Indian customer, but people who were working as volunteers. They did not have a job description that told them they had to automate processes. There was no boss for them to show the value of their work and the ROI of the software they purchased and implemented.

We discovered that when we found someone who was passionate about our software, they did the job of selling our software to the association. Homeowners would push back against paying for software. Apartment complexes were not used to buying software.

**Sramana Mitra: What was the subscription fee that the market was ultimately willing to accept?**

**San Banerjee:** Over time we found that they were willing to pay 180 rupees per flat, per year. That becomes affordable for all apartment complexes.

**Sramana Mitra: What happened in 2010? By then you had moved to an office and you were working full time for your own company.**

**San Banerjee:** I hired another person to manage support functions. We were slowly approaching breakeven, and we were able to start paying people from the company funds. Venkat had a couple of colleagues join him for a while, but we could not keep them for long. We were paying them far below market wages, and we did not know of any way to offer them stock options or have any guarantee on what their value would be in future years. We really had no way to keep them with us. In short, in 2010 we basically broke even with the exception of personal salaries for me and Venkat. We were cash positive on the 2010/2011 balance sheet.

**Sramana Mitra: How much of your own money did you put into the company up to that point?**

**San Banerjee:** We put in 8 lakhs ($15k). I don't count our personal expenses in that number.

**Sramana Mitra: In theory you put in a lot more than that then.**

**San Banerjee:** Yes, especially when you consider the two salaries. In the middle of 2010 I called my bank and asked them what would happen if I stopped paying our EMI [equated monthly installment] for three to four months. That was during the time where we had sleepless nights about how to pay salary. That person asked me why I would consider defaulting on my EMI, so I explained what I was doing.

This was the same person we approached when we wanted to buy our home. At that time, this individual told us that with our salary we could purchase two large homes. We had a good relationship with the bank, and once they understood that we were running a business and trying to pay salaries he told us that he would put our EMI payments on hold for four months and then after that we would have to continue paying. Ultimately we did not have to do that, but I do recall that being a stressful time in the business.

**Sramana Mitra: How did your business ramp the following year? How many customers did you end up with by the end of 2010?**

**San Banerjee:** We had around 110 customers at that point. We made around 17 lakhs ($34k) that year. By the middle of 2011, Venkat and I started drawing a salary. We also noticed an increase in the number of competitors entering the Bangalore market. We had proven the market existed, and now we started to face competition. We saw 24 competitors enter the market in 2010 to 2011, and almost all of them targeted Bangalore.

**Sramana Mitra: How did you compete?**

**San Banerjee:** We had some of the most forward-thinking apartments using ApartmentADDA. We received great inputs and benchmarks from our customers, who had good existing processes. Our best approach to beat competition was to meet the demanding expectations of our customer base.

Our competitors started offering their software at half the price we charged. Our price was already rock bottom, so there really was no room for us to undercut them. We realized that this competition was in Bangalore. Mumbai was a larger market and a more mature market in terms of management committees. We believed that in order to make our product the standard solution, we needed to offer it in Mumbai.

In 2011 we started traveling to Mumbai monthly. That got to be expensive, so we rented a one-bedroom apartment there. Shortly after that we entered in the Grace Hopper Entrepreneur Quest for women entrepreneurs. There was a 5 lakh (~$10k) cash prize. Normally I would not have gone to a business pitch competition, but there was some real money involved.

We ended up winning that contest, and the money really gave us the boost to target the Mumbai area heavily for three months. We moved to Mumbai for three months and used the 5 lakh (~$10k) as a cushion. We figured that if things did not work out, we could move back to Bangalore. In May 2012 we packed everything, rented our apartment, and moved to Mumbai. There were four of us living in a one-bedroom apartment.

Our first two months in Mumbai were not very decisive. We could not tell if we had made a good move. By the time we hit the third month, we were confident that our solution was very well suited for Mumbai. We went out and got some office space and focused on selling the solution to Mumbai.

Maharashtra is the only state in India where there are standards for running a management society. Audits are mandated by law, and there are minimums for collections required. There are a lot of standards. Our customer base benefited because now they knew exactly how their apartments were run, and it made audits much easier.

Our approach in Mumbai had to be slightly different. There were a lot of offline software solutions for running apartment complexes. We had to adjust our sales approach to demonstrate the online solution we were offering.

**Sramana Mitra: Who runs your Bangalore office?**

**San Banerjee:** Ashika runs that office. When we relocated to Mumbai, we knew that our Bangalore office would fall apart unless somebody was running it. We promoted her and she is now our COO. She stabilized that office.

**Sramana Mitra: It sounds like 2011 was a traumatic year. How did you end that year in terms of customers and revenue?**

**San Banerjee:** We ended the year with over 200 customers and we had 35 lakh (~$70k) in revenue.

**Sramana Mitra: Was the business cash flow positive?**

**San Banerjee:** It covered all of our costs except for the founder salaries. We were able to recruit our workforce at below market salaries by showing prospective employees our potential. We actually showed a little profit that year as well. We had to amortize our subscription revenues which made us profitable. Some of the subscriptions span financial years, we were able to get credit for those in 2012 that had started in the prior year.

**Sramana Mitra: What were the major events of the 2012 to 2013 financial year?**

**San Banerjee:** That year was all about Mumbai. It was all about understanding the Mumbai market and how to sell in Mumbai. We made a strategic decision to forge partnerships with accountants who specialized in auditing management committees. We felt that the best way to grow the product was to develop the ecosystem. The whole ecosystem in Bangalore was spent trying to convince management committees that they had a need to invest in software. We find that a lot of auditors try to reject any accounting system unless it is a specific brand. We still fight that to this day to some extent.

In Mumbai, we found it easier to get the attention of accountants because they had been exposed to multiple software products. That was very good for us because they were willing to listen to what we are talking about.

**Sramana Mitra: It's interesting you say that because FACT software had to gain acceptance in India as well.**

**San Banerjee:** I have not heard of them.

**Sramana Mitra: You probably have not in your ecosystem, but FACT is a very successful accounting software company in India. I can see that auditor acceptance would be challenging. Despite that you have a rather sizable customer base.**

**San Banerjee:** We do have a good customer base. I think accounting is still a difficult area because we have to create the ecosystem. We need to ensure that auditors are willing to accept the data that they get from our software for their audits.

**Sramana Mitra: Are you in other cities as well now?**

**San Banerjee:** We have offices in Mumbai and Bangalore. We have customers across 70 cities in India, and we have paying customers all over India as well.

**Sramana Mitra: Let's talk about funding. When did you receive your funding and what preceded your decision to raise funding?**

**San Banerjee:** From the very beginning, we have sought out people who could serve as advisors for us. One of our earliest advisors was Sharad Sharma. We also had Manish Singhal, whom we met through our entrepreneur contests. He joined us after the competition as a formal advisor. In February of 2013 we decided that it was time to scale our business. The product was proven and mature. We had figured out the support process. We felt we could show value to investors.

We created our first pitch and gave it to Bhupen Shah, whom we were introduced to by Manish. In our very first meeting he committed to invest in us. We were very pleased with that because the purpose of the pitch was to get his feedback on the pitch itself.

**Sramana Mitra: What was your pitch to the investors? Everything sounds great. You have a mature product with customers and a validated pricing model. However, there are two general questions which float above Indian SaaS deals. First, there are always concerns about the growth rate because the Indian sales cycle is abnormally long. Second, there are concerns about the Total Available Market. Tell me more about those two aspects.**

**San Banerjee:** There are around 4 lakh (~400k) apartment complexes in India that hit our demographic. That became our TAM. Our software is sold to complexes where rent rates are above 26,000 rupees (~$500). On ApartmentADDA, each complex has its own secure ADDA. Every resident has credentials which allow them to log in and conduct business associated with their apartment complex. This is like the Facebook of apartment complexes with management capabilities.

There are other possibilities there as well. Suppose you want to open a new school in a particular area and you only want to advertise to apartment complexes in that area. Your only option would be to put up a billboard that is very expensive or to approach each management committee to put a notice on their board. We now have the ability to automate that with ApartmentADDA. Management committees are open to new revenue possibilities because management costs are sky rocketing. This gives them a new revenue stream.

**Sramana Mitra: Are you doing revenue share deals with the apartments?**

**San Banerjee:** Exactly.

**Sramana Mitra: Is that a validated model or is it a concept?**

**San Banerjee:** This has been verbally validated. We have had discussions with several management committees, and they are excited about it. We have become trusted advisors and they know that we are not going to sell their private data. There is a tremendous amount of trust that we have established. When we approach them with a new possibility like this they really believe in the promise.

**Sramana Mitra: I like the manner in which you are thinking, and it would be good to get additional revenue streams. I would not let go of the subscription revenue stream by any stretch of the imagination. What is the TAM for the subscription business?**

**San Banerjee:** There are 4 lakh (~400k) apartment complexes, and each has an average of 200 apartments. We could expect 180 rupees (~$30) per flat on average.

**Sramana Mitra: How much angel financing did you raise?**

**San Banerjee:** Just enough to carry us for another 1.5 years in our build out effort.

**Sramana Mitra: Do you also want to experiment with the advertising revenue model with this round of funding?**

**San Banerjee:** Yes, that is exactly what we would like to do. We will scale our subscription revenue with this round and validate our advertising revenue. If we raise another round in the future, then we can look to scale the advertising revenue with that round.

There are other integrations that we are looking at as well. More and more apartments are being occupied by parents while their kids are in the U.S. Those who are in the U.S. like the fact that their parents are in an apartment where everything is taken care of and they don't have to worry about plumbing, electricity, or security. However, they sometimes encounter problems that are not covered by the management committee, such as a broken TV.

We are thinking about a concierge service or a home appliance maintenance service. There are companies that provide warranties here in India. They will track down the right TV repairman to come fix the TV. A concierge service would be nice to help in other areas as well. For example, what if the Indian couple needs to renew their passports? They could call the concierge service and get that task accomplished that way. We could look to solve problems for grocery delivery services as well.

There is also the case of electric utilities in some areas. The utility will send a bill every month to the apartment complex with the appropriate meter number. They do not map it to the name of the person using that meter. That is done by the apartment manager. The apartment manager drops the bill in the appropriate letter box. This creates a lot of problems for the utility. If someone is not paying their bill, they do not have a way of sending a reminder to that person. The only thing they can do is unplug the electricity. The problem is that they unplug the electricity for the entire complex.

**Sramana Mitra: It sounds like you are looking at ways to impact the style of living in these apartment complexes.**

**San Banerjee:** Exactly. It took us one year to work on that, but we are nearing completion of our integration with a utility right now. They are going to be able to present bills to flat owners online. We have mapped each meter to its flat. We also let them make the payment online through our payment gateway.

**Sramana Mitra: How does the relationship between you and Venkat work? I have done a lot of stories of successful startups founded by couples.**

**San Banerjee:** I was brought up knowing that I was no different from a man. That was important for me when I was choosing a life partner. It is difficult for most men in India to accept that, although it is happening more often than normal. Venkat was very different. In our college, he was fine working for clubs or associations where he was the vice president and a woman was the president. I really appreciated that in him.

In the business, he has done all of the hard work. At times it seems that I get all of the credit for the business. He seems all right with that. He is dedicated to the company's success, and of course I try to point out that he gets credit for the technology. I think it is important to blindly trust someone else.

We talk business all the time. We have to work hard to talk about other themes so that we can stay interesting to each other! We also have to focus on keeping a distance at the workplace. We have to ensure that we talk to each other the same way we would to any other colleague. We have been very careful about that. People are comfortable working for us knowing that we are fair.

