Entrepreneur Journeys

The Other 99% (Entrepreneurs)

Fortune In The Middle Of The Pyramid

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To the Entrepreneurs in the
One Million by One Million
Global Virtual Incubator

Contents

I am searching for a viable, pragmatic framework for Capitalism 2.0.

This collection of essays introduces my current thinking, the basis for the *One Million by One Million* initiative.

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How to Reduce 'Infant Entrepreneur Mortality'

Ever since the 2008 financial crisis, intellectuals have had to ask themselves, 'Does Capitalism Still Work?'

I have explored this question for several years now, beginning with a seminal column I wrote for Forbes: Capitalism's Fundamental Flaw. Two particular problems stand out. First, Capitalism has been hijacked by speculators. Second, the system enables amassing wealth at the tip of the pyramid, leaving most of society high and dry. Both problems have resulted in a highly unstable, volatile world order that jitters and shocks markets periodically, leaving financial carnage and mass scale human suffering.

So what is the solution? Can the ideals of democracy and capitalism be combined to establish a more robust, stable system?

I believe so. Here's how.

We need to use the fundamental principle of capitalism — the creation of value that people are willing to pay for — and apply it to the middle of the pyramid on a global scale. In other words, we need large numbers of entrepreneurs who are willing and able to build products and offer services that address demand from certain specific segments of customers. We need to teach them how to build businesses that can become sustainable — profitable — and create jobs. We need to also teach them to grow by applying the same kinds of methodology and discipline that, traditionally, a venture-funded company may use.

Everybody talks about the role small businesses play in growing economies and creating jobs. However, as it stands, in America alone, 600,000 businesses die in the vine every year. This colossal infant entrepreneur mortality is a product of colossal levels of ignorance about how to build and sustain businesses.

I have studied some of the reasons behind this mortality.

One reason is that entrepreneurs have been fed a myth that entrepreneurship equals venture capital. The media, business schools, incubators — every part of the eco-system that is supposed to teach good business practices — reinforces this myth.

The reality is that over 99% of entrepreneurs who go out to seek financing get rejected.

There are two primary reasons behind this phenomenon. One, most business opportunities seeking venture capital are too small, and too slow growth to fit the venture model. The second, entrepreneurs often go to VCs too soon, without doing adequate homework.

There is actually a method to the madness of entrepreneurship. And while the 'character traits' that support entrepreneurship — courage, tolerance for risk, resilience, persistence — cannot be taught, the method of building businesses can and should be taught.

In fact, it should be taught not just at elite institutions, but at every level of society, en masse.

If we can democratize the education and incubation of entrepreneurs on a global scale, I believe that it would not only check the infant entrepreneur mortality, it would create a much more stable economic system.

Why? Because this middle of the pyramid — large numbers of small and medium businesses — is outside the reach of the speculators. If they produce something of value that their customers want, they can build stable businesses. They may not grow 300% a year. They may never become billion dollar enterprises.

That's okay.

Too much energy in the business world today is being spent on high-growth businesses that go after very large business opportunities. All of the startup incubation eco-system of the world focuses on the venture-fundable businesses only. As a result, less than 1% of the world's entrepreneurs are able to access high caliber incubation support.

My thesis is that the other 99% entrepreneurs hold the key to Capitalism 2.0: a system of distributed, democratic capitalism. Still focused on creating value, generating wealth, creating jobs, but not so focused on speculation.

Mercantile capitalism has hit its limits. Democratic, distributed capitalism will allow the pendulum to swing back and hand power back to the value creators.

The good news is that in this era of high bandwidth connectivity, most parts of the world can access online learning, and use online channels to build businesses. Let's say, we digitally teach and incubate millions of online businesses over the next few decades.

We teach them fundamentals like Entrepreneurship = Customers + Revenues. Financing is optional. Exit is optional.

From Africa, to Indonesia, to Colombia to Maine, generations of entrepreneurs proliferate. They all are given the opportunity to access certain methodology and knowledge.

What do you think will happen?

Infant entrepreneur mortality will drop. Larger number of entrepreneurs will learn how to grow their businesses. An entrepreneur who would have otherwise done $1 million a year, with proper support, will perhaps do $5 million a year.

And quite possibly, larger numbers of entrepreneurs would qualify for venture capital because they would not go too soon to seek capital. They would go only when they are ready, when their ideas are validated, when investors are likely to invest in them.

A more robust pipeline of fundable businesses will develop. These, then, can attract capital and grow faster.

How Startups Overcome the Capital Gap

Imagine you're a first-time entrepreneur with an unvalidated business idea and no track record of making money for investors. You may have another kind of track record, such as working successfully at a large company. Or you could be a young entrepreneur, fresh out of college, ready and raring to get yourself launched.

Unless you are willing to bootstrap yourself to some degree of validation of your concept, and can convince investors that there is real demand for what you offer, and a really large market, no one will write a check. Certainly not VCs. Not even, these days, angel investors.

You can go to an incubator and potentially try to convince them to write a $15-$25K check to get your idea off the ground. However, the best incubators also look for large, venture fundable business opportunities.

Let's suppose your idea is a good, viable business idea, but not a billion dollar market opportunity. What do you do then?

Now consider this.

There are many more $5 million, $10 million, or $20 million business opportunities out there than billion dollar ones. Those don't fit the VC model, but if you build a $15 million-a-year business that generates 30% profit year-over-year, what's wrong with that picture?

In the fall of 2007, I met Sridhar Vembu, CEO of Zoho. At that time, no one had heard of him. He was flying under the radar of Silicon Valley. Sridhar had a small network management tools business that basically functioned as a highly profitable cash cow. It was not an earth shattering idea. But it gave him cash to play with.

And play he did. He decided to go after Salesforce.com with a Software-as-a-Service Customer Relationship Management product at a price-point that was one sixth of what Salesforce.com, the market leader, charged. He offered the product to small businesses, and customers lapped it up.

VCs started chasing him from every corner of Silicon Valley. Acquisition offers started floating in. Fast-forward to 2013: Zoho is a $200 million dollar a year company. It has been built without outside capital, entirely.

If you analyze this case study, what strikes you is that Sridhar's first business idea was not fundable. He bootstrapped it by selling to customers as early as he could. He grew the business organically, with revenue and profits, not outside capital.

But once the business started generating decent profits, Sridhar decided to go after a potentially bigger opportunity.

The moral of the story is that even an entrepreneur with a smaller idea that is not fundable can build a great company. The initial cash needs to come from revenues, not financing. But later, as the business finds its stride, generates profits, it can offer the opportunity and cash for pursuing a bigger idea.

Let me tell you another story, that of Cableorganizer. A husband-wife team in Fort Lauderdale, Florida has built an e-commerce business selling cable organizers and closed 2011 at $16 million. No venture capital. Not even any kind of bank financing.

Just blood, sweat, and tears. Read their story. Yes, it's mundane. Business, fortunately or unfortunately, is terribly mundane. And for some, terribly exciting when hard work yields customers, revenues, and profits.

And the reality is that most of the other 99% entrepreneurs who are constantly getting rejected by investors, grows their businesses in this mode.

So, ask yourself what have you been doing for the last six months? Chasing customers? Chasing Investors?

Remember that Customers = Validation, Revenue, Cash, Valuation, Fundability

And that Investors = Distraction from chasing customers

Now is a good time to reinforce:

Entrepreneurship = Customers + Revenues + Profits. In this equation, outside financing is Optional.

Note one thing, here. Both of these case studies are of companies that have bootstrapped themselves to positions of great strength and negotiating leverage. They CAN raise money now. In the case of Zoho, the best VCs of the Valley would write a check in a nano-second. In the case of Cableorganizer, banks would be delighted to finance their inventory and working capital to help accelerate growth.

So there is really no capital gap if you have a proven business model and execution capacity.

The capital gap is during the early stages, when the risk is really high. When business model, customer demand, and the entrepreneur's own execution capability is unproven.

To be precise, the capital gap is in the sub-million dollar revenue level.

That is the gap that Capitalism 2.0 needs to fill: getting entrepreneurs to a million dollars in annual revenue.

Can Crowdfunding Solve the Startup Capital Gap?

No matter what industry it's in or what product it's selling, the absolute best way for a startup to obtain the capital it needs to grow is to generate revenue and reinvest profits.
Of course, it's easy to say that and very hard to do it.

That's why many entrepreneurs turn to friends and family for funding. These types of investors do not bet on the business so much as they bet on the person. And more often than not, these bets do not pan out, leaving angry family members and broken friendships at their wake.

More recently, crowdfunding is being considered as a potential solution.

Made popular by KickStarter, crowdfunding primarily works on a 'donation' model, whereby the 'crowd' of investors funds projects, including causes like liberating Egypt. Typically, incentives include discounted early access to products, or the opportunity to be a part of something significant.

Currently in the United States, only the 'donation' model of crowdfunding is legal. In Europe, equity crowdfunding is also possible.

Of course, the entire industry is waiting for the JOBS Act to become legal, which will allow crowds of investors to not only donate money, but actually invest via traditional equity models. Earlier this month, the SEC approved a portion of the Act that allows startups to advertise for investors. And of course, peer-to-peer lending has been around for a while, and some of it has been trickling over to startup financing.

For the most part, the impact of crowdfunding on startup financing is still minimal.

There are, however, some significant opportunities that I see ahead:

First, Angels and VCs are only interested in businesses with a clear path toward an exit, and those focused on rather large market opportunities. This leaves 99% of the businesses outside the realm of their framework. These 'Other 99%' businesses are often excellent niche businesses. They can be profitable, cash-generating concerns, quite capable of paying dividends to their shareholders. However, the dividend model of investment is pretty much missing in the angel/VC industry. Crowdfunding could plug into this gap.

Second, today even angels (let alone VCs) are looking for validated businesses. However, if you need $50,000 to $100,000 to get to adequate validation to raise the follow-on $500,000 in seed money, there is a massive gap. So pre-seed, pre-incubation or incubation stage companies are areas investors participating in CrowdFunding could look into as well. One caveat: These deals are difficult to assess, and unless savvy experts screen and rate them, the likelihood of success will be low, and we will have a lot of angry investors. Too much of that will kill the industry altogether.

Finally, working capital financing is one of the key requirements of all small startups. Today, banks take notoriously long to approve minimal amounts of credit. If that pain can be addressed via crowdfunding, that would massively lubricate small businesses, unleashing tremendous amounts of growth.

One of the reasons crowdfunding is promising is that there are opportunities of bridging these capital gaps once it becomes possible for a larger number of investors to play in the early stage startup financing market with more flexible models.

Nonetheless, early stage investment is a very risky affair, and I will be the first to say that there is no guarantee that a certain investment will pan out.

That's why the real success of crowdfunding for startups will depend on the screening and rating infrastructure that comes together to tackle non-financial heuristics in determining fundability at scale.

Note, scale is the operating word here. Without that, like venture capital, crowdfunding will remain a cottage industry, addressing less than 1% of the small businesses out there.

This, then, brings us to the real gap: knowledge and expertise.

This gap exists on multiple fronts. Friends and family do not have the expertise to gauge the viability of a business they are about to fund. Rank and file investors don't either.

On the other side of the coin, first-time entrepreneurs also lack the knowledge and expertise to make the right business decisions.

As a result, capital often gets wasted. Limited amounts of cash, soon, dry up, adding to the infant mortality pool.

The margins for error are small. A few mistakes — often, common mistakes — smash an entrepreneurial dream to pieces.

Capitalism 2.0 will make its greatest mark if this knowledge gap can be bridged.

The Problems with Incubators, and How to Solve Them

There is a very real knowledge gap in the early stage start-up game, on both sides of the table. First-time entrepreneurs lack the seasoning to captain a steady ship through turbulent waters. Inexperienced friends and family (and, increasingly, crowdsourced investors) lack the ability to gauge the viability of a business, or to mentor naïve entrepreneurs.

This knowledge gap, I have come to believe, is best filled by savvy incubators. However, there are over 7,500 business incubators around the world. Most of them fail.

The first business incubator in the U.S. opened in 1959 and is still operating. In the last couple of years, we have seen a renaissance in the incubator business. Pioneered by YCombinator, Silicon Valley's flagship incubator led by Paul Graham, incubators have come back with a vengeance. YCombinator has seen some significant successes, including Airbnb, Dropbox, and Heroku. It has fueled a bit of an incubator bubble, I must admit. Incubators are now a global phenomenon, and there isn't a major city in the world where an incubator isn't cropping up.

For incubators to live up to their full economic potential, they need to overcome two pitfalls: they need to provide real value, not just office space, and they need to measure success in more than just outside funding.

Adding Real Value

During the dot-com era, every law and accounting firm decided they were going to become incubators. Many of those efforts failed. Charles D'Agostino, executive director of the Louisiana Business & Technology Center at Louisiana State University, offers some analysis: "Incubators do work, but they must be more than a real estate entity offering executive suite services. Effective incubators provide business counseling and management assistance to their client firms. The value-added business services differentiate them from an office suite."

Indeed, as I investigated why incubators fail, I was astounded to find that many incubators assume that cheap real estate, co-working spaces, used furniture, plus a phone and Internet connection equate with business incubation. Jim Flowers, president of the Virginia Business Incubation Association, says, "They mistake cheap floor space for meaningful program content."

Well, it isn't. Neither are discounted legal services, accounting, or other kinds of commodity services.