**Sramana Mitra: I think it is a question of mature egos versus insecure egos. You have expressed excellent judgment in choosing someone who has a secure ego. He does not need external validation and realizes the benefits of each of you working in a way that maximizes your strengths.**

**San Banerjee:** Thank you. That is a very nice way of putting it.

**Sramana Mitra: Excellent. I think you will have a long haul ahead, but I imagine you are enjoying your journey. Congratulations. I really do look forward to following your success.**

# Interview with Amber Schaub, CEO, Rufflebutts

*RuffleButts is a perfect story on how to bootstrap with a paycheck. Amber Schaub started RuffleButts, a children's apparel company, in March of 2007, backed by her husband's full-time job. He later joined in 2010 as the COO after the company had gained traction.*

*This is also a very good case study of how Amber built a brand around a new product line that she wanted to bring to market.*

**Sramana Mitra: Let's start at the very beginning of each of your stories. I imagine you co-founded the company?**

**Amber Schaub:** I grew up in Louisville, Kentucky. I had the entrepreneurial spirit from a very young age. I used to convince my cousins to help me start lemonade stands, baby sitting clubs, and we even tried to start a grocery delivery business in middle school. My dad is an entrepreneur. My parents were divorced so I watched what my mother had to do as a single mother. She worked a 9 to 5 job for a utility company and had to raise a child on that income. We did not live a lavish lifestyle, but I always had what I needed.

I knew that if I wanted to go to college, I was going to have to pay for that on my own. When I graduated from college I was very enticed by the money to take a job in pharmaceutical sales. I was not passionate about what I was doing but the company car and paycheck was good. That did not last all that long because I got enticed into real estate during the boom years, but once again I was not fulfilled. I was shocked by the lack of ethics in the business world. I made a decision very early on that I was going to run a business based on the golden rule. Ethics are extremely important to me and I attribute that to my mother.

**Sramana Mitra: When was RuffleButts founded?**

**Amber Schaub:** I founded it in March of 2007, which means I conceived the idea and got the trademark. I started down the path of teaching myself how to run a children's apparel company. I had no experience in retail, designing, or selling. I had no children of my own, so children's apparel was not something that I would have considered myself an expert at.

**Sramana Mitra: So why did you decide to launch a company in children's apparel? I hear stories about this from moms who are passionate about their kids and that is what led them to start the business.**

**Amber Schaub:** I get that a lot. I was passionate about children although I did not have any at the time. I was passionate about the business side and about creating a product that I could be proud of. I knew I wanted to start a business and it took me three months to figure out what business that was going to be. Mark was supportive of my quitting my job to start a company. I did a lot of research to decide what business to start. At that time, there were a lot of glossy stories about entrepreneurs who followed their dreams to start 10 million dollar businesses.

We had a longer road to parenthood than we wanted at the time. RuffleButts became my baby. The idea came because I wore ruffled bloomers when I was a baby and my mom always called them my rufflebutts. I went into a store looking for them when I was shopping for a gift for a friend. I asked the lady if they had them and she told me they did not, but she did not know why they did not carry them because people came in looking for them all the time. That is what spurred me to get into this specific industry.

I thought everyone called them rufflebutts and fortunately found out that nobody else knew about that name. The trademark and the domain name were both open. That is how the name of the company was born.

**Sramana Mitra: You had the intuition to react to something that a retail salesperson was giving you. What did you do next? How did you go about setting up your business?**

**Amber Schaub:** My first step was to go back to Mark and share my idea. I also had to get the trademark, which cost $400. I remember telling Mark that $400 was a lot of money to spend. Mark told me that I either had to go for it or do nothing, so I just went for it.

After that, I went full steam ahead. I started doing research and read anything I could get my hands on about how to design, how to get samples, and everything else you need to do in the retail space. I called everyone I knew who had knowledge of sample making and I took a sewing class. I had to be able to talk to the person who would make the product to describe the fabric and seams that I wanted to use.

**Sramana Mitra: What about the website and transaction capabilities? When did you have a site online?**

**Amber Schaub:** I immediately went down the path of development and production. That was ambitious, considering that I had no sales. I knew that I had to produce the product so that people could see it and purchase it with immediate shipment. I hired a small web development company and they designed a basic e-commerce site for me. At that point, I showed everything to Mark and he helped me take the website to the next level. We launched that website in August 2007.

I also attended a trade show, which is a common way to sell clothing in the children's apparel industry. I rented out a booth and asked my mom to fly out from Kentucky and help me, since I had no employees. We did our first trade show so that we could get feedback, and also to try to sell our RuffleButts wholesale.

**Sramana Mitra: Where were you living?**

**Amber Schaub:** I was living in South Florida when I started the business, but the trade show that we attended was in Las Vegas.

**Sramana Mitra: In terms of the product itself, what strategy did you follow? How did you get the product built?**

**Amber Schaub:** In 2007, information was not as readily available as it is today. When I went out looking for production partners, I could not just do a quick Google search to find partners to produce children's apparel. Today you could probably do that, but I could not do that in 2007.

I just looked for any factory contact I could find. I was fearful of producing overseas and my quantity was very low, so most overseas factories would anyway not produce at our quantity level. I ended up finding a gentleman who lived in South Florida who owned a factory in the Dominican Republic. He agreed to produce the entire first line for me.

**Sramana Mitra: How many units were in your first line and who did the designs?**

**Amber Schaub:** I did 100% of the design and still do today. I don't have a design background, so I had to figure out how to make that work. I designed from a common sense perspective. I just put myself in the shoes of a mother who will be purchasing and I ask myself what will be important. It has to be soft, it has to hold up in the wash, and it has to have quality. I cannot produce bargain apparel, but I still wanted it to be available and affordable to the masses.

**Sramana Mitra: You said you designed the clothing yourself even though you did not have a background in design. Can you explain that process to us?**

**Amber Schaub:** I would draw things up and take my designs to a pattern maker. She would take my designs and convert them into a paper pattern. I sent those paper patterns to the factory, and they cut the fabric based on that pattern.

**Sramana Mitra: How many different design variations did you have in your first line?**

**Amber Schaub:** The first line had a RuffleButt Bloomer, a RuffleButt Crawler which is a pants version of our Bloomer, T-shirts to coordinate with the RuffleButt Crawler and tops to match the RuffleButt Bloomers.

**Sramana Mitra: How much did you have to spend to get that line developed?**

**Amber Schaub:** Mark and I invested $40,000 to start the business. We decided we would put it all in and use that money to get the website up and going as well as place our first order. We had no outside investors.

**Sramana Mitra: How much inventory did that get you?**

**Amber Schaub:** At that time, we ordered about a dozen pieces of each item, per size, per color.

**Sramana Mitra: It sounds like you had a pretty sizable inventory.**

**Amber Schaub:** In the beginning when I started the business, I realized that in order to attract customers to my website I needed a full collection. I could not offer a bloomer in two colors and pretend that it was sufficient. I decided to go all the way and produce a full collection from the beginning.

**Sramana Mitra: Mark, you kept your job during this time frame. It sounds like you were bootstrapping with a paycheck. Interestingly enough, there are a lot of businesses founded by couples where one of the two keeps a job while the other develops the business.**

**Mark Schaub:** It fit together like a perfect puzzle. I was in real estate development flipping homes, and then for the months in between homes sales, Amber would have the steady paycheck. It was a change of pace and role reversal for me to keep the steady job so that Amber could do the startup.

**Sramana Mitra: What about customer acquisition? How did the first customers come to your site?**

**Amber Schaub:** Looking back, it is still amazing to me. I had no marketing budget and I did not get to advertise. I just organically got the word out, which is amazing. We launched the website in August and the first shipment arrived in December. Everything I sold from August to December was a pre-sale item.

**Sramana Mitra: Was that wholesale?**

**Amber Schaub:** It was both retail and wholesale. We had the website, which appealed to retail but I was also selling wholesale. I spent a lot of time on the phone with stores trying to introduce them to this line. I was trying to convince them to order the product for their stores for a January shipment. I really focused on building the brand. I wanted to use the brand to drive traffic to the company.

I was very fortunate to receive a call from a stylist in LA with Celebrity Babies. I had called her in December to let her know about my company. She called and asked me to fly out to California the following week to do an event with a bunch of celebrities and their babies for the Golden Globe.

**Sramana Mitra: How did you handle such a big event so early on? I imagine it was quite an ordeal to get ready for celebrity exposure.**

**Amber Schaub:** I only needed 300 pieces to be able to do the event, so I had the factory send the completed work out to the hotel in LA. I was crossing my fingers that everything would be OK, and of course when I got there that was not the case. When I arrived and started going through the bloomers, I saw that half of them were made perfectly and the other half was a mess. I went through and found the best of the best so that the celebrities could represent our brand well.

We pulled that off and we made an impression on some of the celebrities. Ali Landry took her daughter to the beach in Malibu wearing our RuffleButt Bloomer. The pictures were on TMZ. She was just one of many who were very supportive of what we were doing. That catapulted our brand from the very beginning.

**Sramana Mitra: Did that create buzz around the brand and draw traffic in?**

**Amber Schaub:** Yes. I would also work with any publicist that would pay attention to me. I would email them my story and beg them to cover it. We were fortunate to get into Baby Talk Magazine as an editor's pick with a picture of a baby wearing our RuffleButts Bloomer. Back then, Mark and I would celebrate getting a couple of hundred orders. Today that is a slow day. With all the celebrity and press, the stores started to come to us.

**Sramana Mitra: The e-commerce business you were developing was basically a shell business. It sounds like the retailers were the ones ordering products.**

**Amber Schaub:** We had folks like Nordstrom's and Target call us. Mom and pop boutiques all over the country were applying to carry our products because customers were asking for our products. In the beginning, 95% of the stores we sold to came to us, which was incredible.

On the retail side, the publicity also drove consumers to us. They were very supportive of my story. They would promote us on their Facebook pages. They have always been very supportive of us.

**Sramana Mitra: There is a built-in viral aspect to your product. Moms like to take pictures of their babies.**

**Amber Schaub:** Exactly. We are so lucky that we have a product that is all about happy moments and childhood. When I started the business, I thought that moms and grandmothers would be fun customers. I wanted to have a product that would make people happy. You take your child out in RuffleButts and you will get compliments from everyone. We are very fortunate to have that organic aspect.

**Sramana Mitra: You started in August of 2007. How did your business ramp during your first year?**

**Amber Schaub:** When we received the first shipment, I faced the harsh reality of what entrepreneurship really is. When that first shipment arrived, half of the apparel was unsuitable to sell. Production was very bad. I debated whether or not I wanted to share that publicly because I did not want people to think bad about our brand. However, I wanted other entrepreneurs to see the reality of what starting a business is all about.

I had to fly my mother to Florida so that we could measure each garment. I was not about to sell products that did not meet my quality standards. I questioned if I was really ready to do this. We did not start selling until January of 2008. That first year, we sold about $100,000 of products.

**Sramana Mitra: Did you gain traction with the brick and mortar retail stores?**

**Amber Schaub:** We did get some good success early on. Nordstrom contacted us in late 2008.

**Sramana Mitra: How big was your first Nordstrom order?**

**Amber Schaub:** They did a 5 store trial order, which at the time, seemed huge to us since no stores had put us in. They ended up putting us in 50 stores and I thought that order was just incredible. Today that is pretty standard.

**Sramana Mitra: You said you put in $40,000. How long did it take you to break even?**

**Mark Schaub:** We operated in the red for about half of the year.

**Sramana Mitra: What was your revenue number in 2009? How did the business ramp.**

**Mark Schaub:** In 2009, we did $375,000 gross. In 2010, we did $1.1 million gross. In 2011, we did $2.5 million gross and in 2012, we did $3.7 million. We finished just under $5 million gross last year.