Two things determine whether a business can get off the ground successfully and sustainably: a validated market opportunity with customers willing to pay for a product or a service; and a product or service that addresses such an opportunity. The only incubators I consider "real" are the ones that help entrepreneurs achieve these two goals.

Adds D'Agostino, "Incubators must evaluate the management capability of the entrepreneurs and assist in finding management for these companies. Especially when the entrepreneur is a technologist lacking business skills, it is critical that the incubator assists the owner in finding managers that have the skills necessary to manage a successful entity and take it to the next level."

My take is that technologists can, actually, be taught these skills. Hiring managers may often be expensive, but high IQ engineers have historically been very good at picking up business skills with the right mentoring. So getting to the next level is well within their capacity, and the role an incubator ought to play is to guide them in that process.

The only "next level" worth getting to for a start-up is a validated business idea that has the endorsement of reference customers, and a product that caters to their needs. The rest — an office, legal documents, QuickBook files — don't build valuation or business value. The benchmark incubators should be measuring themselves against is simply their success in helping clients validate businesses, gain reference customers, and complete at least a minimum viable product.

Success is More Than Funding

Most incubators use funding as a success metric, which is a somewhat flawed criterion. Over 99% of companies should operate as organically grown, self-sustaining businesses — bootstrapped, without external financing. For them the goal is to achieve customer validation, not financing. Yet if the incubator uses financing as its success metric, it will try to force inexperienced entrepreneurs into an unnecessary financing round. And more often than not, they will fail.

YCombinator has mitigated this by partnering with venture capital firms like Sequoia, Andreessen Horowitz, and General Catalyst, such that every single company in their portfolio gets $80k in seed financing as they graduate from the incubation program. But most incubators in the world do not have that luxury. Nor do they have the deal flow deserving of such guaranteed financing.

Of course, where funding is appropriate and relevant, helping entrepreneurs connect with angel investors and venture capitalists is an important service. Equally important is to provide education on what is and isn't fundable.

Will this new generation of incubators perform better than the previous ones?

It remains to be seen.

My primary conclusion is that incubators need to be decoupled from financing. While they need to continue to act as a bridge to capital, predicating their success on getting businesses funded will keep them focused on trying to find the less than 1% of start-ups that are fundable. In other words, coming to the rescue of victory!

The other 99%, then, continue to be ignored.

A scalable incubation model for the other 99% is a requirement for the next rev of capitalism.

How Big Companies Can Support Start-Ups And Make Money Themselves

In the technology world, we've seen the tremendous impact that eBay has made in helping small e-commerce businesses get off the ground. Many of them started off selling merchandise from their apartments or homes, and some evolved to become *power sellers*. Today there are hundreds of thousands of people around the world making their living selling merchandise on eBay. In its turn, eBay has made commissions from every single transaction that has occurred on its platforms.

Now imagine if eBay went beyond providing a technology platform and entered the field of business incubation in a meaningful way, It's an idea that could have a huge impact. Sellers making $3,000 a month could be coached to get to $15,000 a month. Those making $25,000 a month could perhaps get to $100,000 a month.

Consider, also, Apple and Google. Apple's iOS and Google's Android have fueled a global bonanza in app development. Millions of apps have proliferated the world. Some of these generate decent revenues. Most stagnate. But if these two companies took business incubation seriously, and instead of just offering technical guidance on building apps, also offered business guidance, the impact on global GDP would be tremendous.

In the start-up world, there's a big focus on business incubators such as YCombinator--perhaps too much focus. As we think about the forces that could help more businesses grow into substantial economic engines, it's important to look at the role that big companies can play, too. Some of them are already providing important platforms that can help small companies get off the ground. But over time, I see the potential for big companies to do much more.

I routinely meet companies that are growing smartly by leveraging platforms provided by big companies. In 2007, I met Kirk Krappe, CEO of a small startup called Apttus. Kirk and his two cofounders Neehar Giri and Nathan Krishnan had earlier done a venture-funded startup called Nextance. Nextance was an enterprise software company providing contract management software. It raised $60 million in venture capital, and eventually failed. The team then decided to take their domain knowledge and start Apttus as a cloud-based contract management software company.

This time round, they decided to take no venture capital. They chose to build the company on Salesforce.com's Force.com platform, which kept development costs low. The team was able to bootstrap the company, and within a couple of years, shot to $5 million in revenue. Recently, they have received a large influx of funding of $37 million from a group of investors including Salesforce.com.

The beauty of this model is that Salesforce.com has made available a cloud platform-as-a-service upon which entrepreneurs can rapidly and cost-effectively build businesses. The eco-system works really well, and Salesforce.com takes a percentage of the revenues for products built on their platform.

Today, thousands of developers are building on Salesforce.com's multiple cloud platforms. They all pay royalties to the corporation. Thus, if Salesforce.com were to enter the field of business incubation, helping these companies grow their businesses, the economic benefit would be staggering.

And Salesforce.com itself would also benefit from the increased royalties that would increase their revenues and profits.

The best thing about the corporate incubation model is that it is a win-win for both the corporation and the small business, and it doesn't have to worry about the startups being fundable by VCs.

Microsoft's BizSpark program supports 72,000 small businesses building on their various platforms. Oracle's partner network has a million companies. These massive eco-systems are gold mines of entrepreneurial potential.

As usual, over 99% of these eco-system partners are not venture fundable. But many of them can become $1 million, $5 million, or $20 million a year businesses.

Brian Knight, CEO of Pragmatic Works is one such entrepreneur. Brian has navigated the Microsoft eco-system, and built a $12 million dollar company around the SQL Server platform.

Even on a less mature platform such as SAP's HANA – a big data analytics platform – entrepreneurs are building significant businesses. Chris Carter, CEO of Approyo, is a great example. Even though SAP only has a couple of thousand entrepreneurs developing on HANA at this point, Chris has already achieved close to a million dollars in revenue developing on it.

Imagine how many Brian Knights, Chris Carters and Kirk Krappes are out there!

If only we could plug the knowledge gaps in these millions of entrepreneurs, and help expand the middle of the pyramid, Capitalism 2.0 would be within reach.

It is, in fact, within reach. Especially, if the corporations wake up and play a bigger part

Case Studies

Happily Bootstrapping

Entrepreneur Marc Benioff is afraid of him; venture king Mike Moritz wants to invest in him; and you have surely never heard of Sridhar Vembu, founder and CEO of AdventNet, the company behind productivity suite Zoho.

Vembu is a low-profile guy if there ever was one. Dressed simply, and soft-spoken, during my first meeting with him he struck me with both his humility and determination. He is also cheap as hell. Yet among entrepreneurs, such frugality is a virtue. A tremendous virtue. Vembu has stretched this virtue to extreme limits, adding layer upon layer of creativity. The result? A 100% bootstrapped, $40-million-a-year revenue business that sends $1 million in profits to the bank every month.

Doing what? you might wonder.

Selling network management tools – with a unique twist. Vembu employs some 600 people in Chennai, India, and a mere eight in Silicon Valley. Imagine what that does to his cost structure!

Not only that, in India Vembu's operation steers away from engineers with highflying degrees from the prestigious Indian Institutes of Technology (IIT) campuses. "We hire young professionals whom others disregard," Vembu says. "We don't look at colleges, degrees or grades. Not everyone in India comes from a socio-economic background to get the opportunity to go to a top-ranking engineering school, but many are really smart regardless.

"We even go to poor high schools, and hire those kids who are bright but not going to college due to pressure to start making money right away," Vembu continues. "They need to support their families. We train them, and in nine months, they produce at the level of college grads. Their resumes are not as marketable, but I tell you, these kids can code just as well as the rest. Often better."

With that rather unique workforce of 600 engineers, Vembu has not only built an excellent network tools cash-cow, but he recently launched Zoho, which is getting a lot of buzz in the Web 2.0 community.

Why?

Well, Zoho offers everything Microsoft Office does, then goes a step further: a hosted customer relationship management service that remains free for small companies and only costs $10 per user per month for larger ones. A remarkable price point when competing with Salesforce.com's $65 per user per month.

Marc Benioff, chief executive of Salesforce.com, has offered to buy Zoho for an undisclosed amount. Benioff seems appropriately nervous, since Salesforce.com's sales and administration costs continue to soar, eating up most of his earnings. Can he afford to compete if Zoho undercuts him at such a dramatic scale?

Vembu turned Benioff down.

With venture capitalists lining up to invest, Vembu's situation is one every entrepreneur dreams of: you don't need money; VCs are chasing you; and you are building value by developing a unique talent base in India. Freedom is delicious, and Vembu knows it.

A very exciting opportunity lies ahead. What the Chinese have done in manufacturing, the Indians can now do in software: dramatically undercut US and European software makers. Not in information technology services. Not by body shopping. Instead, Vembu has built something few Indian entrepreneurs have been able to – a true "product" company out of India.

Perhaps a brief primer would help put things in perspective. "Product" companies market and sell the same thing multiple times to multiple customers. "Services" companies that do custom software development have to use "bodies" to repeatedly do customer-specific development, all with limited leverage. Theirs is a headcount-based business model. Recently, popular Software-as-a-Service companies have come up with the model of "renting" software over the Web, thereby offering "products" as "services" while maintaining the scalability advantage of products.

Vembu first established a network management product, then productivity suite Zoho as a Software-as-a-Service. As far as I know, he's one of the very few entrepreneurs who has been able to execute on the premise of building software "products" and/or Software-as-a-Service out of India. A big vision no doubt, and so far, one he has executed flawlessly.

In 2012, Zoho crossed $200 million in annual revenue. Not bad, eh?

Interview with Sridhar Vembu, Zoho

I spoke with Sridhar about his rather unorthodox but extremely successful entrepreneurial journey. I have always admired fiscal discipline in entrepreneurs. Sridhar exemplifies this quality, which has allowed him to attain a position of tremendous negotiating power at the highest rungs of the venture capital industry.

In one of our conversations, Sridhar posed the question, "How much money does one need?"

The question itself gives you an idea about this entrepreneur's value system.

This interview was conducted in July 2007 when Zoho had just launched its CRM product to compete with Salesforce.com.

Sramana Mitra: I would like to start by tracing your background.

Sridhar Vembu: I was born in India, went to Madras IIT for my undergraduate and came to Princeton to do my PhD in 1989. In 1994, I joined Qualcomm in San Diego. My PhD is in electrical engineering, so I really do not have a software background. I worked on wireless communication with Qualcomm for two years. On CDMA, power control and some very detailed issues on wireless communications. That is how I got started in the tech industry.

My brother, who was also at Qualcomm as a software engineer, wanted to return home to India. Software is a great business to start in India, so he moved back and I moved to Silicon Valley to drum up interest in our fledgling venture, which later became AdventNet.

We ended up partnering with Tony Thomas, who had some network management software and was experienced in the area. We created a development center in India and started selling our software to customers in the Bay Area. To Cisco and folks like that. It was a great time to be selling that piece of software because there were a lot of networking companies getting started in the Bay Area in the late '90's.

Sramana Mitra: Tony had written this software already and you got yourself the distribution rights?

Sridhar Vembu: He had written a very early piece. We set up a development center in India and we started adding more to that core. He had developed some software by himself, but we came together and developed it further.

Sramana Mitra: How did you fund your early initiative?

Sridhar Vembu: It was all bootstrapped. My wife worked, she is also an engineer, so I was able to stay home and work on the venture. Tony had taken a buyout from his job. At the time Lucent bought out a lot of smart people, meaning they gave them money to leave. That is how it all started.

There was no investment money of any kind, only some family and friends. The software started selling well, we stumbled upon an opportunity and sold a lot to companies here in Silicon Valley. We also had a good market in Japan. Japanese companies would buy the software, customize it, and ship it with their equipment. That was our early phase of growth through 2000. We had grown to 115 engineers in India and we were 7 people here.

Sramana Mitra: What kind of revenue were you doing in 2000?

Sridhar Vembu: We were doing about $10 million by 2000. Then in 2001 and 2002, the networking business had a huge meltdown. By then, however, we had a huge exposure to the optical communications business. A lot of the networking equipment was moving to optical. We had something like 100 optical startups, and you can imagine what happened to us when the whole optical sector collapsed in the 2001–2002 timeframe.

We had a lot of engineers and now they were idle because the software was not selling anymore, so there was no need to keep investing in what we were doing. We had all of these resources, so we just had to figure out what we were going to start doing next. We looked around and decided to go in two directions. With the first, we took the same network management software and converted it to a more enterprise model, as opposed to the OEM model we originally sold in. We also had an on-demand effort, so we put some engineers on that path. That is how Zoho got started.

The network management engine that we call Manage Engine is now doing well again. Both of these paths were born around the same time, 2003–2004, because the seeds were planted in the downturn. Throughout all of this we had abundant resources which we had built up during the previous bubble. We had a very engineering focused company, and we did not want to let anybody go – it was just better to re-focus and re-design ourselves.

Sramana Mitra: Did you have to take a revenue hit between 2000–2003? Sridhar Vembu: In 2001 we still experienced growth. In 2002 we took a hit. By 2003, although a lot of the startups were gone, we had successfully transitioned the core of our business to well established companies. By 2004 and 2005 this network management software had really taken off. Of course, we had a head start – we already had the technology.

Sramana Mitra: What is Manage Engine?

Sridhar Vembu: It competes with the likes of HP OpenView and Computer Associates and does network monitoring. The main difference is that it is geared toward the mid-level markets, not the high-end enterprise segment.

Sramana Mitra: How were you selling into the mid-market?

Sridhar Vembu: This is a very interesting story. By 2004, the Google advertising model had taken off. We found we could reach customers directly. Today we have thousands of new customers per month, most of them through the Internet. Resellers also – maybe 50% of our sales are from resellers. That market has also changed. It has become much easier to supply companies directly. The Internet is allowing us to reach all of these customers.

Sramana Mitra: You have Manage Engine on one side and Zoho on the other – what is the revenue split?

Sridhar Vembu: Zoho is new, so it has not yet contributed any revenue. Our OEM model is reviving as well. Interestingly enough, optical networking products, which really struggled in 2002, revived in the 2004 timeframe. Things like wireless, WiMax, have taken over from optical as well to a certain extent.

Plus, our business is built on a stronger foundation because there are not so many shaky startup companies on our customer roster. The players now are business-model focused companies. The market has stronger companies, it has recovered and we are doing good business. Not a hot business, but a good business. Manage Engine is doing really well in its market environment. Zoho is invested in the on-demand future model.

Sramana Mitra: Before we go into the details on the Zoho story, let me make sure we get on the same page. What is the revenue level from the OEM business and what is the revenue level from Manage Engine?

Sridhar Vembu: I would say OEM accounts for 30% of our revenue, while Manage Engine, which we started in 2003, is now accounting for 70% of our revenue. Zoho is really small right now, and there are only two products which are even priced.

Sramana Mitra: Can you position Zoho for me?

Sridhar Vembu: Zoho is an on-demand application offering. We are offering a competitor to -Microsoft Office on demand, meaning online. We also have a CRM and an application creator online. We just call it the ability to work online. That is our vision – to provide a comprehensive suite for a mid-sized customer. We want mid-sized customers to be able to have their IT needs met online.

Sramana Mitra: This is a crowded field. On one hand, you have Microsoft Office and on the other you have Google coming out with their competing suite. With CRM you have Salesforce.com and Rightnow. With Project Management you have eProject. With Web Meetings, you have Webex and Citrix all going after the same space.

Sridhar Vembu: There are obviously going to be a lot of players, and it is obviously going to be a huge market. There are going to be tens of billions of dollars available in the market.

Sramana Mitra: What is your strategy – different offerings, different pricing?

Sridhar Vembu: There are two things we are playing on. The first is to have the most comprehensive offering. If you look at our suite, we have a full comparison to Microsoft Office. All of these differentiate us from each of the other players. SalesForce only offers CRM, which they are trying to combine with an application creation functionality. We already have it. That is one differentiation. Our main strength is that we have an incredible engineering team. SalesForce has maybe a 100-strong engineering team, we have 600 engineers in our office in India.

Sramana Mitra: How can you say SalesForce does not have enough engineers?

Sridhar Vembu: You can check their R&D and their spending reports. They have 2000 employees, but only 100 are engineers. That in itself is an interesting phenomena. It tells you a lot about their business model. All of these guys have become too marketing-oriented, and not enough engineering-focused.

Sramana Mitra: So, Zoho has more engineers than any other type of employee, while SalesForce has more … well, sales force?

Sridhar Vembu: Exactly.

Sramana Mitra: I will push back on that and say that the mid-market is a place where the channel is the big differentiator rather than engineering. That has historically been a market which is very difficult to reach, though as you've pointed out it is becoming easier.

Sridhar Vembu: With Manage Engine we have already seen some of this – we faced companies 10 or 50 times our size, but we built our profitability around capability. An online oriented strategy lets us compete.

Sramana Mitra: Yes, but Manage Engine is an IT product. You are now moving to an Office suite – that is hard-core consumer capability. It is a prosumer product. This is not the same game.

Sridhar Vembu: There are different sides to this. The prosumer side is that people are savvy and are spending their money and time online. The second is that we are already reaching the IT departments of the mid-sized marketplace through Manage Engine. We know we are reaching IT directors in those mid-market companies. On the consumer front, we will reach the ones who are savvy. Zoho CRM is a good example. We have signed up 50,000 subscribers with no advertising at all.

Sramana Mitra: What do you price that at?

Sridhar Vembu: It is $12 per month per user. SalesForce's is $65 per month per user. We get most of our customers because the first users are free, so most of our 50,000 are free users, but it is gaining momentum at an extremely rapid pace. We have a lot of SalesForce conversions as well. People are converting because of the price. They sign up for the free account, try it for 6 months, and feel confident migrating over.

Sramana Mitra: How many customers does 50,000 users translate into?

Sridhar Vembu: About 3,000 businesses.

Sramana Mitra: In terms of selling into these accounts, is it the IT personnel making the decisions?

Sridhar Vembu: It is mainly the sales management who are really coming in now. Initially they come over for price reasons.

Sramana Mitra: They are already sold into the on-demand concept?

Sridhar Vembu: Exactly. I am really not ashamed to compete on price. That is our main strategy.

Sramana Mitra: On the CRM side that will work. I think the office suite is a lot more difficult.

Sridhar Vembu: Yes, I would agree. We have about 300,000 users signed up already. But you are right that today I cannot persuade a large customer to adopt the suite. A lot of their employees are doing it one at a time, and there are a lot of university students and professors coming on board, and those types of adoptions spread widely.

We can also break up the portfolio. It may not be the office software you want, but you would like a really good meeting software. We provide an online meeting capability which is affordable. We are never going to charge for the personal edition of our software.

Sramana Mitra: The meeting software, which will compete with WebEx and

Citrix – what are you charging for that?

Sridhar Vembu: It is free right now.

Sramana Mitra: The only product you are pulling in revenues on right now is the CRM suite?

Sridhar Vembu: Correct.

Sramana Mitra: What type of numbers do you have on the whole project?

Sridhar Vembu: The free is huge. I am completely comfortable with the open source model for 90% of the users. Keep marketing costs low. That is really the strategy. If you do the SalesForce economics, 75% of their revenue is spent on acquiring customers. There should be a better way of doing business than charging the customer for acquiring him. Why not give it away for free, if all the money will be spent on acquiring the customer elsewhere?

Sramana Mitra: I like your model. I think many Indian companies could replicate this model in other domains or on other applications. It's the low-cost manufacturing model that China has perfected. Once upon a time, flat panel monitors were expensive. But today, we buy purely on price. I have a no-name monitor by a company called SOYO sitting on my desk, looking just as slick as an HP or an Apple. The functionality is standard. I care only about the price. Software will likely also go there, and if Indian entrepreneurs can play their cards right, they will be able to build businesses using the exact same model as what you have just described.

Sridhar Vembu: Exactly right. We are in a very different phase of market maturity today, and how you build companies will be very different.

Sramana Mitra: So Sridhar, you have done a remarkably good job of building

your company without any external financing. For the next phase of growth, now that you are taking on more ambitious goals, do you intend to raise capital?

Sridhar Vembu: Absolutely not. We plan to keep doing this with our own money. Our OEM and Manage Engine businesses generate enough cash to allow us to bootstrap the Zoho piece.

I believe, most attrition happens from boredom related issues.

Sramana Mitra: You have 600 engineers in Chennai. Do you face attrition problems?

Sridhar Vembu: We don't. I believe, most attrition happens from boredom related issues. We try to keep our team motivated and challenged with interesting work, and as a result, they don't leave. Of course, we have good compensation, a strong bonus plan, etc. You see, we don't intend to sell the company, so there is no stock option plan, because it is meaningless. However, we have a great bonus plan, and people learn and grow with us. It works.

Sramana Mitra: Boy, you really are a contrarian, Sridhar! Good luck to you. I will watch your company with great interest.

Sridhar Vembu: Thanks, Sramana.

Sramana Mitra: To conclude, a little side note – when I subsequently wrote his story for Forbes, Sridhar called to say his father would be very uncomfortable with the feature. "He has always taught me modesty, humility" – asserted the son, as I'd tried to showcase him as a role model, especially for young entrepreneurs in India.

Note: Since I did this interview during the summer of 2007, Sridhar has scaled Zoho manifolds. The basic logic of the business, however, has not changed.

Interview with Sean Broihier, CEO, Fine Art America

Sean Broihier launched Fine Art America as an online marketplace for artists and photographers. I was blown away to hear that the company does $5 million in revenue with just three employees. Imagine that! Of course, ultra-light startups happens to be a key trend in the industry, and so is online marketplaces in the world of electronic commerce. eBay launched the trend back in the days of Web 1.0, and since then, many niche, contextualized online marketplaces have emerged. Fine Art America is a great case study that I find incredibly inspiring. This interview was conducted in March 2012.

Sramana Mitra: Sean, let's start at the beginning of your story. Where are you from? What is your background?

Sean Broihier: I am from a small town just outside Chicago. I was born and raised in the same house my entire life. My parents, two older brothers, and a younger sister lived there with me. My brothers are seven and eight years older than me. There were an old Commodore 64 and a Tandy TRS-80 lying around the house when I was a kid. I picked up a little book that taught me how to program BASIC, and I learned how to program as a seven-year-old on that Tandy.

I don't know why, but I took to it and loved it. I considered myself a normal kid. I played sports like soccer, baseball, and basketball all the way through high school. There is something about learning a skill at a very young age that sticks with you. I think you are better off learning a certain skill very young than trying to learn it later in life.

Sramana Mitra: What about college?

Sean Broihier: I went to the University of Illinois. I studied mechanical engineering. I programmed on and off through high school and took a big chunk of time off at college. I was in college from 1996 to 2000, and the Internet exploded. That is right when Netscape came out. I just became fascinated with programming for the Internet around that time. I graduated from college and took a job as an engineer in New Jersey. I worked there for 10 years, but I always knew I wanted to be an entrepreneur.

I attempted to quit that job multiple times. At one point I was trading stocks in Manhattan. Another time I was in Chicago trying to start my own engineering firm. Around 2005 I had my first good web business idea. I built a marketplace for engineering firms that allowed them to advertise their products on the Internet. They could advertise products, advertise upcoming events, and issue press releases. I built it, and it is called LocalAutomation.com. It still exists today, and for simplicity's sake, you can describe it as Facebook and an online marketplace for engineers. I built that at nights and on weekends while working a regular job. It was moderately successful.

My brother was working for an art gallery in Chicago. About a year later I was doing a basic website for the gallery he was working at. Every time an artist put out a new piece, was going to do an in-store appearance, or was changing a price on something, he was calling me to update his website. I realized there were artists and photographers all over the world who wanted an easy way to get their artwork online to sell.

I had an entire infrastructure in place from my engineering website that allowed engineers to upload items to the Internet. Back in the pre-Facebook and MySpace days, that was still a novel idea. I had that entire platform that had much better potential in the art space. I re-purposed the code from the engineering site and launched it as Fine Art America.com in early 2007. It just took off from there.

Sramana Mitra: What is the business model behind Fine Art America?

Sean Broihier: The business model is to create a marketplace of buyers and sellers. We allow artist and photographers to upload their images to our site. We then offer them for sale as framed prints, stretched canvases, acrylic prints, greeting cards, and so on. We have a print-on-demand business model. Independent artists and photographers all over the world can open an account on our site and upload their images, and our software will determine what sizes and products we can sell based on the size of the image. The artist or photographer gets to name exactly how much they want to charge for each product or size of the print that is made available.

When a buyer comes along, he or she can pick the print and size. We allow buyers to choose additional features such as colored mats and frames. They can customize the entire picture via our website and place the order. Fine Art America takes care of the entire transaction for the artist. We print, frame, package, ship, collect payment, and send the profits to the artist.

Sramana Mitra: That is brilliant for photography. What if you are doing a painting or something that is not quite so customizable?

Sean Broihier: For paintings we require a high-resolution digital file. You can either take a picture with a 12-megapixel camera mounted on a tripod, or you take it somewhere and have it professionally scanned. We allow the artists to offer the original paintings on the site, but we do not participate in that transaction at all. If you come to the site and see an original listed for sale, you will see a link to contact the artist to arrange a direct transaction.

Sramana Mitra: Do you charge the artists a fee? How do you make your money?

Sean Broihier: If an artist lists a print at $100, we consider that the cost of doing business. The buyer is going to want a frame and other enhancements. We treat the artist's cost as a material cost, so the buyer will only see the final price, which includes what we charge for the frame. Everything is paid for by the buyer. Fine Art America makes money because we get a wholesale discount on the frame and mat.

Sramana Mitra: How did people start finding out about Fine Art America?

Sean Broihier: There is a viral component to our business. We sell artwork by living artists. Art.com is the biggest name in the industry just because of the URL, but they sell artwork from classic artists. We sell artwork by living artists. They upload images and sell products through us and receive a check in the mail 30 days later. Artists get excited and tell their friends and families about our site. They join and upload their pictures. That feeds on itself.

I obsess over search engine optimization. We are number one for millions of search terms. "Landscape print" is a very competitive search term, and we are number one for that term. That brings in buyers and the excitement of selling brings in more sellers.

Sramana Mitra: You rely on search engine optimization to provide a supply of customers through organic search. You rely on word of mouth to entice artists and photographers to sell their work through your site.

Sean Broihier: I designed the entire site to be fully automated. It gives artists the sales and marketing tools they need to be successful. By doing so, the artists become a sales and marketing force not only for their own artwork but for Fine Art America as well. I built a capability that I would compare to ConstantContact into Fine Art America. It allows the artists to create attractive HTML newsletters through Fine Art America.