**Sramana Mitra: What were the key milestones in 2009 and 2010?**

**Amber Schaub:** On a personal level, we had our first child at the end of 2008. I had a big learning experience in 2009 where I had to learn how to be fully devoted to the company as well as my child.

In 2010, we hit the point where we needed help. Mark sacrificed his career to join RuffleButts to maximize the opportunity we had in front of us. By that point, I had a customer service representative and I had also hired an assistant. When Mark came on board, we did a big website upgrade and we moved into the wholesale arena.

**Sramana Mitra: How did you manage a full year with a newborn while operating the company before hiring that help?**

**Amber Schaub:** I hired a part-time assistant who worked half-time during the week. Looking back, I have no idea how I did it. You face what you have to face and you do it. After 5 months, I put her in daycare. My mother lived in a different state.

**Sramana Mitra: What was your team growth like?**

**Amber Schaub:** Our team grew quickly. In 2010, we hired someone to pass the orders and pull the orders. We hired someone to cover customer service.

**Sramana Mitra: Were you still operating out of your home?**

**Amber Schaub:** We were. We had converted our basement into the RuffleButts headquarter and we had fantastic team members who were willing to come to our home to work on a daily basis. My son was born in April of 2011. In May of 2011, we moved into our first office warehouse.

**Sramana Mitra: How have you expanded your team from 2010 onward? What has your recruitment philosophy been? What positions have you hired for and how have those people helped you scale the business?**

**Amber Schaub:** Throughout the process, we have hired on a need basis. We are a family business and we did as much as we could before we hired anyone else. We would almost be bursting at the seams before we brought on another team member. I suppose that is an entrepreneurial manner of working because the budgets in a bootstrapped startup impose that reality. Today we have 18 employees, including Mark and I.

**Sramana Mitra: How are the roles of your 18 team-members divided?**

**Amber Schaub:** Mark runs the operations and financial side of the business. I run the big picture, design, marketing, PR, and sales side of the business. Operations take up 60% of the employee base. We have people who pack and warehouse. They manage fulfillment. The other half of our team is sales, marketing, production, and customer service.

**Sramana Mitra: I understand the pick, pack, and ship side of your business, that clearly makes sense. What is the sales angle for your team members? Are they focusing on wholesale deals with stores?**

**Amber Schaub:** Yes. Our sales team has grown over the years. In the beginning, most of the stores came to us. Stores filled out applications and I would then sign the stores up online. We are a lot different than other companies in that we are e-Commerce driven. Traditional wholesale apparel companies are used to trade shows and faxed orders. We had our customers placing orders on our website from day one.

Our sales team is responsible for approving any applications from customers that may come in. They introduce our line to other stores where we may be a good fit. I would estimate that 80% of their time is spent helping existing customers and 20% of their time is spent attracting new stores.

**Sramana Mitra: How many of these sales people do you have?**

**Amber Schaub:** Three.

**Sramana Mitra: What percentage of your business is wholesale?**

**Mark Schaub:** We are about 60% wholesale.

**Sramana Mitra: What do you do in marketing?**

**Amber Schaub:** We do Google AdWords. We do some print marketing. Our marketing is somewhat traditional e-Commerce marketing. We have a Facebook page and manage our own social media.

I handle the majority of our marketing, print and social media. We have another person who manages the AdWords and online advertising. Mark manages that side of the house as well.

**Sramana Mitra: Do you still do all of the design work yourself?**

**Amber Schaub:** Yes. Hopefully not for too much longer! That is the driving force of our business, so I have maintained control over that aspect.

**Sramana Mitra: Are you still working with the same factory in the Dominican Republic?**

**Amber Schaub:** No. After all the mistakes that we had to deal with in the first order, we had to make a change. We worked with them for a short period of time. Over the years, we have developed relationships with manufacturers. Our product line has expanded significantly and we have different manufacturers in different locales.

That being said, our bows are still hand-made by the same lady who started making them on day one. They are hand-made here in the US. Our apparel products are made primarily overseas.

**Sramana Mitra: Have you taken external financing?**

**Amber Schaub:** No.

**Sramana Mitra: What happened at *Shark Tank*?**

**Amber Schaub:** We participated last October. We had an offer for 9% of the business for $600,000. That was a handshake deal on the show. We were in the *Shark*

*Tank* for 2 hours and they only aired 10 minutes of it. We entered the due diligence phase and we are still in that phase. I doubt that the deal will happen.

**Sramana Mitra: What about *Shark Tank* interested you?**

**Amber Schaub:** We were big fans of the show. I think a show that inspires entrepreneurs is a win. We put a lot of thought into our decision to participate in the show. We felt the ability to showcase the brand was a once-in-a-lifetime opportunity, as well as a chance to get a strategic partner. We are at the point in our business where we could bring on some major retailers to take us to the next level. We saw the show as a very good opportunity.

**Sramana Mitra: A lot of entrepreneurs are building businesses as a couple, especially when it comes to capital-efficient businesses. What have you learned as a couple about starting a company together?**

**Amber Schaub:** We use the analogy of the show *Survivor* a lot. We have watched time and time again that those who win are those who build an incredible alliance. Our partnership is an alliance. There is nobody I trust more than Mark. Trust goes a long way in this business.

The one lesson we learned early on is that we need two separate offices. Mark needs to run his area of the business and I don't get involved in the day-to-day operations there. We have strategic goals that are aligned, but each of us runs our own aspects of the business. We are fortunate that our talents align with our job responsibilities.

We do find that we sometimes fall into the pitfall of business talk during family dinners or vacations. We have had to learn how to draw the line when we can. My honest answer is that we have a hard time drawing that line, but we are both passionate about what we do. At some point in the evening, we have to stop talking business.

**Sramana Mitra: I love these kinds of stories. Thank you for taking the time to share your story and inspire our entrepreneurs.**

# Interview with Mattias Larson, Founder, DefinitiveDeals

*Mattias Larson started tinkering while his employer wasn't doing so well. That's it. He was tinkering. But this tinkering soon became a more serious endeavor, and he decided to build a business. All this while, he kept his job, and not long after, the business started generating over $300k in revenue - very nice cushion to quit his day job and jump in with both feet. Mattias' wife kept her job, and eventually, she jumped in full-time as well.*

**Sramana Mitra: Mattias, tell us about you. Where did your journey begin and in what kind of background?**

**Mattias Larson:** I was born in the northern part of Sweden – actually, not that far from the Arctic Circle – in a small town with a population of maybe 40,000. I grew up there and I went to college in a nearby town called Luela. I graduated with a master's degree in Computer Science and International Marketing.

**Sramana Mitra: Were there any entrepreneurial roots in your family?**

**Mattias Larson:** My dad had his own painting company. He inherited that from his dad and he took over and built the business to be a fairly recognizable business in that town. Then, he sold it off and retired. My mother was an elementary school teacher.

**Sramana Mitra: What did you do after school?**

**Mattias Larson:** I took a job at another university buying computer equipment for the different faculties and departments. It was an interesting area to work in because all the schools are more or less owned by the government of Sweden. There was a lot of red tape and things to worry about when we bought all the equipment. It was a great learning experience and a great job right out of college. I also started a small software company with three of my classmates while I was in university. That helped fund my studies.

**Sramana Mitra: In terms of the history of our industry, where are we?**

**Mattias Larson:** This would be in 1990.

**Sramana Mitra: You did a software company while you were in university. What happens after you graduated?**

**Mattias Larson:** We sold to about 20 customers in Sweden. But then we shut down the company and everybody moved on to their own thing. That's when I took this job at the university. I worked there for about two years and then I moved back to the town where I had gone to school. There, I took a job with a software company. That's where I got into development and project management.

**Sramana Mitra: How long did that job last?**

**Mattias Larson:** That lasted for about four years. That was also the springboard for me to start travelling and go overseas. I actually took that job so I could get experience with a particular product that they were selling. They were selling on a worldwide basis. This company was called Frontec. They're no longer around. That's where my international travel started. I moved to Stockholm and then from there, I did some work in China for about eight months.

**Sramana Mitra: What year does that bring us up to?**

**Mattias Larson:** I was in China from 1997 to 1998.

**Sramana Mitra: What happens after that?**

**Mattias Larson:** Then I landed in Stamford, Connecticut. That's where my US journey started. I still worked for that same Swedish software company. They were yet to open an office in the US. They needed someone with technical expertise in this particular product. I came over to train. It was a very technical solution.

**Sramana Mitra: How does the story arrive at the DefinitiveDeals story?**

**Mattias Larson:** Maybe we spent too much time on this early part. I worked for this company for a few years. I went through the dot com boom in 1999 and early 2000s. I also worked with this company through the dot com bust. When the company started doing not so great, that's when I decided I needed to freshen up my skills in web development. I needed to get into something different. I felt I needed some sort of a project. I didn't just want to do some random project. That's when I decided to start an affiliate site called DefinitiveDeals.

**Sramana Mitra: What year was this?**

**Mattias Larson:** 2005.

**Sramana Mitra: What did you have in mind in terms of specs for this website? What were you going to do with it?**

**Mattias Larson:** It wasn't meant to be anything. It was more like a hobby. Again, I wanted to spruce up my programming skills and understand web development better. I needed something to work on. I had come across this type of business just through reading magazines. It started off that way. I had no intention of ever doing anything with it but traffic started to come in. I thought, "Maybe, this is something I can actually make some money out of." One thing led to another and I decided to give this a shot. I primarily started doing paid search using advertisements – Google AdWords. That's really when the business started taking off. It was 2007 when things started moving.

**Sramana Mitra: You were tinkering, basically. You were getting practice on your chops for web development. Obviously, at some point, this turned into something more serious. Let's pick it up at the point where it's becoming more serious. You're starting to feel like you were going to build a business out of it. What business did you think you were going to build?**

**Mattias Larson:** Keep in mind, I was developing this site while I was still working for my employer. Again, we didn't have that many projects, so I did this on weekends and nights. Like I said, it was only when I started seeing traffic coming in through paid search that I decided to give this a go and try to build a business.

**Sramana Mitra: What were you advertising? What kind of paid search traffic were you trying to recruit?**

**Mattias Larson:** DefinitiveDeals is a deals and coupons site.

**Sramana Mitra: Was it that even when you were starting?**

**Mattias Larson:** Yes.

**Sramana Mitra: You used the Internet to draw traffic in and then act as an affiliate partner to other sites whose goods you marketed?**

**Mattias Larson:** Exactly. I found all these good deals and different coupons. "Here's the best price that you can get on this Dell computer, but hurry up it's only good for three days." Those are the type of things that I posted there. But again, you can have the greatest idea but if don't have traffic on your site, nobody knows that it's there. That's when the advertising came in. I started bidding on specific keywords that I thought would convert well. I really mastered Google AdWords in the early days. In 2008, I decided to quit my day job and turn this into a full time business.

**Sramana Mitra: I want to explore a little bit more of the period when you were still doing this while holding on to your job. Can you tell me a bit more about how much you were able to accomplish and how complicated or easy it was? The reason I'm asking is because this is a real trend right now – what we call "Bootstrapping with a Paycheck". A lot of people are developing sites while holding on to their paychecks.**

**Mattias Larson:** It took a while. Looking back, I regret not doing it quicker and maybe advancing faster. It took a while to get it live. I pushed it live with just the bare minimum functionality. Then, when I noticed that the traffic came in, that's when I decided to revamp the site and make it more user-friendly.

**Sramana Mitra: You were generating revenues while you were doing this as a side project.**

**Mattias Larson:** Right. I travel quite a bit for my primary job. I would travel Monday to Friday and every evening, I had a lot of time to just sit and work on this from probably 6 pm till midnight. Then, I slept, woke up, and went to the clients for my regular job. Then, I came back to the hotel room and then worked on the site again. That was my life for quite a while actually.

**Sramana Mitra: How much revenue were you generating in that period? Before you quit, what kind of revenue run rate were you able to achieve?**

**Mattias Larson:** I would say probably $300,000 to $400,000 a year.

**Sramana Mitra: That's very good – good cushion to quit a job.**

**Mattias Larson:** That's the thing. I definitely wanted a good cushion before I quit.

**Sramana Mitra: That's perfectly fine because people have different levels of risk tolerance. We are very supportive of this trend of developing something**

**without jumping in with both feet – just holding on to the job and validating the concept and starting to get traction, and quitting only when the risk level is at the level where you are feeling comfortable about it.**

**Mattias Larson:** Yes, exactly.

**Sramana Mitra: In terms of the merchandise that you were selling on this site, what was your sweet spot?**

**Mattias Larson:** The sweet spot was probably mostly apparel and travel. When I started the site, I wanted to focus on consumer electronics but as it turned out, more and more of the users were actually females. So what did really well were apparel, fashion, travel, and sporting goods to some extent.

**Sramana Mitra: Were you working with an affiliate network?**

**Mattias Larson:** Yes, I started with Commission Junction. Right now, we're probably a member of most of the networks out there.

**Sramana Mitra: I suppose there is a certain intelligence that you apply to selecting what you want to merchandise on your site. Did you have any algorithm or philosophy around that?**

**Mattias Larson:** My research actually did not necessarily focus on a particular category. My research was more focused on what merchants would convert well. I looked at KPIs such as networks and traffic volume. I focused on merchants where I know there would be a lot of search volume. People often look for travel coupons for example. I looked at that more than the actual categories. After I gave up on the consumer electronics part, I just looked for the lowest-hanging fruit basically.

**Sramana Mitra: You basically created a bunch of microsites around the keywords where you had good search volume and that were affordable keywords.**

**Mattias Larson:** Yes, more or less. Actually, it was all one site but each merchant had its dedicated landing page that was tailored specifically. It was very easy for the consumer to just grab what they were looking for.

**Sramana Mitra: That got you to about $380,000, and then, you quit the job in 2006?**

**Mattias Larson:** I think I quit in 2008.

**Sramana Mitra: Where were you based at this point? I know you were traveling a lot. Were you still based out of Connecticut?**

**Mattias Larson:** By that time, I had landed in Los Angeles where I'm at right now.

**Sramana Mitra: You're in Los Angeles. You've quit the job. You were a solo operator at this point, right?**

**Mattias Larson:** Yes. I did everything – development, marketing, I even added all the content myself. It was a one-man shop for a couple of years. My wife then quit her job and started helping me out.

**Sramana Mitra: What's her background?**

**Mattias Larson:** She did accounting for a law firm. This is a little bit of a sidebar but having this job where I could do everything from my laptop allowed me to travel more. I wanted to enjoy traveling more and going back to Sweden to see my family. But my wife could never get time off because she had this traditional 9 to 5 job. I said, "Quit your job. Come help me instead."

**Sramana Mitra: What happened in 2009? Your wife quit the job. It's the same model right?**

**Mattias Larson:** Yes, the same model.

**Sramana Mitra: It was just the two of you in 2009?**

**Mattias Larson:** Yes.

**Sramana Mitra: How much did you do in 2009? How long did this mode of you and your wife traveling around and doing this from everywhere you wanted continue?**

**Mattias Larson:** In 2010, we got our son. That obviously put an end to the travel more or less. Then in 2012, that's when I took on a business partner and decided to grow this the traditional way.

**Sramana Mitra: Until 2012, it was you and your wife. In 2010, the travel stopped but you still continue in the same model and the same mode of just the two of you in the business?**

**Mattias Larson:** Yes, correct.

**Sramana Mitra: In terms of revenue ramp, what were the numbers for 2009 to 2012?**

**Mattias Larson:** Keep in mind, the revenues are pretty high but the costs are also pretty high. This is a slim-margin business.

**Sramana Mitra: This is not your affiliate commissions. It was your total sales?**

**Mattias Larson:** What I quoted you was the affiliate commissions but of course, to make $500,000 in affiliate commissions, I might have to spend $300,000 in paid search.

**Sramana Mitra: So paid search was a major cost of goods, almost.**

**Mattias Larson:** Absolutely, it was huge. Part of that was that if you put all the spending on a credit card, you get quite a few points that you can then convert to miles. It all went hand-in-hand. Remember, we wanted to travel.

**Sramana Mitra: Glad to have that clarification. Talk about what kind of numbers were you doing in 2009 to 2011? How far were you able to go just the two of you before you took on a business partner?**

**Mattias Larson:** Our revenue was between $3 million to $5 million.

**Sramana Mitra: What was the thought process when you chose to get a business partner? Whom did you select to be your business partner and why?**

**Mattias Larson:** The concept behind it was that I couldn't do this myself anymore. It was becoming too much of a burden. It was too much work. As I started to get more and more successful, all these merchant partners started to reach out to me and they wanted to set up conference calls and discuss how to do more business together, which was great. It just took a lot of time to schedule these calls. I had to do all the calls throughout the day and then do my regular work – development, adding deals, and optimizing my campaigns – at night. It became impossible to run it as a two-person show.

My business partner's name is Rob Gough. I had known him for a few years. He was on the merchant side. We had run into each other doing some of these affiliate conferences. He had a lot of contacts with other merchants, which is a side that I wanted to deal less with because I didn't have time to do all these calls. I wanted to focus more on the underlying piece of the business.

**Sramana Mitra: You wanted somebody who could handle merchant relations while you focused on the business?**

**Mattias Larson:** Yes, that's a good way of putting it. He had a lot of contacts there. So we came together in 2012. January 2012 is the official start of Eckim, which is now the company that owns DefinitiveDeals and a few other web properties as well.

**Sramana Mitra: What does that mean? What is the structure of the business partnership?**

**Mattias Larson:** We own Eckim together. He has some other properties that he was working on. I had my DefinitiveDeals and we put them both into this company and decided to build it into something bigger – basically expand on everything that I was working on.

**Sramana Mitra: From 2012 to 2014, what are the highlights of the journey?**

**Mattias Larson:** We doubled the revenues in the first year and a half. We grew the business from two to 14 people. We really managed to crack the nut on successful paid search basically. We managed to get some big brands on board that were difficult to get before.

**Sramana Mitra: What is the portfolio of sites that you now manage? Are they all deal sites?**

**Mattias Larson:** It's primarily paid search. We have definitely tried other venues such as SEO. We work with email marketing, social media channels. We also have something we call Eckem Remarketing where we partner with another partner who does remarketing, basically, shopping cart abandonment. That's something that we recently added to the portfolio which we're just launching now, but our primary driver of revenue is DefinitiveDeals.

**Sramana Mitra: What is the composition of these 14 people?**

**Mattias Larson:** Rob and I are basically the leadership team. We have four people in development. We have another four in content management and three people who handle the paid search area. We have one app developer.

**Sramana Mitra: What do you want to do with this business? What is the long term vision for this?**

**Mattias Larson:** Right now, we see that we have a tremendous growth curve. We want to take this to the next level by expanding both domestically and internationally. That's our goal for this year – go to the emerging markets.

**Sramana Mitra: What does that entail? Emerging market search cost is lower but at the same time, the merchandise value is lower.**

**Mattias Larson:** Yes. We do a lot of research first to check whether consumers in the country actually use coupons or vouchers and how often do they use them. We're still doing the research to see where the next big market is. We are already doing paid search in some international markets – Canada and Australia. We want to launch localized branded sites in new markets but we don't know yet what countries that will be.

**Sramana Mitra: In terms of the markets where you have presence, are these markets saturated as far as your growth opportunities are concerned?**

**Mattias Larson:** We see there is still room to grow. Just using coupons in general has become more and more mainstream. We see that the search for coupons and deals are increasing.

Groupon is not really a competitor of ours. When they came in the marketplace, it increased the awareness of online deals and coupons sites.

**Sramana Mitra: There's a lot more opportunity.**

**Mattias Larson:** Right. Even with these big retailers who are very afraid of discounting are getting into the coupon game. They are actually giving us coupons because they see that everybody is doing it.

**Sramana Mitra: The higher end of the market – higher ticket items.**

**Mattias Larson:** Yes.

**Sramana Mitra: That could be a lot more lucrative for you in terms of being able to get higher levels of commissions.**

**Mattias Larson:** Yes, higher commissions, but of course, fewer transactions.

**Sramana Mitra: Anything else you want to share in the story?**

**Mattias Larson:** I think that summarizes how I started DefinitiveDeals.

**Sramana Mitra: It was a pleasure talking to you. Congratulations on your success so far and good luck!**

# Interview with Valerie Holstein, CEO, Cableorganizer.com

*Valerie Holstein's story is a clear case for building self-financed 'lifestyle' businesses that can become quite large. What exactly is wrong with a $16 million revenue, highly profitable company, other than the fact that you do not have investors breathing down your neck? Valerie bootstrapped the business using her husband's full-time job.*

**Sramana Mitra: Valerie, let's start with your background. Where were you born, and where did you grow up? What was the path you took to arrive here today?**

**Valerie Holstein:** I was born in Paris, France. I studied there until it was time to go to college. I decided to attend college in the United States because I wanted to improve my English, and I wanted to take a break from the French academic format. I came to the US as an exchange student and that is when I met my husband.

**Sramana Mitra: Where in the US did you come as an exchange student?**

**Valerie Holstein:** I came to Tampa, Florida in 1993. I enrolled in a community college in Ft Lauderdale. My fiancé and I decided to get married. He was already working because he is 10 years older than me. He was well out of college while I attended college. I did not study very much in community college because they had me take very basic English classes, which I felt was a complete waste of my time and money. As a result I quit college and got a job as a landscaper.

Later on I went back to a private school to study graphic design and web design. I graduated from the institute and I went on to work for a couple of Internet providers. I set up websites for Sandals Beach Club and FedEx Latin America. This was back in the day when websites were hand coded. I was not making that much money, so I went on to work as a drafting engineer for a screen enclosure company. I was making more money because I was allowed overtime. I also worked in the IT department of an insurance company.

I was job-hopping for many years. I was homesick, and I like to go back to France every year. In the US you only get one or two weeks of paid vacation. However, I wanted to take a month every summer, so I basically had to quit my job every year in June. When I returned to the US, I would have to find another job. Even if I took an unpaid leave nobody was interested in having an employee who wanted to have a month off. That was the case until we started CableOrganizer.

**Sramana Mitra: When did you start CableOrganizer?**

**Valerie Holstein:** We actually started the company 10 years ago when I was nine months pregnant with my child. I was still working full-time as a drafting engineer for a screen enclosure company. My husband was working more than full time at Computer Science Corporation. He was a trainer and consultant. He did two years in Toronto, a couple of years in Massachusetts, and he was scheduled to go to Brazil for six months. He was also scheduled to go to Taiwan at the time. I did not see much of my husband. We sacrificed a lot to pay off our house. My husband was working six days a week and I was working five days a week as well as doing extra work on the weekends.

I knew that when my child was born that I wanted to stay home and spend time with my child. I also knew that at heart I was a career woman. I could not be just a stay-at-home mom. I was still independent and felt the need to earn money.