When you join our site as a member, you get a profile. You can load all of your images into the site and offer them for sale. With a few simple clicks, you can drag images into your newsletter, load in your email list, and send out a great newsletter. Artists love it because it is free and allows them to do email campaigns. They can track and see who opens their notes. When people click on the image link, it takes them to Fine Art America. That brings in benefits for Fine Art America and the artist as well.

Sramana Mitra: So, you rely on that to drive a viral effect and bring a wide range of customers to Fine Art America?

Sean Broihier: That is correct. The artists are happy and willing to send traffic to Fine Art America because we are their order fulfillment partner. I have written plenty of newsletters to artist and photographers explaining why they need an order fulfillment partner. It is very difficult to try to do this on your own. If you want to be able to sell your own prints from your home with custom matting and framing, you need a custom printer. You then have to stock a lot of materials, deal with customers, frame the products, manage shipping, and deal with returns. It is a nightmare.

All artists and photographers need an online fulfillment partner and that is the role we serve. We become their online store, and they are happy to have us work in that role. They post online links to us from their Twitter, Facebook, and social media accounts.

We give artists display tools on their websites. They can have their images scroll through and link back to Fine Art America. We provide them with a Facebook shopping cart. We give the artists a tool that allows them to embed a Fine Art America shopping cart on the Facebook fan page. This provides them a new tab on the bottom that says 'shop.' When people click on it, they see all of their artwork for sale.

Sramana Mitra: There are significant logistics to your business. Would you explain how you manage that piece?

Sean Broihier: We are currently partnered with three different fulfillment companies around the U.S. They are located in North Carolina, Atlanta, and Los Angeles. The entire system is fully automated. I will not do anything unless it is automated because I have such a small staff. The whole process of uploading images and setting prices is accomplished by the artists. The minute an order comes in a, Fine Art America staff member quickly reviews each order, examines the images, and makes sure everything is correct. Photographs are not an issue; they get approved and sent off to fulfillment immediately. Paintings are a little tricky because sometimes painters are not the best photographers. Sometimes the pictures they upload are blurry or are not cropped correctly. There is potential there could be an issue with the image. As soon as our staff member confirms that the images look good, they submit the order.

Processing the credit card is fully automated. The order details are instantly transferred to one of our fulfillment centers. Each center handles a different product. Greeting cards are handled in Atlanta. Framed prints are handled in North Carolina. Our code knows where to send the orders. Those companies handle the printing, framing, packaging, and shipping. Their system is tied into ours, so as soon as they ship an order the details come back to us. We send out the email confirmation to the buyer, and that is it.

Our volume is large enough that we have a dedicated group of people at each site who handle the Fine Art America orders every day. As far as the buyer is concerned, it is a seamless process. If they are not happy with the product, they ship it back to Fine Art America directly.

Sramana Mitra: In 2009 you did $1 million in revenue. How have you ramped since then?

Sean Broihier: We crossed $5 million in revenue just two years later.

Sramana Mitra: How have you built the business from a team perspective? How many employees do you have, and what functions do they serve?

Sean Broihier: The entire company has three people on payroll: me and two other individuals who cover customer service and technical support. Our customer service representative answers the phones, which typically is inbound calls from customers inquiring about orders. She also answers any emails that come into our customer service account.

Our technical support representative is in charge of quality control on all orders. We do quality control at the time of sale because of the sheer volume of images uploaded to the site. We are getting close to 10,000 uploads per day. It is humanly impossible to have someone look at 10,000 images a day and check them for quality. Our technical support representative is also the go-between between Fine Art America and the order fulfillment centers. She is responsible for answering technical support emails, which typically come from the artists about how to use the site.

I am responsible for everything else. I do all of the programming, I write the newsletters, and I do the sales and marketing.

Sramana Mitra: How do you manage all of the different functions?

Sean Broihier: We have to send out profits to our artists once a month. We send out payments on the 15th every month. Half our artists choose to receive payments via PayPal. The other half chooses to receive payments via check. We send checks only to artists who live in the United States because we do not want to send checks all over the world.

I have built myself a dashboard where I click a button that generates a list of every artist who is due to receive a payment via PayPal. I click over the PayPal, load the information into PayPal and click submit. I pay several thousand people via PayPal in that manner in under three minutes. When it comes to checks, I have an agreement with Webmasterchecks.com that essentially follows the same procedure as PayPal, only with checks. My code spits out an Excel file of who is due to receive a payment and I upload that into my account at Webmasterchecks.com. They will send out all the checks on my behalf.

In terms of money coming in, we do all of our payment processing with PayPal. The money comes in and shows up right away in our account. Money going out is very simple. It is just my payroll that is done automatically by ADP. We pay our three fulfillment centers once a month. The business is really money coming in, payroll going out, three big payments per month to fulfillment centers, and payment to artists. It is all fully automated in our system, and we know all the information because we are the marketplace.

I do all of the programming on the site. Any new features that need to be developed are done by me. We are getting ready to offer a new product in about a month. I will write all the code to manage the image rendering and make the images appear on that product.

Sramana Mitra: You are demonstrating a modern way of doing business. This is an efficient way of doing business and bootstrap. Do you use any freelance workers?

Sean Broihier: I have outsourced my server administration. When I started the business in 2007, it was running on one server and now we have eight servers. When I do run into an obstacle that I know I am not well suited to address, I find a freelancer to help me address it. I have TV commercials airing now and I have contracted with an animator out of Canada who put together a fantastic 90-second video about Fine Art America. It is hand-drawn in the old Disney style. We run it on the website, and he is in the process of cutting it down to a 30-second version that we will run on TV.

Sramana Mitra: How did you find the animator who has done your commercials?

Sean Broihier: l lived in New York for a couple of years. I know a few people who run Internet-related businesses in New York. He did some animation work for them, and I saw it and loved it. I reached out to him in the middle of last year and asked him to do a project for me.

Sramana Mitra: I hired a cartoonist through oDesk not long ago. We now have a cartoon strip running on YouTube. We do a lot of freelance hires. Our payroll is zero. I agree that these types of projects are better done in freelance mode.

Sean Broihier: I love what he has done, and I will use that ad for an entire year. I don't need an animator on staff. I just need someone for a project-by-project basis. It is sort of becoming a freelance world out there. Yes, he charges more than it would cost me if he were on my staff, but in exchange, I don't have to have someone on my staff year round whom I have to find work for year round.

Sramana Mitra: Would you provide us some key metrics? How many artists and customers do you have?

Sean Broihier: We are at 92,000 artists right now. We are adding anywhere from 150 to 300 new artists a day. We will be passing 100,000 artists sometime in March. Our sales for 2012 should be around $15 million.

Sramana Mitra: How many customers does it take for you to do your current $5 million in revenue?

Sean Broihier: Fewer than 200,000 customers. It is actually on par with the number of artists we have, just slightly higher.

Sramana Mitra: That is interesting. This is a relatively small community. I am not saying that in a judgmental way. If I had to guess, I would have assumed that the number of customers would be tenfold the number of artists.

Sean Broihier: The vast majority of orders go to non-artists who have found us through Google or Facebook. You would expect that if you had five artists, you would have 25 buyers to keep them happy. However, because we are free to join and everyone has seen how fast the business is growing, we have attracted a ton of artists. The pace of buying has not kept up currently. Obviously, we are growing quickly. If word got out that Fine Art America was doing incredibly well, then I could have another 200,000 artists sign up overnight. I am not necessarily going to see a correlation in the number of buyers signing up at the same time.

Sramana Mitra: What kind of money do your most successful artists make in sales from Fine Art America?

Sean Broihier: Our best-selling artists are in the range of $5,000 to $10,000 a month. That is a small number of artists.

Sramana Mitra: What accounts for the success of some artists and the lack of success of others on Fine Art America?

Sean Broihier: There is a disproportionate distribution of wealth because we do not have a huge bulk of buyers relative to artists. There are some artists who are making an enormous amount of money and some who are making relatively little money. It all comes down to how the artists take advantage of the tools we give them and how they market themselves. The artists who are making $5,000 to $10,000 a month are putting in the required time and energy to generate their own sales. They are doing email campaigns, they are going to art fairs, making TV appearances, and attending trade shows. We are just doing fulfillment orders for those types of artists.

We are a marketplace that gives you tools to be successful. With so many artists on the site, we cannot provide them all with individualized sales and marketing attention. All we can do is give them tools to help them be successful. People who sit around and take the wait-and-see approach will have one or two sales a year. As for anything in life, you will not be successful unless you put effort into it.

Sramana Mitra: From your business point of view, you are expecting to go from $5 million to $15 million of revenue in a year. What are the levers of that threefold growth?

Sean Broihier: We have been on a threefold growth curve for years now, and it shows no signs of stopping. It has been a very predictable curve where we peak in October, November, and December. Based solely on the trajectory that we have been on for the past three years, I expect to hit $13 million to $15 million of revenue this year.

When 99% of the general population thinks about buying artwork online, there is no company that comes to mind. There is no dominant brand. They don't know where to buy artwork. When they decide they want to buy a New York [City] print, they just go to Google and search for it. I take steps to make sure that I am the top search result naturally and paid. On top of that, I have a bunch of programs in place to brand Fine Art America to buy artwork online. When you think of buying books, you go to Amazon first. When you think of buying art, I want you to think of Fine Art America first.

I have a bunch of plans in place. We have marketing efforts in place to focus on branding the business. We have great growth in artists, great growth in buyers and great growth in traffic. I now want to see great growth in the brand.

Sramana Mitra: It sounds like you are expanding your search engine marketing beyond just SEO and are now doing pay-per-click. It also sounds like you are adding in branding efforts and TV commercials to establish yourself as the place to buy art online. Where are you going to run these TV commercials?

Sean Broihier: They run all over the place right now. We have them running on Bravo, HGTV, and other places.

Sramana Mitra: That's expensive.

Sean Broihier: It is pretty expensive. It is hard to gauge and correlate that an ad ran at 8 p.m. on Thursday to any defined number of orders. When you see a Coca-Cola ad on TV, you are not immediately running to their website to buy a Coke. After weeks and months, when you have seen enough ads on TV, you will start to think about Coke when you are thirsty.

Sramana Mitra: I am not convinced that this is a good idea. I think you are going to spend a lot of money with limited returns.

Sean Broihier: What if I told you it was not that expensive?

Sramana Mitra: Running ads on Bravo is expensive.

Sean Broihier: For us it is not as expensive as you might think.

Sramana Mitra: Whom do you consider as your competitors? If Art.com is selling Picasso, they are not your competitors.

Sean Broihier: Most of the artwork on our site is from living artists and photographers from all over the world. The images that Art.com is selling are supplied to them from large image libraries all over the world. National Geographic sells all of their nature photography through Art.com. National Geographic also has an account through Fine Art America and sells images through us as well. The company that provides the stock images of Picasso and Monet to Art.com provides the same images to us as well. We do compete head to head with them on those images. On top of that, we have the added advantage of being a vibrant community for living artists.

Aside from Art.com, we compete against CafePress.com, not only against the artwork they sell on their site, but they bought Imagekind.com in 2008. That is a direct competitor to Fine Art America. There is a company called RedBubble out of Australia that has a similar business model. Zazzle sells artwork as well.

The big advantage I have against competitors like Art.com or CafePress is that their model is that they sell a product for a set price and they will offer to cut the artists a 15% commission, take it or leave it. In the case of a 24" by 36" print, Art.com will decide how much it will sell for. If they sell it for $30 they will cut the artists a 15% commission, which will be $4.50. It does not matter if it is an independent artist or Getty Images. That is all they offer. We allow the owner of the content to set whatever price they want. When I approached National Geographic, they were shocked that they could charge whatever they wanted for the images. They consider their images to be premium images, and we allow them free reign to set pricing as they please. As a result, big image libraries are signing up with us.

Sramana Mitra: Does anybody have a serious hold on the PPC and SEO terms that you are competing for?

Sean Broihier: In terms of PPC, I find that Art.com and their sister company AllPosters.com are primarily the ones who are active. The [market] is a free for all, and I like to think that we are doing a great job of being in the top three on all the terms.

Sramana Mitra: I love the story and how efficiently you are operating the business. You are creating value and generating money for artists all over the place. Great work.

Sean Broihier: Thank you. Every once in a while I get asked why we are so small and why we are not creating a ton of jobs. I use my North Carolina fulfillment center as an example to answer that type of question. I am not in that facility day in and day out, but there is a dedicated staff of people who fulfill Fine Art America orders day in, day out. They are not on our payroll, but we have essentially created those jobs. We send out thousands of payments to artists all over the world. Everybody gets to set exactly what they make, and that is what I like about our model. Our artists are happy, fulfillment centers are happy, and Fine Art America is happy.

Sramana Mitra: You have created an ecosystem that supports and awful lot of people. How many artist are making over $1,000 a month?

Sean Broihier: I would say that there are 50 people who make over $1,000 a month. We send out thousands of payments of less than $1,000 a month to artists.

Sramana Mitra: Great. This is a fantastic story; thank you for sharing it with me!

Interview with Jana Francis, Steals.com

Jana Francis had a career in corporate America when she was about to give birth to her third child. She wanted to continue working with three small children, and decided to switch to a mompreneur role, working out of her home. It's a common and sound choice, and online businesses, especially e-commerce ventures, lend themselves to this mode of work very well. In due course, Jana went on to build over $16 million in revenue and a wonderful environment for other moms to work at her company. This interview was conducted in August 2013.

Sramana Mitra: Jana, where does your story begin? Where are you from and where did you grow up?

Jana Francis: I grew up in Utah. My father was an engineer. I was raised in a household that had computers in every room when virtually nobody else even had one in their house. We had the original Apple, and my father would teach me how to write programs to get my name to flash across the screen. I was a very early adopter of technology.

I moved to Silicon Valley for four years to put my husband through chiropractic school. My time in the Bay Area was interesting. I became an eBay power seller.

Sramana Mitra: When were you in the Bay Area?

Jana Francis: I was there between 1996 and 2000. I was there in the good days. It was the height of the dotcom boom. I remember driving to work and seeing the eBay building go up. I looked it up and became a power seller before a lot of people were even buying online.

Sramana Mitra: What were you selling online?

Jana Francis: I would go to garage sales and find things that I knew were worth more money. I would take my own pictures, write my own descriptions, and resell them. That is how I paid my house payment. It was very expensive to live there, and my salary was not quite enough to cover the house and my husband's school. That taught me a lot about shopping and selling online.

Many other things happened while I was there to spark my entrepreneurial spirit. Fast-forwarding to 2006, I had my third child, a daughter, six years after my second boy. I had been working with KSL, a media company in Salt Lake City, and was heading back to work. A few things happened at that time. First, I almost did not enjoy my maternity leave because I was so focused on the day I had to go back to work. When I did go back to work, I pulled out of the driveway and felt very sad. I really wanted to be home to enjoy my motherhood, but did not have that chance.

Sramana Mitra: Is that what drove you to become an entrepreneur?

Jana Francis: As I drove away, I realized that I was a capable, smart girl who had been through harder things in life. I was perfectly capable of coming up with something that I would be able to do from home and make enough of an income to support the family. Once I had that realization, the ideas started to flow. I was not trying to think of an idea, they just popped in the back of my mind. I also really wanted to spoil my little girl. The reality is that they have cuter things for baby girls than baby boys. I started looking online for all the cute things there were for girls.

I was almost overwhelmed because a lot of the e-commerce sites were very generic. There was a picture, the same canned description, and possibly some measurements. There was not much there that would explain why I wanted to buy that item. It told me nothing about the brand.

My friends all called me the dotcom princess because online shopping was not mainstream in Utah, and I could always tell them where to go online to buy something for less. I have always been extremely frugal and I have always been looking for a deal. I have found ways to save money and make money. I went online to find the best things at the best price.

I always assumed a website existed that spoon-fed you the latest and greatest. I assumed there was a website in the baby space that would tell you the story of the product, why you wanted it, and what problem it solved for you. Once I started to do some research, I realized that it did not exist. I decided I needed to create it, and I had a burning fire to do it. I could not stop thinking about it. It did take me 18 months to go from concept to creation because I had a full-time career and three kids, one of which was a newborn.

Sramana Mitra: Did you start the website while you were doing your full-time job?

Jana Francis: Yes. I worked for KSL, the NBC affiliate in Salt Lake City. I had been there for eight years at the point that I left. I was in sales management running the Internet sales for our dotcom. That was a demanding career and that was one of the reasons it took me so long to make my dream a reality.

I did both for about five months. I really was the breadwinner in the family. My husband had graduated from chiropractic school, but he was still getting his business going. I did not have the ability to just quit my job and start a business.

Sramana Mitra: In our program, we encourage people to start businesses while holding onto a job. It takes a while for businesses to start generating income. Bills have to be paid. Starting a business on the side is a perfect way to bootstrap.

Jana Francis: I agree. I had to leave five months into the business to focus on my startup.

Sramana Mitra: What is the business model of your company?

Jana Francis: The business model itself is extremely demanding. The name of the company is Steals.com, and we have four niche daily deal websites that cater to women. The first one I started is BabySTEALS.com. We launch one new steal every 12 hours at 8 a.m. and 8 p.m. Pacific time. It is typically a high-quality product, most often a boutique or higher brand name product, at 40% to 80% off the MSRP [manufacturer's suggested retail price]. We run the product at that price until it sells out, or until 11 hours have passed.

BabySTEALS.com was the first site launched, but I now have scrapbookSTEALS.com, kidSTEALS.com, and sheSTEALS.com as well. We have launched a new STEALS site every year.

Sramana Mitra: Do you have a number of different items, or do you focus on just one item?

Jana Francis: We will typically stock multiple numbers of each item. When you come to one of our websites, you will see one brand item, such as baby swings. You will then see many different patterns and sizes available for selection. We may have a thousand total baby swings, but there will be a different combination of patterns and prints. Consumers never know how many we have, and you never know when you are going to sell out. We don't know either because it depends on which items are popular.

We do buy the inventory in advance, which is unusual in the deal space. We were the first site for women, long before Groupon. We partner with manufacturers directly on the promotion of their products. It is really advertising for the manufacturers. We are giving them a stage, by themselves, in front of thousands of targeted customers. There are no competing products. There are no ads. It is just their stories, their products, and their brands.

We partner with the manufacturers in advance and select a date for the promotion. We buy the inventory that we select, and they ship us the goods. Our receiving department verifies the quantity, quality, color, and everything else. It goes through our photography department so that we can take images if necessary, which is almost always the case. We then send it through our copyright department. Since we have it in stock, we are able to ship within 24 hours of the purchase. The new deal sites that come up are really just middlemen; they place orders after the sale is over. That can take 14 days to 8 weeks to ship depending on fulfillment agreements.

We've named the company STEALS.com. Our tagline is that *it is not just a deal, it's a steal*. For us it's more than just price. It is about the overall experience and knowing you are getting a high-quality product at a great price. I would put our customer service department up against any e-commerce site, and I would bet that we would exceed expectations every time.

Sramana Mitra: You spent five months working a full-time job and working your startup business in parallel. What were you able to accomplish in those five months?

Jana Francis: Our deals start at 9 a.m. I would be at my desk job at work at that time. I would take a break at work and make sure every deal that was supposed to go off went off as planned. After that quick 5-minute break, I would work my day job until lunch, at which time I would run packages to the post office. I would also make phone calls to manufacturers and source products.

I would work until 5 p.m., and then I would go home and follow up on all of my emails. I would place one or two additional purchase orders for future deals. I would also go through my incoming shipments and verify that everything was in order. I would then have to pack orders that were sold that day and answer any customer questions that came in that day.

On the side I handled accounting and selected future manufacturers whom I would target for calls in the upcoming weeks. I also had to prepare everything for the website publishing. I would write all the copy and take photos and send them off to the webmaster.

Sramana Mitra: Did you do all of this alone? You have not mentioned anything about customer acquisition. How did you promote the website?

Jana Francis: I promoted the website in many ways. The month before we launched I took two weeks of vacation and went to a baby expo in Salt Lake City. I did not have a website yet, but I had a logo that I had made a banner out of and a PowerPoint presentation. I took my flat screen TV and set it up on a table under my banner and ran the PowerPoint presentation. I also made bookmarks asking people to bookmark us in their web browser.

I sat at that table for two days, and I told every woman who walked by my booth all about the business. I got a lot of feedback, and I could tell how excited people were. I got 160 people to sign up for my email list exactly one month before we launched. I encouraged them to tell their friends.

The night before I launched the site, I emailed my family and friends as well as everyone on that list. I encouraged them to share the website and spread the word. That is, with no exaggeration, the only thing that I have done to get the word out. Even to this day we have very little customer acquisition spending.

Sramana Mitra: How did you find your webmaster?

Jana Francis: She was the webmaster for the company that I worked for and she left on maternity leave a few years earlier and decided not to return to work. She started freelancing from home.

Sramana Mitra: Did anyone else do this venture with you?

Jana Francis: It was me and my business partner, Rett Clevenger. He is our CEO and the other owner of the company. Shortly after the baby expo, I got an email from Rett. We had never worked together, but my company had worked with his company, BackCountry.com, which was a large e-commerce site located in Utah. A few days after the baby expo I was trying to pick the back-end e-commerce solution for the shopping cart, and he emailed me out of the blue. I had narrowed it down to two options, and he sent me a recommendation for one of them. The next day we went to lunch and we walked out of that as full business partners. We launched the website on April 28th of that year.

Sramana Mitra: How did you fund the startup?

Jana Francis: I put it on my personal American Express card at first. I covered the first month of products myself. We have never taken any funding. I was able to quickly pay myself back for the products. I would say I put around $5,500 of my own money in before we started the business. I had to get the website built, the logo created, and pay for the baby expo fees. I wanted a self-sustaining business that was cool enough that people would tell other people about it because it was exciting and they were treated well.

Sramana Mitra: You started the business with an email list that had 160 emails. How did that list evolve and grow?

Jana Francis: Today we have 375,000 emails that are sent every day. We have shipped 1.7 million orders. That gives you an idea of the growth of the business. Our list grew very quickly at first.

Sramana Mitra: If you are sending out 375,000 emails every day, how many of them are transacting on the site every day?

Jana Francis: Many. The reason is that we have never bought any of our names and we do not require you to give us your email address in order to see our deals. We have a huge return rate on our database because those people chose to give us their email addresses in the first place.

Sramana Mitra: How much revenue do you do?

Jana Francis: The first year we did about $650,000 in revenue. The next year we did $2.4 million. Our third year we did $10 million and the following year we did $14.8 million. Last year we did $16.4 million.

Sramana Mitra: What kind of margins do you work on? You obviously are getting an attractive deal from the manufacturer.

Jana Francis: I have never shared that with anyone; however, our average discount to the consumer is 56% if you equal out all the deals. It has to be at least 40% off to make our site. We have usually only done less than that if it is brand new from the manufacturer. Many other deal sites buy wholesale at 40% off and are fine with a 10% margin. We are very different in that regard.

Sramana Mitra: The question mark around the entire deals category is whether there is enough margin to build a business. You can definitely get revenues. Groupon and LivingSocial are all struggling.

Jana Francis: You are exactly right. We are profitable and have not lost money. We don’t have loans or investors. We have done business with 1,500 manufacturers, and we don’t owe any of them a dime. We have over 70 full-time employees here in Salt

Lake City. In general, deal sites are not profitable. They have focused on top-line revenue for so many years that they have lost sight of profitability. The sites you listed have left everything up to the supplier for the customer experience.

Sramana Mitra: Groupon and LivingSocial squeeze their merchants so much that they do not return. Do yours come back?

Jana Francis: I can't think of one manufacturer that we have worked with that would not want to work with us again. The reality is that we only have two steals a day on each website, so that limits the number that we can repeat with. There is a huge entertainment factor to our business, so I do not want to repeat. We try not to repeat brands. We do repeat some of the larger brands, and in some cases we have the product made specifically for us.

Sramana Mitra: You said you have 70 people working on this project. Tell me a bit more about how you have built the team.

Jana Francis: There was no pool of people that I could go hire from who had done this before. You have to find and curate an amazing product that has a story. Our buyers needed to have sales prowess and account management skills. Calling manufacturers and convincing them to give you a high volume of their product at a discount that they never would have considered selling at. They are essentially letting us compete against them for a day because they sell those products for full price on their website. It takes a skilled person to help a manufacturer understand that. Our buying team is full of talented women who are amazing at product selection and are in tune with their audience. I have found that people from media sales are great in this position. Perhaps that is because that was the career I came from and I knew the skill sets they came from.

Some of our best employees are also people who have been our top customers. I have recruited them over the past several years. Our customer service director was a fan of ours before she joined three years ago. Our vendor manager was one of our biggest local fans. She has moved up in our organization consistently since joining. All of our employees are based in Salt Lake with exception of one.

We have 18 people in merchandising. Each website has two buyers and then we have a few floaters who will buy for any of our websites. We have a lot of maternity leave here because 70% of our staff are women and 25% of them have had a baby in the past two years.

We have 12 people in our customer service team and 12 people in our shipping team. We have 8 people on our engineering team. We have one HR director and we have three people on our social media team and four people on our photography team. We have channel managers that focus on reselling inventory that we had left over. We have a few in returns, quality control and receiving.

Sramana Mitra: You seem to have found a niche in your business as well as your workforce. You have great loyalty and employee retention with a very stable team.

Jana Francis: We have been very fortunate, yes. We don't pay the best because we are a bootstrapped company. Our engineering team does well in terms of pay, and our customer service team does a bit better than an average customer service job. Most of our customer service staff is able to work from home for 30 hours a week. That is very nice for them.

Sramana Mitra: I think what you are doing is a wonderful thing. Women who choose to have children have to raise those children. A lot of them want to continue working and have that flexibility. You have created a culture that is accommodating of that. That is a very unique talent attraction position.

Jana Francis: It really is. I have two employees who brought their babies with them to work today. We use our team's babies on our website as models and we actually sign the paperwork for that. It's a lot of fun for our employees. For me it is very rewarding to know that the situation I dreamed of for myself is being provided for so many moms in Utah who would not have a job if they were not working here.

Sramana Mitra: I think what you have done is fantastic. Our ecosystem has created a talent war for the same people. There is talent everywhere and there are different niches and lifestyles. Being able to carve out a niche like you have is fantastic HR strategy.

Jana Francis: Two of our employees had a goal of working part-time only, but they applied for a job here because they were interested in what we do. Suddenly, they had full benefits, which previously were only available through their husbands. That has in turn allowed their husbands to go chase their dreams of becoming entrepreneurs because their wives now had health insurance. It is hard to afford quality health insurance when you are self-employed.

Sramana Mitra: How do you evaluate the venture capital opportunities when they are presented to you? I am sure they pitch you on the ability to grow faster and make acquisitions. You probably also get acquisition offers. How do you process those opportunities?