I looked for customer service jobs for a long time with companies like American Express where I could handle calls from home. I was not able to find any job that I could do at home or on the Internet. I eventually gave up and my child was born. My husband and I were in the process of renovating our home office. We had a hard time hiding all the ugly cables we had behind our computers. We had two desktops and a few laptops as well as printers. We had a roommate at the time who had a computer, printer and hubs.

The room itself was very pretty. We had painted and put in crown molding and a new desk. All of the computer cables made the room look ugly. I was looking for products to conceal them, and I could not find anything. I looked for a month and a half and I finally got the idea of putting Velcro straps around the cables to bundle them. I then found a surface raceway at HomeDepot which we were able to stick the bundled cables into.

My husband and I thought that we could not be the only people who had that problem. A lot of people have more than one computer or a media center. There are a lot of cables in American homes. We decided, spur of the moment, to set up a website to tell people about a few products they could purchase to conceal wires. We only had a couple of pages on the website. After about a week I started getting comments on the website. People were asking us where they could buy the products, so my husband and I decided to purchase $40 worth of inventory in our garage, and we started selling the products online.

**Sramana Mitra: In 2002 when you started selling things to hide computer cables, how did people find your website? Was it primarily via your blog?**

**Valerie Holstein:** Yes, it was from the blog. I had a couple of pages that explained the issues we had and what products were helpful in hiding the cables. People started asking where they could find those products. I figured that if people were looking for the products, why not just sell them ourselves? I was hoping we could make a couple of hundred dollars a month. It was attractive because suddenly I had people calling me and asking me for the products. I was happy because it would give me something to do while I stayed home and raised my child.

I had no expectations or goals going into the business. I was dreaming about making $500 a month. A few months later, we started making real money. I had more and more inquiries, and people started referring products to me, hoping that I would carry them on my website. Everything grew via word of mouth. I kept adding products slowly but surely. That prompted me to make phone calls to a few big vendors who accepted our small business. They were large vendors in the cable management industry, and I think they were just tickled by the idea of selling something online. They did not have a lot of faith in it, but they thought it was interesting. They gave us a shot, which let us start distributing products. That put us in a different price bracket because before that, we were buying products at our local hardware store and marking them up to sell on our site.

**Sramana Mitra: How did you finance the inventory?**

**Valerie Holstein:** I just bought retail priced inventory and added a 20% markup. I really did not have to finance that inventory. People had no clue what to look for, so they were willing to pay for the products on our site because I made it easy for people to find what they were looking for. At the time, keyword analysis was not well known, but we focused on a lot of unique keywords that I knew people were using to try to find these solutions. Nobody knew to look for a surface raceway; they had no clue what they were called. I brought a packaged solution to people and they responded. When you make it easy, things happen. I was driven by what the customer feedback was.

**Sramana Mitra: Was this all just you or was your husband working on the business?**

**Valerie Holstein:** He was working on the backend of the business. His specialty is ERP, so he set us up with UPS and USPS. He set us up with a free shopping cart. There are a lot of shopping cart systems out there that are free if you transact under a certain amount of money each month. They are not very sophisticated, but they do exist. Amazon was already there and eBay was there, but nothing else sophisticated was really out there.

**Sramana Mitra: Did your husband keep his job at CSC during this timeframe?**

**Valerie Holstein:** Yes, he did. He was working full time for a year and a half, and I was still working 20 hours a week. We had 1.5 paychecks coming in.

**Sramana Mitra: How much revenue did you generate from CableOrganizer.com during your first year?**

**Valerie Holstein:** I did a little bit under $200,000.

**Sramana Mitra: Wow! That is not bad for a garage, grass roots operation.**

**Valerie Holstein:** Every penny that we made was reinvested in purchasing more inventory. Whatever was not reinvested in additional inventory was saved. We kept everything to pay off our mortgage.

**Sramana Mitra: How many customers were transacting on your site?**

**Valerie Holstein:** At the time, we probably had about 20 customers a day.

**Sramana Mitra: Were they all finding you via Google searches?**

**Valerie Holstein:** Yes. Google and word of mouth.

**Sramana Mitra: Were you aware of search engine optimization and keyword optimization at the time?**

**Valerie Holstein:** I was. By the end of the first year, search engine optimization had come on in a big way. By the end of that year, I had gone in and added it on all of my pages. I did heavy-duty keyword analysis. I went retroactive on my pages, which prompted more business.

At the end of our first year we also had another surprise. Somebody called to congratulate us on our article in the Wall Street Journal. I told them they must be mistaken because we were a very small company and we did not have any PR. Somehow somebody from the Wall Street Journal was writing an article about cable management and came across our site online. They did not call us but they mentioned our products in a one-page editorial. We had 90 sales that day. My husband and I were afraid that they were fraudulent orders, but they were not. We were shocked.

**Sramana Mitra: That also must have driven your keyword ranking up like crazy.**

**Valerie Holstein:** It did. Absolutely. Sometimes things happen that you are not even aware of. You don't know who is watching, and you get great surprises. By the end of the second year, my husband quit Computer Science Corporation so that we could work full time. I had a tough time juggling parenting and running the business. I did not have time to look for a nanny. It was hard to find time to take a nap. I was working from 8AM to 2AM or 3 AM every day. I had to do customer service, bookkeeping and do post office runs every day. I had to put my phone on an answering service so I could take care of next-day air shipments. I would then come back and answer the phone for another three hours. I would then come and take a break between 7PM and 8PM, which is when I caught a nap and got an energy drink. I did not even have time to do grocery shopping. My neighbor helped me out a few times and got me food.

From 8PM until midnight, I would be back on the phones handling the West Coast phone calls. I then had the military folks in Iraq or Afghanistan calling me at 2AM. I would pack orders at 3AM so they were ready for the following day. Once my husband quit his job I was able to dedicate more time to product development. I set up more product pages on our website and the business just grew very rapidly from that point on.

**Sramana Mitra: How much did you do the second year?**

**Valerie Holstein:** Close to $1 million. The third year we did $3 million. Now, we are out of our garage, and we have a 40,000 square foot warehouse. We have 47 employees. We are a global company with revenues at around $16 million.

**Sramana Mitra: You had massive growth from $200,000 in revenue to $16 million in revenue. What did you do in terms of marketing?**

**Valerie Holstein:** Believe it or not, I was not doing any advertising at that time. It was all organic growth and traffic. I could not go fast enough to serve the customer base that we had. I did not have a single minute to think about advertising. We started advertising and making a catalogue in 2005 after we were well into the company.

**Sramana Mitra: How did you do inventory financing?**

**Valerie Holstein:** We did organic financing. We have never been in debt. We do have a mortgage on the current building that we own, but other than that, we have never required financing. All of the inventory is based on revenue and cash. We have maintained that to this day. We have $1.5 million of inventory, and I have never taken debt for it.

My husband was a CPA in a previous life. He is a finance guy. He is one of the best CPA's I know to this day. He has a strong ERP and computing background as well. We were both brought up by parents who did not believe in debt. We don't believe in credit. I do have a credit card, but, we pay it off at the end of the month. To this day, we pay our vendors in advance and leverage that to get an extra 1% to 2% off. We just don't believe in debt.

I have no visibility or clue into what is going to happen with this economy. If I can't afford something now, then how am I going to afford it later with 30% interest and fees added on? I don't like to work that way. We have had plenty of opportunities to work that way; we just don't like to.

**Sramana Mitra: How did you build your team?**

**Valerie Holstein:** About a year and a half into the business I was beyond exhaustion. I could not function anymore. I was working 24/7. I worked weekends and holidays, including Christmas. If the phone rang, I picked it up. There is no 9 to 5 in my world.

After 2001, a lot of my husband's colleagues got laid off. One of them was one mortgage payment away from foreclosure and bankruptcy. We asked him to come on board. We told him that we had the money to pay him on a month-by-month basis only. The salary was low because we could not afford much.

We made the jump to hire him, and it was not an easy decision. The first employee and the first warehouse were both big decisions. We had to make sure we could make enough money to afford and sustain the employee. We knew we couldn't afford not to hire someone because we were growing too fast. If we did not start hiring, we would shoot ourselves in the foot. We would not be able to answer our customers like we should.

Once we hired one person we then grew by 1400% in one year. Once you make that jump, it is much easier to make the decision to hire a second, third and fourth employee.

**Sramana Mitra: What are the functions that you staff for today? Customer support and shipping are obviously key roles.**

**Valerie Holstein:** Right now it is mostly customer service associates and outside sales people. We have a reverse approach to business. We are technically 100% e-commerce, but we recognize that in order to leverage our exposure, we need to go back and find more traditional ways to reach the regional market. The international market is reached easily via the Internet. Over the years we have realized that people still like to be stroked on the back. They like to be visited.

**Sramana Mitra: What kind of customers are you visiting?**

**Valerie Holstein:** Local contractors. Ft. Lauderdale is the Venice of America. The marine industry is very prominent. We visit boat manufacturers as well as all the people who refurbish boats.

**Sramana Mitra: Are you primarily focusing on Ft. Lauderdale and not other markets?**

**Valerie Holstein:** We visit folks in the Tri-County area. Anyone in other locations, like the West Coast, is reached via the Internet.

**Sramana Mitra: Theoretically, however, you could apply that model to sell with contractors in other regions as well if necessary.**

**Valerie Holstein:** We could. We were thinking that in a few years we could open a fulfillment facility somewhere on the West Coast to alleviate shipping cost and shipping delays. That would allow us to be closer to our customers on the West Coast. We also have a subsidiary in France that handles all of the sales in Europe, Africa and the Middle East. That is all e-commerce business.

**Sramana Mitra: How prepared did you feel to take on this business?**

**Valerie Holstein:** I don't have an MBA. I came into this position by default. My husband said "congratulations, you are the President of CableOrganizer.com; get going" and that was it. We took off from there. I had to hire, do bookkeeping, supply chain management, logistics, inventory management, inventory control and everything else you can imagine. I had a lot of sleepless nights.

**Sramana Mitra: You have much more than any old MBA. You have built a 16 million dollar business from scratch. How many MBA's know how to do that?**

**Valerie Holstein:** I just don't know. I have never gone to school. I still think I might go do an eMBA. I come from a long line of teachers in my family and I think I am missing that MBA.

**Sramana Mitra: If you are seriously thinking about heading out to get an executive MBA, then I will tell you to save yourself the money and trouble. Just do 1M/1M. We teach everything about entrepreneurship in a very efficient program for just $1,000 a year.**

**Valerie Holstein:** Maybe I should do that. I will definitely look into it. Just last month I went to an accounting class that I did not understand. I will have to take it again. The course went too fast for me because I don't speak the accounting lingo. I do FranklinCovey Classes, and I am on various LinkedIn groups. I am part of the Business Marketing Association. I am all over the place. We have been a Top 500 Internet Retailer for the past five years.

**Sramana Mitra: I know the numbers of the top 500 retailers, and that is great that you are there. Both you and your husband still work on the company full time. You have been doing business together for 10 years. How has that experience affected your relationship?**

**Valerie Holstein:** In the beginning it was easy. He worked full time outside of the country. I saw him about 20 hours a week. Everything regarding the business was on me. After 10 years of traveling non-stop all over North America, he suddenly came back home, and he was home full time. Not only did he come back but he also had a job inside the house. It took us a year to adjust.

He had his own habits, and I had my way of doing things. When he came back, we had to adjust. It was definitely an adjustment period. Then we had the brilliant idea to have office space that was adjoining. That was a disaster because he could hear my conversations on the phone, and I could hear his. When we disagreed, it was done in public and out loud. It was making employees uncomfortable. It took a few years but we had to learn not to criticize each other in front of employees.

We had to learn to respect each other's positions as well as each other's personal space. The best thing that we did was to have offices on the opposite sides of the area. We also decided not to manage everything together and instead divided our responsibilities. IT, logistics, finance and accounting are his. I am the marketing, HR, business development, PR and trade show person. That is how we have separated it, and it is working really well.

**Sramana Mitra: Thank you. I have really enjoyed your story. It is wonderful to see you succeed like this. I look forward to keeping in touch.**

# Corporate Incubation

## Corporate Incubation

There is a real trend developing right now of corporations becoming crucibles of innovation and entrepreneurship in a systematic way. In this chapter, I will discuss four specific sub-categories of this trend that we're seeing, and for all practical purposes, participating in.

### Intrapreneurship Incubation

Corporations have come to realize that there are numerous great ideas buried inside their ranks, and are putting in place processes to help those bubble up and get developed. The most common form this process takes is a call for ideas, followed by various types of incubation of some or all those ideas. Those ideas that look compelling after a few months of incubation go up to a management committee / innovation council for evaluation. A subset of these are given additional resources to be developed further. Through our 1M/1M Incubator-in-a-Box program, we're involved with a number of these projects at major corporations, and see hundreds of millions of dollars of revenue opportunities get unlocked. Corporations with Intrapreneruship programs in place include Oracle, HP, Intuit, Computer Associates, etc.

### Platform Eco-System Incubation

We've been highlighting the platform eco-system trend for a while. Recently, *The Economist* did a story on the trend as well. Bottom line, many major platforms have now developed within corporations like Apple, Google, Salesforce.com, Amazon, SAP, Microsoft, etc. and the most widely practiced form of entrepreneurship currently in vogue is to build something on top a platform. Again, our Incubator-in-a-Box for Platform Vendors has exposed us to several of these eco-systems where we're incubating businesses built on top of a major platform. In our conversations with people running these eco-systems, we have learned that motivations vary. Some platforms charge a royalty fee to the developers, and the motivation for incubation is to grow the revenue base. Some others are looking for differentiated apps for their platforms that would make it attractive for customers to adopt the platform itself. The latter is particularly true for the mobile phone eco-systems.

**Corporate Venture Capital**

Corporate venture capital has been around for a long time, and at different points in history, their popularity has ebbed and flowed. At the moment, corporate venture capital is rather popular, with everyone from Google, Microsoft, Nokia, SAP, EMC, and many others running their own funds.

**Bootstrapping with a Paycheck**

The trend is particularly hot right now because entrepreneurship has becomes so hot these days: getting a company off the ground while working a full-time job. We've seen numerous companies get launched and gain traction in this mode.

**Predictions**

All of these are healthy trends that keep creativity flowing across the system. My prediction would be that corporations are going to invest more in both nurturing their intrapreneurs and the entrepreneurs building on top of their platforms, and over the next couple of years, corporate incubation will become a substantial contributor to innovation in general. In parallel, bootstrapping with a paycheck will also grow as a tried and true mechanism to get businesses off the ground.

# Interview with Jonathan Ellis, Matt Pfeil, Founders, Datastax

*This is an interesting story of how an Open Source software company built around Cassandra was incubated by Rackspace and subsequently raised $189.7 million in funding from top VCs. The latest round of funding (Series E) values them at $830 million. Founded by engineers Jonathan Ellis and Matt Pfeil, the interview traces the corporate incubation process they experienced.*

**Sramana Mitra: Jonathan and Matt, let's start with both of your backgrounds. Where were you born? Where did you grow up? How did you get together?**

**Jonathan Ellis:** I grew up in New Jersey. I met Matt after I moved to Texas to work for Rackspace. Rackspace hired me to build a scalable database for their internal infrastructure as they started to compete more with companies like Amazon and Google in the Cloud. In late 2008, I started working on Cassandra. I met Matt Pfeil shortly afterwards as he led the group that was going to be deploying Cassandra internally at Rackspace.

My background in big data started a little before that when I built a storage engine for the backup provider Mozi. I built an object store that let people back up their files to Mozi's data centers. This was a petabyte scale object store, so it scaled out quite nicely, but it's not a database. It was not designed for low latency query and retrieval. It was specifically designed for storing large blogs for a backup engine. So I was working on a general purpose database that could be used for driving applications. To scale was a logical next step for me and that's why I was interested in working with Rackspace on that.

**Sramana Mitra: And Matt, what about you? Where are you from? What's your background?**

**Matt Pfeil:** I went to school in Virginia Tech. I grew up in Europe and the Middle East because my dad was in the Navy. Right after Virginia Tech, with a Computer Science degree in hand, I worked with a little startup that was in the same town. It was an e-mail hosting company for small businesses, a part of which was actually acquired by Rackspace. I was working on its backend and had a lot of experience storing large numbers of very small files. We were doing things like hacking relational databases just to make this big data problem work on a relatively large scale.

After Rackspace bought us, I moved to Texas at their request. I was working on building out shared infrastructure for the various groups at the Rackspace Club, so they could focus on building customer-based features as opposed to scaling their data source. And the funny part of that story with Jonathan is that he told me he was going to leave. I spent a lot of my time recruiting at that point. Whenever I took him out to lunch to try to convince him not to leave, I remember asking, "Who the hell is going to do the business side for you?" And he said, "Well, you can do it." That was not an argument that I won on that day.

**Sramana Mitra: And did you guys know while you were still working together at Rackspace what the startup was going to be about?**

**Jonathan Ellis:** Not really, because we didn't know that we wanted to build a product company. We didn't know exactly what that looked like, so started up with the typical Open Source playbook of services and support. We built a management tool as our first step towards a product-based business. But it was more of 'we'll know it when we see it'. Building an enterprise product around Cassandra was the next step we were looking for. We didn't know that's what we were going to build when we started it.

**Matt Pfeil:** One of the things that became apparent very early on was when we started offering service SLA support for production clusters. First of all, it was really nice that we had customers on day one. It's because of how successful Cassandra had been while we were working at Rackspace. That was a huge benefit but then as we started offering services, no one really wanted to get a pager at 3:00 in the morning. So, one of the first products we started building was OpsCenter, our management offering. Rather than having a human-based reactor support, we tried to build tools that would help people do that in an automated way. It was really nice to build things that address their pain.

**Sramana Mitra: I am going to probe you on a couple of different points. Did you start DataStax while you were still inside of Rackspace?**

**Jonathan Ellis:** No. We were working on Cassandra at Rackspace but we started DataStax, originally called Riptano, after leaving Rackspace.

**Sramana Mitra: So, by the time you left Rackspace and started this company did you know precisely what DataStax was going to do?**

**Matt Pfeil:** One of the really nice things about Open Source is that it is a hard business model. Jonathan was actually building the core database and because it was Open Source, there were other companies already using that database. So unlike a traditional company where you would have to go build the products and then find a way to take it to market, major companies such as Twitter, Digg, and Netflix were using Cassandra because of its Open Source aspect. And they were talking about it.

**Sramana Mitra:** So, did you have a sense of what was the problem that you were going to try to solve?

**Jonathan Ellis:** Basically, we wanted to make Cassandra more successful and help people solve their technology problems using Cassandra as a foundation. With respect to that aspect, DataStax has grown according to plan.

**Sramana Mitra:** You have also said that you had customers right out of the gate. Can you elaborate on that?

**Matt Pfeil:** Since Cassandra is an Open Source project and it has been used at various organizations, there were companies saying, "We would like to purchase either something like support from you or professional services." But I believe it was Cloudkick that said on day one, "We want to be a paying customer of yours". And they signed up for one of our support packages. Rackspace ended up buying Cloudkick. So again, one of the benefits of having an Open Source company is that there's adoption of the Open Source offering and you can obviously charge directly for the additional support. There are complementary offerings that people want to buy.

**Sramana Mitra: Yes. We have done a lot of case studies where the entrepreneur started working on an Open Source project while inside a company. And then, once they go out into the entrepreneurship world, they already have a customer community to work with. So it's a very common way of getting customers very quickly in the cycle. Non-Open Source products have to go through a much longer cycle of customer validation and development.**

**So tell us what happened after you left Rackspace? You had this customer community that you were catering to. What did you do next?**

**Matt Pfeil:** Rackspace was actually extremely nice to us and gave us a little bit of seed money. We immediately hired two or three other developers that Jonathan and I knew to start working on either Open Source Cassandra or OpsCenter. Then, we went out and raised $2.7 million from Lightspeed, which is our series A lead investor. At the end of the year 2010, we had about 20 people.

**Sramana Mitra: How much money did Rackspace give you in the seed investment? What were you able to accomplish with that money and in what time frame?**

**Matt Pfeil:** They gave us just under $100,000. Lew Moorman at that time was the Chief Strategy Officer and is the President of Rackspace now. I'll never forget his words. He said, "You guys are going to go raise serious money. This is just to pay the bills between day one and when you raise that money". From company formation to raising the $2.7 million, it was only about 85 days. So, it was literally just to get by and make sure we could feed ourselves.

**Sramana Mitra: Was it a convertible note?**

**Matt Pfeil:** Yes. It was a note.

**Sramana Mitra: You don't have to answer this if you don't feel like it but always details are useful for people who are trying to learn. What kind of terms did you negotiate with Rackspace?**

**Matt Pfeil:** It was really extremely friendly. I don't remember the exact details but it was not complicated.

**Jonathan Ellis:** The big thing they wanted was a "no poaching agreement" for a year. We would have to do that because we didn't want Rackspace to feel burned by us leaving and after having funded Cassandra Development for 18 months. So we really wanted to keep things a win-win for everyone and I think it worked out that way. With DataStax driving Cassandra much more than Rackspace could ever have done if

I had stayed there, Rackspace has benefited from that as well in being able to use Cassandra internally on their projects.

**Sramana Mitra: To some extent, this model of corporate venture capital, corporate incubation, and convertible note from corporations has really taken off. Right now, there are a lot of companies that are doing corporate incubation programs all through the technology industry. It's good to see some serious success in that domain.**

**You said that within 85 days, you already raised your $2.7 million. Can you describe what you pitched to the investors? And you are based now in Silicon Valley. But where were you based then?**

**Jonathan Ellis:** At the time we were based in Austin. Our corporate headquarter is now in San Mateo.

**Sramana Mitra: So to raise money from Silicon Valley did you have to commit to moving to Silicon Valley right away?**

**Jonathan Ellis:** We actually did.

**Sramana Mitra: Had you already moved to Silicon Valley before raising the money? This is another key question that a lot of entrepreneurs are wrestling with and making decisions on.**

**Jonathan Ellis:** Yes. It actually wasn't an explicit condition of the funding and we actually took another 3 months or so before moving the headquarters. They suggested it and we recognized the value of having our sales and marketing presence particularly in the Bay Area. When we were starting out, probably 80% of our customers for that first 6 months were Bay Area companies. That area is more used to taking a little bit of a risk on a new technology in the hopes of getting a big pay-off in terms of solving the scalability and performance problem. So Matt moved out as CEO and I stayed in Texas and continued building an engineering team out here which had a number of cost benefits.

**Sramana Mitra: And are you still in Texas?**

**Jonathan Ellis:** I am.

**Sramana Mitra: Okay. So you operate in a 'headquarters for marketing and sales in Silicon Valley', engineering team in Austin, Texas mode?**

**Jonathan Ellis:** Since we grew out of an Open Source project, we were very comfortable from the beginning on hiring engineers remotely. So even though I'm in Austin, and we have probably 15 to even 20 engineers in Austin now, on any given day, you'll probably have 4 or 5 of them in the office and everyone else working from home. We have a distributed team working with the broader Cassandra community. So we had a VP of Marketing come and visit us in Austin and she's kind of laughing at us saying, "You guys are such nerds even when you're talking to each other. You're just typing on HipChat instead of talking." But the reason for that is that we have colleagues who are not in the room with us, so we want to be able to keep them in the loop as well. So using IST or HipChat or Bugzilla ticket tracker lets them be part of the conversation even though they're not in the room with us.