Jana Francis: I do respond to every inquiry. I have learned a tremendous amount talking with these people, and it has helped me understand the market better. They talk to my competition and a lot of people in the industry. I take every phone call. I also know that the time to ask for money is when you don't need it.

The relationships that I am fostering now may very well pay off in the future. I already have an idea who would be the best fit for us and what arrangements would be the best for us. The research that I have done just by taking calls and listening, as well as telling my story, has really helped me understand that venture capital is not right for our business because of what they would require in the next three to five years. Those requirements will not be met if I am not doing more than two sales a day, and I know that if I process more than two sales a day that consumers will get tired of us. I have seen that in our competition. They do 6,000 deals a day and we have 8.

I have even created a pitch deck and gone out and pitched to VC firms just because I wanted to know the process. I was very clear about that up front and they all knew I was not necessarily interested.

Sramana Mitra: That is a great method to clarify your own thoughts and understand your options and the limitations of your business model.

Jana Francis: Thank you. It really did reiterate for us that we are still excited about our business model five years in. They ask very hard questions, and when you are the owner of your company you don't have employees asking you those questions. It is really cool to get those questions. They push you a little bit.

Sramana Mitra: If you have a $10 million to $15 million business and you make 30% to 40% profit, then you have a fantastic situation.

Jana Francis: As long as I can keep it rolling. The Achilles heel of our model is what happens when you don't sell what you have invested in advance. Every day I feel like I am sitting at a roulette table in Las Vegas eight times. We put all of our eggs in one basket. If it does not go well, we can't put it up again. We have had to create other departments in the company to handle those dogs that don't do well.

Sramana Mitra: How do you handle those situations? Do you partner with Overstock.com?

Jana Francis: We partner with Overstock.com but we have not seen much success with them. Believe it or not, when we don't sell it half price we sell it for full price on Amazon. We have an Amazon store where we sell leftover inventory. It will eventually be a full-price boutique online, but for now it is an Amazon store that sells our leftover inventory. It does not work all the time, but it earns a couple of hundred thousand dollars each year. Our feedback rating there is phenomenal because they get the same support that our Steals.com customers get. The reality is that we usually have $2 million of unsold inventory at all times.

Sramana Mitra: This has been a fantastic story. Congratulations on your success. I look forward to following your journey.

Interview with Andrew Fox, ClubPlanet

Andrew Fox built ClubPlanet as a built to enjoy venture. He loved nightlife, and created a business stemming from that passion. ClubPlanet was bootstrapped with a paycheck. This interview was done in July 2010.

Sramana Mitra: To start, tell me about yourself. Where do you come from? What is your background?

Andrew Fox: I am from New York City. I was born here, but I moved to Florida when I was five. My mom has very bad allergies and needed to move there. I grew up in Tampa, Florida, which was a great place to grow up, but I always knew that I wanted to move back to New York. When it came time to go to college, I went back to New York and attended Adelphi. I majored in accounting.

I had a very typical life. I always did entrepreneurial things in the summertime. I never had a nine-to-five job. I always tried to find ways to utilize my skills to make more than the minimum wage. I had all sorts of interesting jobs that prepared me for when I graduated from college. Although I went to work in a white-shoe job at Alliance Bernstein, I also started a business called ClubNYC in October 1997. It was the precursor to ClubPlanet, but at the time it was the way for me to get into nightclubs and meet girls for free. That is all it was in the beginning.

Sramana Mitra: What did ClubNYC do in 1997?

Andrew Fox: Essentially, it was the original bulletin board. It gave listings of where to go, how to get in, and what to wear. We let people use a guest list feature where they could sign up and get guaranteed admittance into the club. Along the way, more and more people started using it. I was still working full time at my regular job, which I later quit because the Internet business was taking off.

Sramana Mitra: What was your real job?

Andrew Fox: I was a financial analyst, but that was not my personality. I wanted to be an institutional sales person, but the only job I could get with them was in their financial analyst program. It seemed like a great opportunity, but I was not cut out for it. I was cut out for sales and something more entrepreneurial.

Sramana Mitra: How exactly was ClubNYC taking off in such a way that you were able to quit your real job?

Andrew Fox: We were getting paid a commission for every consumer we were driving to a club. I was making substantially more on my side job than I was at my regular job. At lunchtime I would run out and do a meeting. At my day job I wanted to be the first one in and the last one out, so I did not see much daylight. The Internet business was adding more dollars than my regular job, so I had a long talk with my mom. I told her I would rather have a long career in finance, but I felt I had a great opportunity. I had no kids, no mortgage, and no debt. She told me I would always do better working for myself than working for someone else. I gave it a shot, and it really started working. It worked to the point that I now have the most unbelievable lifestyle. I go out and meet people and make a good living at it.

Sramana Mitra: How did you actually get ClubPlanet going? You were working on it on the side, so did you just leave once you had enough revenue to support your cost of living? Bootsrapped with a paycheck?

Andrew Fox: My philosophy at that time was that when other people were sleeping I would be working, when they were on vacation I would be working, and when they were goofing off I would be working. The business started growing rapidly and I decided it was an interesting opportunity, but I was not sure if I wanted to be known as a nightlife guy. I ended up starting an ISP, which I ran from the middle of 1997 through December 1999, when I sold it. That business really exploded.

During that time I had also purchased a CD-ROM business that we turned into a Web design shop. That was going well also. Throughout that entire time I treated the nightclub business as a sister business to all the other businesses. It was just a little engine. Every quarter it got bigger and bigger. I finally sold off all my other businesses, and in July 2002 I dedicated myself full time, with no outside distractions, to the nightlife business. In 2002, the business had about $2 million in revenue and was highly profitable. Today, in 2010, we are north of $30 million in revenue with no investors.

Sramana Mitra: What happened when you quit your job in 1996? What was your immediate next step?

Andrew Fox: I worked out of my apartment. I had a slight panic attack and realized I had to make it work. I just stuck to my roots. As a consumer I wanted good information, and I wanted a service. The service I wanted was good access to nightlife establishments. When I say access, I mean I wanted the ability to get in the front door and pretend that I knew somebody even if I didn't.

I would meet with club owners and their management teams and teach them about the Internet. In those days people did not understand that people would sign up on the Internet to go to a nightclub. I created a performance mechanism in the form of a guest list feature. Slowly but surely it started becoming more and more important for their marketing.

Clubs would buy ads on my website for $1,000 or so, but it would drive 500 people to their club. It became a high-impact business. Today we have over 2,300 customers, but in those days every single customer was somebody whom I went and spoke to in person. When you think of the people who move to NYC every year, they more so than anyone want to go out. We were a perfect vehicle for them. We just hit the wave at the right time.

Sramana Mitra: How did the people who go to nightclubs find you?

Andrew Fox: It was all word of mouth. It was your typical viral experience with consumers. By 1997 we had expanded into Miami. By 1998 and 1999 we were in Los Angeles and Chicago. Today we are everywhere. In those days the idea was to stay very niche focused. As a result, we got unbelievable traction in specific markets. As I said, by 2002 I got rid of every other business so that I could focus on further expansion of the nightlife part of the business.

Sramana Mitra: What was the next major evolution in the business?

Andrew Fox: Guest lists were very hard to quantify. The nightlife business is very fragmented, and is very much a vanity business for a lot of people. The mechanism of the guest list was an honor system. The clubs prepaid me an amount of money to have the guest lists up and running, but if I hit over a certain amount of people then I was supposed to receive a higher payout.

I started looking at the clubs and realized I could never scale the business if I relied solely on their being honest with me regarding the attendance that I actually delivered. That is when I began doing tickets to the clubs. Everybody thought I was absolutely crazy that I would even think people would be willing to buy a ticket to get into a club. It was like making a reservation, but pre-paying to do so.

That was the real pop in the business, however. In 2002 we did $300,000 in ticket sales. In 2003 we did about $1 million. In 2004 it grew to $2 million. In 2005 it grew to $8 million and in 2006 it grew to $10 million. Consumers appreciated it because it guaranteed attendance. Clubs liked it because we were giving them their first ever accounts receivable. We gave them a predictable method to touch their consumer.

Sramana Mitra: How far in advance were consumers willing to buy the tickets?

Andrew Fox: Today we see that the vast majority, 80% are spontaneous purchases. That means they were purchased the week of attendance. It is not like going to a Broadway show where you think three months in advance. What you are buying is prepaid admittance and the guarantee that you don't have to wait in line. That guarantee is valuable enough in most major markets.

That established us as the first mover in the space. We have the largest nightlife presence on the Internet. I also think it is the dream job. I happen to love music and being out. There is not a better opportunity to do something you love than what I am doing. I think life is short and fragile, so I want to do something I love.

Sramana Mitra: How many people work for you now?

Andrew Fox: There are forty-six in New York, fourteen in LA, seven in Montreal, four in Las Vegas, and two in Miami. Overall we are around 65 people.

Sramana Mitra: Do you have to have people in all the markets you cover?

Andrew Fox: We have regional representatives in all of our regional markets. That is because the business model is one where we must be relevant to our customers. They must see our faces. In order to maintain our relevancy they must see our faces. The people who work for us are not selling our product as much as they are selling our influence.

Our regional managers are taking care of customers. They take care of opportunities that take care of themselves in various markets. We will do north of 1,000 events this year. Those events are done in those markets and they enable our regional reps to not have to scramble. They are there all the time. Our reps are young and also doing something they love. We joke that we get paid to go out.

Sramana Mitra: Do you have segmentation and preferences when you choose which clubs to work with and the programming to get behind? How do you decide whom to get behind?

Andrew Fox: Today we pretty much cover the gamut. We work with everything from a food and wine festival to a nightclub.

Sramana Mitra: Do you have more draw to certain types of venues?

Andrew Fox: Today it is really a very wide net. It started with dance music, but it is now every genre of music. We do not discriminate. In the old days we did not have all the genres, but we can do that now with our scale. We prefer to cover as much nightlife as possible. We want to be the Zagat of nightlife, not just for rock clubs and bars.

Sramana Mitra: Do you have reviews and ratings on the site?

Andrew Fox: Absolutely. We have photos as well as editorial content. Bloggers from around the world are included. We also have e-commerce engines. There are not too many nightlife websites that generate more than $30 million a year in revenue.

Sramana Mitra: How is that $30 million in revenue spread among your businesses?

Andrew Fox: We have three buckets of revenue. Tickets sales represent e-commerce. We also have local advertising that is hyper-local in market focus, as well as national advertising. Our third bucket is actual events. We will do close to 1,000 events this year. On any given week we have close to 20 events going on across the country. Those are events that might be for a corporate sponsor who bought an ad on our website, or it might be a 4th of July event that we just really like.

If you look at the concentration of revenue, e-commerce is the leader. Four years ago it was not. Each year the ecommerce business keeps booming. This year it is up 30%, accounting for over 70% of total revenue.

Sramana Mitra: Can you explain your events model in more detail? Are you doing event management?

Andrew Fox: It is not really event management. We are going in a market where there is a pre-existing event and bringing additional content to that event on behalf of a corporate sponsor. We also host some proprietary events that we think we can do well on financially.

Sramana Mitra: And I am assuming you can overlay your e-commerce capabilities on top of the event?

Andrew Fox: Correct. We bring additional content, and we bring our e-commerce platform, which also drives attendance.

Sramana Mitra: When you look at your customer base from a consumer point of view as well as from a venue point of view, what types of events and genres of music bring in the most revenue?

Andrew Fox: Electronic and house music are very popular inside the club. There has been a very large change over the past several years as people went from finding information via the old way such as newspapers and word of mouth, to using the Web to find that information. The acceptance of using the Web to find that information has definitely taken place.

We have seen that 92% of our audience wants to go out between two and three nights per week. They will only buy a ticket to something once a week. When they pay money to buy a ticket, they are doing it to go see a DJ who is really popular, or to hear an artist perform live inside the nightclub. The rest of the week they are going to bars and lounges with their friends.

Sramana Mitra: Does your business model include the bars and lounges?

Andrew Fox: They will advertise with us, but they do not sell prepaid tickets.

Sramana Mitra: What about genres such as jazz?

Andrew Fox: I am personally a jazz fan. Jazz represents a statistically small percentage of the overall music industry. It is, unfortunately, something that has not been that popular on our site. We have never had much traction from consumers demanding that information.

Sramana Mitra: Is there a possibility that you could work with foundations that are trying to promote jazz?

Andrew Fox: That is an excellent suggestion, and I would say that we absolutely could. One of the benefits of the Web is that there is just so much more traction to be gained. We have been growing for so many years that a lot of times things that seem so obvious can be missed. I think you are absolutely right, and we could do more with that community.

Sramana Mitra: One of my passions is Argentine tango. I would have to guess

that you have no presence at all in that market.

Andrew Fox: It is funny, because as we become more mature people evolve out of nightclubs. Jazz, classical music, art and museums become a factor in taking people's time. We have often thought that we should consider purchasing a company that extends the life of our consumer. We have just never found another business model we could duplicate with such ease.

By the time our customer is 33 years old, we have lost them from the nightclubs. They are going for the things you are talking about. There is a great opportunity for us to do more there and something we could focus on.

Sramana Mitra: Another market that has improved a lot over the past ten years is the Latin dance market.

Andrew Fox: That we have something for. We started NocheLatina two years ago, and that is exactly what it is from. It is for second- and third-generation English-speaking Hispanics. That business is robust. We are almost always sold out of ads for that market.

Sramana Mitra: That market has always done very well. I have watched it evolve over the past fifteen years to become a vibrant community.

Andrew Fox: I think what we are going to see with the new U.S. Census figures are a great deal more in terms of businesses that serve that sector. The U.S. Census shows we have more and more Hispanics in the United States.

Sramana Mitra: My passion is Argentine tango, and I keep in contact with that community.

Andrew Fox: That is hot. Where do you find that in Silicon Valley?

Sramana Mitra: San Francisco has one of the biggest, and definitely the best, Argentine tango communities in the world.

Andrew Fox: I have never done it myself.

Sramana Mitra: New York has a lot as well. Do you know Dance Manhattan? It is a dance studio that has a big community of teachers around it. This is not a dance that you can just land on the floor and dance. You have to learn the intricacies and complexities of the dance. You have to invest time to learn it. All the communities that have done well have good teachers driving them. It is an interesting phenomenon because Buenos Aires has gone through a revival of the tango over the past fifteen years or so.

Andrew Fox: That is very interesting. I learn something new every day.

Sramana Mitra: You have built a $30 million company catering to the nightclub business, which is your passion. You have created what we call a "built to enjoy" business. What do you want to do with the business and yourself over the next ten to twenty years?

Andrew Fox: I have thought about that a lot. The business is very successful and has a lot of room for growth. I think that we have a lot of suitors out there who mention really ridiculous numbers at times to acquire us. This is such a great lifestyle business that I don't know if I could ever sell it. All of my previous businesses I built to sell, but this time around you might find me right here in thirty years. I hope by then it is $300 million a year. Based on our growth trajectory, we are seeing really good signs of improvement.

Sramana Mitra: You did $30 million last year. What do you expect to do next year?

Andrew Fox: We believe that revenue next year, based on what we already have coming in and a new deal we have, will easily surpass $45 million. If we keep having these 30%-plus increase years, then by 2013 we are going to be a $100 million-plus revenue company. I am pretty satisfied with that since this business started out as a hobby.

I come from a humble background. I don't need 10,000 cars and two boats. I want to do something I love and laugh at the end of the day. There is not a lot of pressure in this business except to do something that I enjoy. I don't know a lot of people who can say that. I am a very happy person. I feel very lucky.

Sramana Mitra: It has been lovely talking with you. Congratulations on your success.

Interview with John Wallace, CEO of DataSong

We maintain that one of the best ways to identify complex problems worth solving inside enterprises is by offering services to them, thereby gaining exposure to the domain. Datasong is yet another case in point. The company is 100% bootstrapped, with no outside capital. This interview was done in April 2014.

Sramana Mitra: Let's start at the beginning. Where are you from? What kind of a backstory leads up to the entrepreneurial story?

John Wallace: I grew up in the South from a pretty modest background.

Sramana Mitra: Whereabouts?

John Wallace: Virginia. My mother was a teacher and my father was a carpenter. If there were a caste in the US, I'd be from the teacher caste because my mother, aunts, uncles, cousins, and sisters are teachers. I thought about teaching for a while and quickly decided not to.

Sramana Mitra: Where did you do college?

John Wallace: I got a scholarship to Virginia Wesleyan College. It's a small school at Virginia Beach. I studied Liberal Arts. I realized the major didn't matter all that much. I finished with a French major. Then, I worked for a couple of years and put food on the table. I was in technology sales.

Sramana Mitra: Still in Virginia?

John Wallace: In Virginia, yes. I realize that for my potential to be taken seriously, I'd have to go back to school. So I went and did an MBA at George Washington University. I got lucky that the program there allowed concentrations within the program. Some are very general. Everyone gets the same coursework. In this one, you specialize and I discovered that Data Mining and Data Science were interesting to me. It turns out my mom teaches Statistics. I wanted nothing to do with it when I was a teenager. The apple doesn't fall far from the tree.

Sramana Mitra: That's great. What year did you graduate from your MBA program?

John Wallace: 2000.

Sramana Mitra: The Internet bubble has crashed.

John Wallace: People hadn't figured it out. When my class was graduating, you could trip over your shoelaces and get a job offer. I flew out to San Francisco, and I remember, in February, someone made me an offer. I said, "Great!" They said, "There's just one catch. You need to start next week." I said, "I haven't graduated." They said, "That's not a condition of the offer. The condition is you have to be here. Maybe you can work it out with your professors." I didn't take the offer. It turns out that company didn't make it that much longer, but I met the founder earlier this year and got to tell that story to him. I did go back and finish.

Sramana Mitra: Summer of 2000?

John Wallace: Right. I showed up here post-bubble and the job was with a dot-com and I realized, two weeks in, that it's going to be a train wreck. I gave it another month and thought I needed to get out. I went and worked for SAS, which is a big, stable, privately-held software company in North Carolina. That was actually great. The opportunity to learn was there. I took them up on all the training that I could get.

Sramana Mitra: What happened after SAS? Did you stay at SAS for a while?

John Wallace: About three years. It's pretty common at software companies that the services side is looked at as a drag on the numbers. I was an analytical consultant. It was a really great group. I was the analytic lightweight. It was mostly Ph.D.'s in Statistics, Math, and Engineering in this group. They wanted me because I had actually used the software in my graduate program which yielded a license set for them.

Sramana Mitra: You were kind of an applications engineer?

John Wallace: It was a great opportunity.

Sramana Mitra: That brings us to 2003?

John Wallace: Yes, 2003. I started a firm doing analytic consulting. I thought that I would be more impartial to what actual software we use to solve the problem and be more focused on the problem than selling a particular license. I think that the growth that we have as a service firm is tied to that era of computing where in order to practice our trade, we needed to follow and work with very large corporations with major investments in data warehousing, technology licenses, and servers.

Sramana Mitra: Your clients were all major enterprises. How big did the firm get?

John Wallace: It's still around. It's the same firm.

Sramana Mitra: That's the firm that leads up to DataSong. So it's a bootstrapping using services story?

John Wallace: Yes. You've heard it before?

Sramana Mitra: Many, many, many times.

John Wallace: I always say that good services people are always looking for a way to also practice. We bootstrapped. When I started the firm, I was a one-person company. I said, "I have no ambition to do that for long. I'll give myself one year." One of the three things I thought would happen was I would grow tired of it and go back to the corporate ladder. Number two and three would be probably somehow merge into another consulting firm, or grow it. It turned out to be the third one.

Sramana Mitra: So talk a bit more about growing that services business. What kind of customers were you going after? Was there a vertical focus?

John Wallace: At the beginning, the strategy was to be as diverse as possible with some boundaries.

Sramana Mitra: Why would that be the strategy? That is the farthest from the strategy that we teach our entrepreneurs to follow.

John Wallace: The strategy was very conservative taking into account the possibility that one of these verticals would suffer.

Sramana Mitra: The dotcom industry in 2001.

John Wallace: Yes, the dotcom industry didn't make it. You had automotive and finance in 2008. I'm not saying it was a perfect strategy but that was the strategy. There was a second dimension to that strategy, which was the intellectual curiosity – being able to take the teams and expose them to a big variety of problems was something that I thought was going to pay-off. One day, you're looking at a subscription TV business like DirecTV. The next day, you're looking at a major retailer like GAP. It was a way to keep us stimulated.

Sramana Mitra: It is very stimulating but it's a very non-scalable strategy.

John Wallace: So that strategy has been retired. You learn in the field, right?

Sramana Mitra: How much did you do in terms of revenues in the first couple of years?

John Wallace: It probably took us four years to get to a million dollars.

Sramana Mitra: How many people were involved?

John Wallace: There were about four people. My original hypothesis was that there would be a lot of short-term contracts and that people need specialty skills and once they've seen it in action, they would try to copy it and do it themselves. That's not at all what happened. I worked in the field of analytics that I would describe as building a model. It turns out that the under-served portion of our field is leaving behind a whole living, breathing system. If I were competing on modeling, on that front I guess I'm competing with the best professors at Stanford. It's not really what customers are buying. You have to put the model in action.

Sramana Mitra: And keep it in that shape.

John Wallace: Keep it in that shape, yes. It turns out we need a ratio of 7:1 – seven engineers to keep up with one. That ended up building these very long-term relationships. All of our original customers are still customers.

Sramana Mitra: What happened in terms of vertical shake out? Where did you eventually end up?

John Wallace: We're in what we call multi and omni-channel retail.

Sramana Mitra: Very good area for analytics.

John Wallace: It's a healthy list of customers, some of the largest. Williams-Sonoma was one of our customers. They were instrumental for us to transition from services to a software model. They saw our work and realized it's going to be bigger than what they could run. At the same time, we were putting all of our work over to a big data platform Hadoop.

Sramana Mitra: Talk about where in your history this happens?

John Wallace: 2011.

Sramana Mitra: It's a while later.

John Wallace: Even Hadoop wasn't around then.

Sramana Mitra: Exactly. So you did services until about 2011. What revenue level did you reach in that time frame?

John Wallace: In 2010, we were probably at about $4 million.

Sramana Mitra: How many people?

John Wallace: About 30 people.

Sramana Mitra: So you really had core expertise in the company and you had good revenue. Had you made the switch to omni-channel retail along the way?

John Wallace: We had picked up more retail clients – Macy's, Sephora.

Sramana Mitra: So it was gradually moving over to the omni-channel retail model.

John Wallace: We worked on one really difficult problem. When we saw the reactions of the executives to the work, we realized that we saw something significant. Everyone else that was in our current retail clientele wanted that as well.

Sramana Mitra: Can you talk about that?

John Wallace: The problem now has a name. It's not an ideal name but it has a name. It's called marketing attribution. It's looking at the effectiveness of marketing spend. The field closest to that would be approaches of this in Statistics in the past 20 years – by week, how much we've spent and see if we can sort out changes in our revenue based on changes in spend. We chartered a model like that. They just couldn't fall in love with it. We asked them why. They said, "It doesn't take into account which consumers have been exposed." They had this catalog modeling background where they're used to looking at households and whether or not to spend money or not on campaigns. That was a problem we decided to address.

Sramana Mitra: What year was that?

John Wallace: That was between 2010 and 2011.

Sramana Mitra: That's when you found the problem that helped you move from services to product.

John Wallace: Correct. Then we took a computing approach that would have been a little bit crazy to follow earlier. I like to say that we would have needed to deal with the NSA to run the kind of analysis we were doing for them without being on this current generation of big data.

Sramana Mitra: So Hadoop made a difference in terms of infrastructure?

John Wallace: As an enabling technology, yes.

Sramana Mitra: Is there any other newborn technology that you use from the current stack of stuff that's available out there?

John Wallace: We're experimenting with a platform called H2O. You had Hadoop. People talk a lot now about Spark out of Berkeley as a replacement. Then in the analytics field, there's a package called H2O.

Sramana Mitra: This is what has got you these key customers from the retail world?

John Wallace: It's that intersection of software and services to be able to onboard and rationalize a wide variety of data. We are intentionally going after the hardest problems to solve. The more we look at it, the bigger the problem gets and the harder it gets.

Sramana Mitra: The other thing that's really great with the way you're doing it is you have a lot of domain knowledge that you are building into your approach. This is a hardcore omni-channel retail solution. That has its own applicability.

John Wallace: Being bootstrapped, we've been able to make experiments that make sense to us. We didn't have to have buy-in from someone.

Sramana Mitra: Except for customers. That's the only thing that matters. Our philosophy in 1M/1M is entrepreneurship equals customers, revenue, and profits. Everything else is optional including investors.

John Wallace: We've taken up consulting so we have people with a background in Statistics or even retail on our team and we give them roles as account managers. When you're in our target market, we send someone out who already has the domain expertise to fill that role as opposed to someone who's more about the process and organization. These people are just deep on the problem. It has an interesting payoff from the customers.

Sramana Mitra: Who do you see in deals in terms of competitors?

John Wallace: There were three teams that worked on this problem – visual IQ out of Boston and Adometry out of Austin.

Sramana Mitra: What were the backgrounds of these other two companies? Were they using a vertical approach?

John Wallace: No, they're horizontal. I think what they have in common is that they have simplified the problem by collecting data off of Excel. They try to get themselves on the website. It makes the day of living hell more uniform. We've taken a different approach to on-board people's data because a lot of people that we want to analyze, we can't pick up off of Excel anyway. We might have to onboard data a little deeper. We just said, "Let's go ahead and be a completely open system."

Sramana Mitra: And your customers like that?

John Wallace: They do.

Sramana Mitra: So how has revenue progressed from the pivot to product?

John Wallace: Now, we're about one-third product and two-thirds services.

Sramana Mitra: You were $4 million in 2011.

John Wallace: So, we'll do about $6.5 million this year (2014).

Sramana Mitra: You're continuing in the bootstrap mode. You're not interested in taking money?

John Wallace: We've done it for 11 years. We have an optimization problem. We have no lack of capital. So we continue to keep putting the dollars where they have the most meaning. It's something we're comfortable with. I considered it a couple of years ago. Should I step on the gas and raise capital? Two things don't fit that model. We don't look like the cookie-cutter fundable company from a VC viewpoint. One, we've been around a while and profitable and coming from a services background.

Sramana Mitra: No, that's not a problem. As far as VCs are concerned, if you look at the Big Data space, it's broader than your space. AgilOne is very similar to your story and they were about $15 million in revenue mostly in services. People raise money in that model all the time.