**Sramana Mitra: Yes. So this is also a very contemporary trend of having distributed teams and virtual teams working together. There are pretty sizeable companies that are being built with this model right now.**

**Jonathan Ellis:** Yes. I feel like it's the future of software development because it means that we're not locked into competing for talent in a fixed geographic area but we can hire people from wherever they want to live.

**Sramana Mitra: Yes. I think the future of the enterprise in a way is going to be a lot more distributed. People are going to be working from home a lot more and not interested in commuting and sitting in traffic for 2 hours. All of these trends are very active right now.**

**Jonathan Ellis:** Coming from a valley perspective, another trend is that people are worried about age in the valley and say, "Hey, why are all these startups just people with young college graduates? Where are all the middle-aged engineers?" Well, the middle-aged engineers left Silicon Valley because you can't afford to raise a family there. I'm going to have five kids in March, there's no way I could afford to live in a good school system in Silicon Valley with the kind of expenses I've been looking at for housing.

**Sramana Mitra: Yes.**

**Jonathan Ellis:** So by having a distributed team, we also get more advantage and more perspective than just the young, fresh out-of-college graduate.

**Sramana Mitra: Very true. When you're doing work in core technology, which you are, I think maturity in the engineering talent really helps.**

**Jonathan Ellis:** Yes. That's also true.

**Sramana Mitra: Let's come back to the pitch to Lightspeed based on which you raised your Series A. How did you evolve from there? How did you build the business?**

**Matt Pfeil:** We built out an engineering team for both the core Open Source project as well as continued to evolve OpsCenter. For practical purposes, it felt like that was one of the goals of the money. The OpsCenter was our first company-owned product as opposed to completely Open Source.

It was the management software for Cassandra and we built out a team for it. We continued standard support offerings and then started to hire full-time support engineers as opposed to engineers who were doubling duty. It was really good, based on customers signing up for those offerings. We had more revenue than anticipated and ended up hiring more people than we originally planned to. Our original plan was to hire six people in six months but within a year, we had about 20 people working for the company. We also hired two sales people.

**Sramana Mitra: Can you talk to me about what was happening on the customer side? Who were the customers? What kind of deal sizes? All the dynamics from the sales and business development side.**

**Matt Pfeil:** In 2010, most of the sales were still to technology-based companies. We did a lot of experimentation with pricing and structure of the deals to really figure out what customers wanted. The two big deals that I still remember were in the fall of 2010, maybe 4 or 5 months into the company's life. A public company that has e-mail marketing for SOP's called us and were evaluating us. In about 3.5 months, they deployed their first standard appointment. We also signed a couple of companies in the Fortune 50. Netflix started to look at Cassandra in August 2010, but they brought us in to just jump into the discussion of about 30 to 50 engineers describing Cassandra. And that led to Netflix standardizing Cassandra as their database of choice for their entire infrastructure. That was exciting because Netflix has been a great partner to work with.

**Sramana Mitra: So Jonathan, can you actually elaborate on why Cassandra? Why were these customers leaning towards Cassandra? What did the ecosystem look like and where was Cassandra positioned that was giving you the opportunity to work in the Cassandra ecosystem and build the company?**

**Jonathan Ellis:** Cassandra builds applications that serve user bases of millions of users. If you look at traditional database technology like Oracle from the 1980′s, they are all designed around serving a single department or a single company. They are designed around a single database server and if you have more users, you need to buy a bigger server to run that on. The problem is that there's a ceiling to how big a server you can buy. First, it starts getting cost inefficient but then even if you have more money, you simply can't buy a single machine big enough to run your business on.

Early Internet pioneers like eBay ran into this problem. At first they bought bigger and bigger sub-machines to put their Oracle database on. However, by 2002, they couldn't buy a bigger machine. So they had to start cutting up their database across different machines manually. So that became the state-of-the-art for building web applications and software or service.

The strategy was to manually distribute your database across a cluster of machines. The problem with this is that the techniques you use are not reusable. So eBay would have a one-off solution to do that for their bidding system but Amazon wouldn't be able to reuse that effort or even a different eBay subsidiary like RedLaser wouldn't be able to leverage that effort. They would have to start from scratch. Cassandra gives you a reusable technology.

The early adopters were mostly in the social media space. Facebook Open Sourced Cassandra, then Digg, Twitter, Reddit, and Mahalo were the early adopters. Then, there was a second generation of users like Netflix who weren't really in the social media space but had a large and growing user base and needed to solve similar problems.

**Sramana Mitra: And what is the approach that Cassandra uses to address the large user base? Algorithmically, in very brief, what is the approach?**

**Jonathan Ellis:** It's an extension of a concept called "system hashing". What that means is that we decide what machines in every row is going to live on. When you add new machines to the cluster, then we have to reshuffle the minimum necessary data to that new machine.

That was one of the major factors for Cassandra adoption. Not only does it let you painlessly manage a cluster of machines as a single database but it also scales out. So you can add capacity to that cluster as your user base grows without down time. Cassandra is almost unique with no down time even for upgrades. We recently released Cassandra 2.0 so you could upgrade from 1.0 to 2.0 with no downtime and a lot our competitors haven't been able to match that.

**Sramana Mitra: So in the 2010 time frame, when you were starting to work with some of these customers, they were already adopting Cassandra. And then they needed management support and management tools and that's what you were providing? Is that correct?**

**Jonathan Ellis:** Yes. Technically what we were trying to deliver was a product business and the management tools and so forth. But, honestly, people were paying us because we were the Cassandra experts and so they wanted to have the support available if something went wrong. We released Cassandra 0.7 in October of 2010, so it was still a pretty new product at that time. People were understandably a little bit nervous about the deployment without some kind of a contract.

**Sramana Mitra: They needed to have experts on hand to be able to manage that situation.**

**Jonathan Ellis:** That's right.

**Sramana Mitra: Can you talk about the business model from that time? What were you charging? What were the deal sizes and so forth?**

**Jonathan Ellis:** When we were first starting the company, we had a potential $80,000 deal. I told Matt, "You know if we can get a few deals like this, we might not have to raise funding." That was kind of naïve for someone who has not done it before.

**Sramana Mitra: Were you able to get the deal?**

**Jonathan Ellis:** We did eventually sign a deal with them but it wasn't for another year or so. So that was another introduction to enterprise sales where sale cycles can take longer than we think.

**Sramana Mitra: How did 2011 evolve? At that point, you did have some funding. How many of these deals were you able to get on board?**

**Jonathan Ellis:** We signed Netflix in the beginning of 2011. We definitely started to get more traction. We had the 0.7 release in October of 2010. In a lot of ways, that was a quantum leap in terms of ease of use from earlier Cassandra releases. It definitely helped a lot in building our traction.

Another major thing we didn't know when we started was just how much manpower it takes to build an enterprise software company. Matt said we hired way ahead of plan in terms of both engineering and support. But I think we hired mostly according to plan in sales.

The unplanned growth in head count was mostly in engineering. But the cruel fact is that we were saying, "Hey, we'll raise this $2.7 million that will fund us for a year and a half." I don't remember how long we were planning to go, but it wasn't going to last that long because we'd increased our head count. So we ended up having to raise a Series B earlier than we planned as well, so some of the mistakes of inexperience did have a very real impact on the business side of things.

**Sramana Mitra: But then before you went into raising Series B you had a bunch of serious paying customers?**

**Jonathan Ellis:** We had a bunch of serious customers. I think the main thing that hurt us was that we didn't have a real product. We had OpsCenter which is management and monitoring. The investors, however, want the core infrastructure as your product. We didn't have that when we were raising Series B funds. The investors were saying, "For Series A, we will write you a check based on hope and dreams. But for Series B, we want to see that you've actually built what you said you were going to build and deliver to customers. We see that you have a customer list but they're mostly paying you through support. Let's be honest here. You're still selling a dream that you will be able to build a real enterprise product on top of Cassandra. But you haven't done that yet." I think that was the biggest error.

**Sramana Mitra: How did you navigate that kind of catch-22 in the Series B raise?**

**Jonathan Ellis:** We did find a partner who was willing to buy the dream. One of the things that helped was that our VC was Crosslink and the incredible amount of footwork they did on our deal. They had people call just about every one of our customers as well as Cassandra users who were not customers. The feedback they got was, "They don't have a product yet, but their technology is amazing and you should take a chance on them."

**Sramana Mitra: Basically, you had investors who could see the vision and who could see the caliber that you had on the team and believed that you would be able to bring the product to market. It's just a matter of time.**

**Jonathan Ellis:** Yes. I think fundamentally that's the summary.

**Sramana Mitra: When you go through a series of funding, the Series A is generally a larger round. When we talk about your $2.7 million A round, it does not seem like a lot of money. We prefer entrepreneurs raise a larger seed round**

**than you did, and also a larger Series A round than you did. Here, you got caught in between milestones.**

**Jonathan Ellis:** Yes. If I was going to do it over again, I definitely would have tried to raise a larger series A and gotten that extra runway.

**Sramana Mitra: Yes. Without enough validation, people don't give you a large series A's either. So you need runway in the seed as well.**

**Jonathan Ellis:** Yes. It's quite possible that you're right.

**Sramana Mitra: How much did you end up raising in Series B then from CrossLink?**

**Jonathan Ellis:** About $11 million.

**Sramana Mitra: Okay. That's a sizeable amount. Tell me more about what happened with that money? What were the Series B milestones? What were you able to accomplish? How did the product come together?**

**Jonathan Ellis:** When we were pitching Series B, we had the blueprint of what we wanted to build for DataStax Enterprise. We knew that we wanted to deliver analytics on top of Cassandra and then search came later on. During the Series A, we didn't know what we were going to build, but we were selling a vision and not an actual product. The goal of Series B was to actually build that and we were already working on that. DataStax Enterprise 1.0 came out in October of 2011, we added search capabilities for 2.0 and then security for 3.0.

**Sramana Mitra: And what was the time frame of that? You raised Series B in 2011, yes?**

**Jonathan Ellis:** Yes. The Series B was in June or July of 2011 and then DataStax Enterprise 1.0 came out in October. During the Series B process, we didn't have the completed product but were working on it.

**Sramana Mitra: And what happened now on the customer side alongside Series B?**

**Jonathan Ellis:** This is also the time frame where we brought in Billy as our new CEO. He closed the Series B with CrossLink. He started taking the sales team and making it a real sales team and getting serious about that side of the business. One of the things that I think is interesting and a little unique about DataStax is that not only did we successfully make the transition to bringing in a new CEO but did it very well. We retained Matt who was contributing materially to the success of the company. When you are raising money from venture capitalists, especially if they are first-time founders, the VCs will always ask, "What happens if the company grows larger than your ability to run the company?"

The correct answer is we will step aside for the good of the company and bring in someone who has the experience and ability to be CEO of a hundred-person company. Everybody says that but when the push comes to shove, you often see these nasty battles for control. And so, to his credit, Matt was the one who recognized the need and said, "It's time to bring in someone else." We met Billy not long after we started that search. I was really reluctant to make that change, but Matt helped convince me we needed to do that.

**Sramana Mitra: And Matt, what were some of the secrets of making that a successful transition from your point-of-view?**

**Matt Pfeil:** We brought Billy in May of 2011 and we have known him since the summer of 2010. He was running the database tools unit at Quest Software as their

GM and he was one of our first partners. He actually approached me and said he wanted an introduction to some of the VCs we knew because he wanted to be CEO of a startup. He had never done that in his career. I then talked to both Jonathan and John Vrionis at Lightspeed. They met him and liked him. To his credit, he really hit the ground running.

To make it a smooth transition, we got him up to speed on where we were as a company, what our pain points were, and just whatever he needed. Billy has got a nice level head and you can tell him stuff that probably he doesn't agree with but he will take it in his stride and have a wonderful conversation with you. So it's been a really good fit at not only the corporate level but also personally.

**Sramana Mitra: That's interesting because you are making a CEO transition but you were bringing in someone who has never been a CEO before. How did that go down with the investors?**

**Matt Pfeil:** John Vrionis and Bill get along very well and while he was a first-time CEO, he was the GM of a $300 million a year business.

**Sramana Mitra: Yes. So, he had the business experience. It's just the startup CEO experience that he didn't have.**

**Matt Pfeil:** Yes. When Billy joined us, he started building on the management team.

**Sramana Mitra: And by this time, you also had the product fleshed out?**

**Jonathan Ellis:** Yes, around October 2011.

**Sramana Mitra: What about customer ramp up for the product? No longer the services type of customers but customers who were actually buying the real vision of the company. How did that ramp up go?**

**Jonathan Ellis:** We had an early adopter program that started to ramp the actual sales to customers. It really started to ramp up at the beginning of 2012 because you do have a several-month evaluation cycle in this kind of software.

**Sramana Mitra: Let's say in 2012, how many customers were in the early adopter program?**

**Matt Pfeil:** I think we had between 10 and 20.

**Sramana Mitra: How were you pricing the product? What was the business model? What are the details of the product itself?**

**Matt Pfeil:** We offer the combination of DataStax Enterprise which is the server, plus the management software, plus the SLA support in a subscription model. The deal sizes vary based on the size of the organization. Initially, there were smaller 5-figure deals but we have done larger million dollar plus deals at this point.

**Sramana Mitra: What is the positioning of the company? Are you focused on the very large deals? Are you focused on mid-sized companies? Where are you trying to build your business?**

**Jonathan Ellis:** I think right now it's fair to say that we are the dominant player at the high-end of the no SQL database market. And we are trying to appeal more to the lower end as well. The reason is that low-end deals can grow up into high-end deals as the company matures, grows, and succeeds. So, we want to improve our product to address their concerns as well as the concerns of the high-end.

**Sramana Mitra: As a company, you have raised a lot more money since then, right? You've talked about your Series A and Series B but you have raised two more rounds of financing at this point, correct?**

**Matt Pfeil:** That's correct.

**Sramana Mitra: And what is the total amount that you've raised?**

**Matt Pfeil:** I think $83 million or a little over that.

**Sramana Mitra: What would you say are the key milestones that you have accomplished, based on almost four years of being in business?**

**Matt Pfeil:** From my perspective, I think that Open Source as a business is really hard because you create something as an Open Source project that you don't own. You throw up things that you could sell. Now we have a clear-cut strategy on what our products will look like. I think we figured out how to sell it and we now have 20 of the Fortune 100 as customers. So the customer list backs that up.

**Sramana Mitra: When you say you have 20 of the Fortune 100, is there a segmentation in that? Are you talking about online retailers? What kinds of companies buy your product?**

**Matt Pfeil:** It's 20 of the Fortune 100 or 20% of the top 100 companies in the world. And in terms of segments, it's a true platform play.

**Jonathan Ellis:** 20% of the Fortune 100 are DataStax customers and most, if not all, of the rest are using the Cassandra Open Source project. Since it is Open Source, it is free to use and you don't have to get a license from us to just deploy the Open Source part of Cassandra. It's a general purpose tool.

**Sramana Mitra: I see. So where Cassandra shines and where you shine consequently are in these very large user-based kind of scenarios. I'm just trying to understand why would all of Fortune 100 respond to that scenario because many of the Fortune 100 don't operate in that manner. It's more in online retail or media kinds of spaces where you see millions of users, hundreds of millions of users.**

**Jonathan Ellis:** That's true. But in the Fortune 100, you'll see a lot of healthcare companies too. They're not necessarily presenting a web application to people, but they're definitely tracking data on a lot of users and customers. I'm trying to think of a category that actually doesn't generate a lot of data in one form or another.

**Sramana Mitra: Just generating a lot of data. My understanding based on what you've told me and maybe I didn't understand it right is that you need data on a large number of customers. Oil and gas, for instance, does not have millions and millions of customers. There's a lot of data being collected but it's a different style of data organization, isn't it?**

**Jonathan Ellis:** I must have explained that poorly because Oil and Gas is a good example of a sector that creates a lot of machine-generated data.

**Sramana Mitra: It does.**

**Jonathan Ellis:** Sensors from their exploration for instance. That kind of application is a good fit for Cassandra as well.

**Sramana Mitra: So, large data volume is where you are playing.**

**Jonathan Ellis:** Yes. The distinction I'm trying to make here is that you can manage large data volumes with Hadoop-based solutions, but that's not where we are competing. We want to solve problems where you need to do hundreds of thousands of operations per second or as with Hadoop you have terabytes of data but you're doing 4 or 5 queries per hour against this large data set. It's more of a data mining tool whereas with Cassandra we're actually running the application that's generating that data and needs to serve it back up to some consumer somewhere.

**Sramana Mitra: Right. It's a more real-time environment.**

**Jonathan Ellis:** Right.

**Sramana Mitra: Yes. Which again raises a big question mark around why all of Fortune 100 would be customers for that?**

**Matt Pfeil:** Well, think about it. Like Logistics or Energy. If you're an energy company and you have sensors on a plant, you need to process the settings on the temperatures of various machines, etc. in real-time. So, if there's a mistake, an adjustment has to be made, and it has to be made in real time.

**Sramana Mitra: It's real-time machine-generated data.**

**Matt Pfeil:** Yes, exactly. So virtually everyone in the Fortune 500 has a use-case for that.

**Sramana Mitra: What would you highlight in terms of your metrics at this point?**

**Matt Pfeil:** I would say that we have 20% of the Fortune 100 as paying customers. I like Jonathan's point that most of the rest of the Fortune 100 is using Cassandra, so they are all prospects.

**Sramana Mitra: What's the revenue range?**

**Jonathan Ellis:** It is over $5 million.

**Sramana Mitra: It was great talking to you. Thank you very much.**

Note: Datastax raised a Series E in September 2014 that values the company at $830 million. The company has now raised a total of ~$190 million in findung, and is considered a key competitor to Oracle in the database market.

# Epilogue

As I said at the onset, we're formalizing a process that shepherds you through the bootstrapping using a paycheck phase of your entrepreneurial journey. Here are the steps we recommend:

(1) Every week, we host Free Public Roundtables online on Thursdays at 8am Pacific Time. These are Webex calls, and you can attend the sessions from anywhere in the world to get some free mentoring, as well as to simmer in a community of entrepreneurs. You will learn a LOT just by attending the sessions and listening to the pitches and the discussions. If the time slot clashes with your other work related activities, you can listen to the roundtable recordings on YouTube [Channel: 1M1MRoundtables]

(2) We also recommend that you join the 1M/1M premium program and go through the curriculum. It will take you about 50-60 hours to get through the core curriculum, and you can do it at your own pace - say 5-6 hours a week. In 10 weeks, you will have got the basics down. Invest another 30-50 hours on one or more elective module, which aligns with your area of interest. Assume, that would take you another 6-10 weeks. In less than six months, you will be in a much stronger position as far as your understanding of entrepreneurship is concerned, and you will learn how to put one foot before the other.

(3) Pay attention to the case studies: you not only learn, you get inspired.

(4) Attend or listen to the private roundtables as part of the premium program. Again,

you simmer with other entrepreneurs, learn from their journeys, get inspired by their progress, and find the confidence and support to launch your own venture. These happen on Wednesdays at 8am Pacific. All recordings are available.

(5) Through this process, we are sure that you are going to have an idea or two come together that you feel passionate about. Start working on validating it, following the 1M/1M Validation Methodology that you will learn in the curriculum. Once you have a validated business, you can leave your current job, and get going full-time with the venture.

Finally, IP issues related to bootstrapping with a paycheck can be handled fairly easily if you are working in an unrelated domain. If you are working in a directly competitive domain with your current employer, this method of entrepreneurship is not recommended.

# Final Word:

**Entrepreneurship = (Customers + Revenues + Profits)**

**Financing is Optional**

**Exit is Optional**

# Author Bio:

Sramana Mitra is the founder of the One Million by One Million (1M/1M) global, virtual incubator that aims to help one million entrepreneurs globally to reach $1 million in revenue and beyond.

She is a Silicon Valley entrepreneur and strategy consultant, she writes the blog Sramana Mitra On Strategy, and is author of the Entrepreneur Journeys book series and Vision India 2020. From 2008 to 2010, Sramana was a columnist for Forbes, and currently syndicates to numerous venues including Harvard Business Review and Huffington Post.

As an entrepreneur CEO, she ran three companies: DAIS, Intarka, and Uuma. She has a master's degree in electrical engineering and computer science from the Massachusetts Institute of Technology.

**On Social Media**:

Twitter: @sramana

LinkedIn: http://www.linkedin.com/in/sramana

Facebook: https://www.facebook.com/sramana.mitra

# **One Million by One Million** Mission

One Million by One Million (1M/1M) is a global virtual incubator that aims to nurture a million entrepreneurs to reach a million dollars each in annual revenue and beyond, thereby creating a trillion dollars in global GDP and ten million jobs.

# Founder

Silicon Valley entrepreneur and strategy consultant Sramana Mitra founded 1M/1M to create a framework for Capitalism 2.0, which she envisions as distributed, democratic capitalism. The program was born out of her 2010 New Year Resolution.

# The Program

We offer a case-study-based online educational program, video lectures, lean, capital-efficient methodology guidance, online strategy consulting at public and private roundtables, as well as introductions to customers, channel partners and investors. The public roundtable is a free program accessible from anywhere in the world. The rest of the services are for our paying members only. Please note that we focus on business strategy and execution; capital is optional, and may or may not be appropriate for your particular business. Less than 1% of businesses that seek funding are actually fundable. However, we are perfectly happy to help the other 99% build sustainable businesses as well, irrespective of fundability or interest in external financing. 1M/1M is a for-profit business, not a foundation or a non-profit.

Meet some of The One Million Club members, and review the Quantified 1M/1M Value Equation.

If you are looking to start or expand an incubator, please look at our Incubator-in-a-Box program.

# Free Public Roundtables

As part of the 1M/1M initiative, Sramana Mitra offers free online strategy roundtables for entrepreneurs looking to discuss positioning, financing, and other aspects of a startup venture every week.

Only the first five who register to pitch will be able to present their business ideas. These roundtables are public forums and recordings of all sessions are available here.

"There are large numbers of people that want to start web-based companies but don't know where to begin. Your curriculum should be mandatory. It has enormous value by itself, but when coupled with the Roundtables and 1M/1M community there is no substitute." — Dan Stewart, CEO, HappyGrasshopper

Sramana requests that entrepreneurs use the 1M/1M Self Assessment Tool to help to prepare their pitches. We strongly recommend that you address the following items in your roundtable pitch:

Your roundtable pitch should be no more than three minutes, and consist of four slides, as suggested above.

Register at http://1mby1m.com

**Contact: support@1mby1m.com**

Twitter: @1mby1m

Facebook: https://www.facebook.com/1Mby1M