If you look at my *Boostrapping Using Services* book, you'll find lots of case studies. Companies that have come from that bootstrapping using services background are mature companies and then they go out and raise money at fantastic valuations. The other question that you have to address is the TAM question. By going very granular and very focused on this retail problem, it is a smaller TAM as a result of that. That's more an issue unless you broaden and go outside of your current market.

John Wallace: I agree with you. Given the capital we have to deploy, the market's enormous. Because we have limited capital, we need to have the discipline to be very specific.

Sramana Mitra: That's great. That discipline is what actually lets you win in the market. What is your current TAM?

John Wallace: We did that a couple of years ago with a top-down kind of model. We looked at the omni-channel retail space that we're going after. We looked at the marketing spend.

Sramana Mitra: We're not quite interested in top-down. Top-down doesn't really get you the numbers that investors work off. It's more of the bottom-up. Very simply, very back of the envelope, how many companies can you sell your solution to at a certain average deal size?

John Wallace: Our deals are tied to marketing spend. That's the metrics that we're after. We saw the dollars on the table being spent on marketing and what we charge as a fraction and what percent of the market we thought we could capture. We thought of this as a billion dollar market.

Sramana Mitra: Then this is a perfectly fundable company should you choose to get funded. How do you price your business?

John Wallace: We currently tie it to marketing spend. We look at everything that's been on media – not the marketing department. We look at the email, direct mail program, digital spend on digital ads, search spend, television, newspaper, and TV. Any of that is what we add up and then we cut that to four charges where the people who are spending less will be able to afford our product by charging less. Then, the people who are extracting the most value out of it will pay more.

Sramana Mitra: If you could be more granular, how do you account for that? What data can you work off of and how do you tie that to how you charge?

John Wallace: I thought you were going in the direction of how I know what they spend. So you mean how do we measure TV?

Sramana Mitra: Yes.

John Wallace: We measure all channels simultaneously. The technique that we use comes from the field of medical research. In a study, you can't infect people on purpose to see the spread of the disease and you can't withhold life-saving drugs if there's no discovery. But you still have people trying to understand how this disease affects the population. That's the closest analogy I can give you. In our case, the treatment though is not a drug. It's emails and banner ads. And instead of dying, what we're calculating the impact on is buying. That's how we categorize it.

As for the TV data itself, it's a little unfortunate how that data is collected. It hasn't changed much in the past 50 years. It's primarily off proprietary panels run by AC

Nielsen. It's still useable data though. What we'll see in that kind of data is what we call gross rating points by week. We'll see variability across geographies and time. We bring that data in and we model that at the same time as we're modeling all of the consumer-level data. It's held accountable, if you will. At the same time, I'm also clicking on emails and I'm watching TV and I'm seeing a portion of all those rating points as that fluctuates up and down. Does it have an impact that's measurable?

Sramana Mitra: Very interesting. Do you want to discuss a use case of any of your clients that you feel particularly strong about?

John Wallace: I'll probably talk about them collectively. It's a pretty known problem if your measurement is actually done by the vendors that are giving you data. It's already potentially suspect. We know intuitively that it's very likely that a particular consumer was probably interacting with more than one channel. It could be email program and search engine.

Sramana Mitra: Absolutely, duplication of channel.

John Wallace: There's already awareness that the marketing department's definition of revenue is often quite different from the finance department's definition of revenue. That is, across all of the customers, seeing two things happen. The revenue now tied to finance is something big to check off. The other is having comfort that what we're looking at is an incremental effect of marketing. That's the part that's missing. If you look at things independently, you won't really be able to see what was incremental.

Sramana Mitra: You are able to tackle duplication?

John Wallace: Yes. So what happens is you have another level of confidence that comes into the client organization. A level of confidence and excitement that there's clarity now of what's working and what's not working. This is what organizations have in common – they're all trying to squeeze a penny out of a marketing dollar. They are willing to experiment. They're going to work with social media and see what happens there. They're going to try anything new but they're always trying to hold it accountable. When we've given that next level of confidence, I've watched a series of experiments kicked off from that. Then we watched the dollars move from the lower-yielding areas and continue to go to the highest.

Sramana Mitra: So your system recommends where to move the dollars to?

John Wallace: Correct.

Sramana Mitra: How do you sell this solution? What part of the client organization is buying and how is the sales cycle?

John Wallace: I smiled because I think there are different types of CEOs. Some are operationally focused. In my case, I would call myself a selling CEO. Having a quota between undergraduate and graduate school was probably part of that but I love being in front of clients and have them open up. What happens over the years is that the dialog keeps getting higher and higher in the organization. Our dialog is a CMO level dialog.

Sramana Mitra: Where do you start the sales cycle?

John Wallace: It's typically one of two places. It could be one of the channel managers who has a budget to spend on. Then in a second or third meeting, it usually kicks off the process. We end up collaborating quite a bit with the analytics teams in these companies. We come in making a lot of claims. Someone there has to hold us accountable.

Sramana Mitra: They all have analytics teams?

John Wallace: No, somebody that does customer insights or data analysis. We design the process as a pilot. It's not like inking your life away with us.

Sramana Mitra: So the analytics team buys?

John Wallace: They don't fund it. It's funded by the line of business. The analytics is along for the ride pretty much because our work is very transparent. We're showing what we're doing and they're learning from what we're doing. The collaboration has been a key to our success. It comes from the services background to say, "Here's what we're doing. We'll show you weekly what the progress is." If that analytics team has been there on average of five years and there're five of them, that's 25 years of experience we need on our camp.

Sramana Mitra: That team is also going to help you go beyond the pilot to a much broader deployment.

John Wallace: That's part of the dialog, we need them for sure as champions. At that point, we always meet the head of marketing. When we finish that kind of work, it's about three months of effort looking at a year of media. This might be $300 to $400 million of marketing spend. That's usually a pretty interesting data point that makes its way up the chain.

Sramana Mitra: That's where you get the bigger deal?

John Wallace: Yes.

Sramana Mitra: Excellent. What else is interesting in your story?

John Wallace: I have one thing that I think we set aside earlier that I want to pick up on. I don't think this is unique to us but I'd say we have a pretty high rate of learning. There are things that seemed to take forever to figure out that we now take for granted. We are now constantly moving to the next portion of the problem. The problem just does seem to get bigger.

Sramana Mitra: It also productizes as you go along. The best practices get productized and the learnings from the different organizations turn into features. It was great talking to you. Thank you.

Interview with Girish Navani, eClinicalWorks

Girish Navani is the CEO and co-founder of eClinicalWorks, which offers unified electronic medical records and practice management solutions. I spoke with Girish first in February 2010, and then again in September 2014. In that span, the company went from $100 million to $300 million in revenue. Girish bootstrapped the company using a paycheck, a technique that we espouse wholeheartedly in 1M/1M.

Sramana Mitra: What is your personal story? Where do you come from, and what prepared you for this path?

Girish Navani: I am originally from India. I moved to the United States in 1988 to pursue higher education. I earned my master's in manufacturing engineering from Boston University. My bachelor's in India was in mechanical engineering. I then found a job in Boston working for Teradyne, which was a semiconductor test company. I was attracted in part because of my experience in software. In school, I was writing software to drive robots that manufactured parts.

Sramana Mitra: How long did you stay at Teradyne?

Girish Navani: I was there for three years. I was excited by the fact that I could write software that could affect a lot of people and significantly change the status quo of manufacturing operations within a very respectable semiconductor company. At the same time, there was a lot of activity in downtown Boston. Fidelity Investments was becoming a respected name to work for, primarily because of all the people there who were leveraging all the high tech you could imagine at the time. These were the days when CORBA, DCOM, and similar software technology platforms were about to emerge. From the outside, it looked like Fidelity was a great place to go work with technology.

I joined Fidelity for three years and learned a lot. It was an exposure to technology like no other. I worked in two different groups. One group was in the Institutional Investment Business and was where Fidelity interacted with other financial institutions like Citi. I also worked in the IT department, supporting fund managers.

Fidelity became too big for me. It did not matter what I did or accomplished; it would never make a real impact. The company was just too big. At the end of the day it was a financial services institution. While technology would play a key role, it would never 'be' the company itself. In 1997 I decided to join a software company in town named Aspen Technologies. It was a company in supply chain manufacturing. This was a high-flying area, and at that point in time they wanted to build a dot-com business. Every company in existence at that time wanted to build a dot-com business.

Aspen wanted to build a Web platform for trading. The plan was to help oil traders and the chemical part of the supply chain to do better work with the available tools. A company called PetroVantage was started under Aspen Technologies, and I was asked to be its chief technology officer.

It was exciting putting together a team and building a company. We ended up with a few customers like CITGO, Enron's oil trading side, and a few other Fortune 500 customers. Another exciting part of the job was going to London for four weeks to work at BP. I never felt uncomfortable in front of their executives, nor did I ever feel that they knew how to run businesses better than I did.

Sramana Mitra: At PetroVantage, did you focus primarily on technology or did you have a business strategy role there as well?

Girish Navani: Technology was one aspect, but I was also exposed to leading a team and making business efficient. I stood my ground quite comfortably when I was exposed to senior executives in other companies like I was during my four weeks in England.

In early 1999 I went to Geneva to attend a conference on wireless technology and its impact on different applications. That is when the whole game changed. I heard a speaker present his vision of wireless technology and the impact it would have on healthcare. He put together a slide showing a patient and doctor inside an examination room. His vision was that wireless would allow the doctor to record information at the point of care and allow it to be a seamless operation. The impact was the physician-to-patient eye contact. They would be able to have a conversation, and the doctor could capture data just like he was doing it on a piece of paper. Wireless technology could support the doctors in the manner in which they were already working.

Sramana Mitra: Was the hand-held computer that the doctor was holding providing reference material?

Girish Navani: He did not go into that level of detail. He saw it being used to write a prescription and order a lab. It was not the depth of the application as it was the user experience that impressed me about the presenter's vision. Fortunately, I had not gone on that trip alone. I had two other colleagues with me, one of whom is a physician. To have that experience in the early afternoon and then be able to talk with a physician in the evening about what went on inside his office was very interesting. I saw the contrasting viewpoints of what happened in real life versus what the vision was. With my background, I thought in terms of automation. I worked at Teradyne and Fidelity. Digital automation was how I thought. Healthcare in 1999 was not automated. It was archaic.

Writing software was not new to me. I had been writing software on the side for a long time. It was a hobby of mine. I had just written an application prior to that experience which was sold for $10,000 to a small business that used it to create a $5 million business. When I asked them if they should pay me more for what I did for that small business, the owner told me that I should not have sold it in the first place. That is when I decided that the next time I wrote software, I would not sell it to someone else and that I would build a company with it myself.

Sramana Mitra: Is that when eClinicalWorks started?

Girish Navani: That is when it started. I had two other guys who were with me in Geneva who also found the scenario as interesting as I did. I decided to bootstrap the business, and I had the two of them start working out of a small office. I funded them out of my salary and my investments.

Sramana Mitra: At the point when you were founding eClinicalWorks what was your intent and vision?

Girish Navani: It was not very difficult for me to visualize the goal. What I was hoping to do was digitize healthcare just like finance and telecom had become digitized. We did not set out to build an EMR or a billing system. We just wanted to get rid of paper from a doctor's office and make every single connection for the doctor digital - to the pharmacy, to the lab, and to the doctors supply chain. It just fit my background and I believe in supply chain automation. The intent was to digitize the communication and workflow between a physician's office and the rest of healthcare so that doctors could efficiently communicate with the world outside.

Sramana Mitra: What was your market strategy and what reality did you encounter?

Girish Navani: The market reality that I encountered at that time was one which had plenty of naysayers. They would say that doctors would not want new technology in their offices. We also heard that we should not waste time going after small doctors because we would not make money. The consensus was that small doctors would not spend money on technology and even if they were willing to spend money it would not be enough to make a profit on it.

Sramana Mitra: What about the physicians themselves?

Girish Navani: We took a simple ground up approach to solving the problem. I would visit a doctor and be at their homes and offices, whenever they wanted, to convince them that it would change their lives. It was not obvious to them that this was technology that they needed. They knew they needed a billing system. They did not have any expectations of introducing technology on the clinical side. You had to explain why they even needed to consider that type of solution.

We did not get demoralized because we never really thought we would build a very large company out of this. The goal was to build a small, sustainable company that would survive for the long term. We did not mentally put a price tag on how big it would get. We were perfectly comfortable convincing one doctor at a time that we could help.

We never actually went with a broad sales approach. That is one of the reasons we never went with venture capital, thank goodness. We did not want to borrow capital to spend on sales because we would have burnt all of the cash only to find that when we really needed it that we had nothing left.

Sramana Mitra: When you did visit doctors one on one, were you able to resonate with them?

Girish Navani: That is the secret why we are so successful even today. When physicians actually looked at what we had developed they found that it resembled the way they practice medicine. We built it with my friend Dr. Raj at the center of the puzzle. As a result the software turned out to be what a physician really aspired for. They realized that it was not much different from what they were doing on paper and that if they could do it electronically then it could work for them. The challenge was for them to decide if they wanted to spend money on it and how much money they would want to spend up front.

Sramana Mitra: When you first started selling to individual physicians, how much money were they willing to pay? Typically, when you bootstrap a company, you need to make money quickly in order to survive.

Girish Navani: To be completely honest, that is one area where I completely lucked out. I ended up making a significant amount of money buying and selling options in a big storage company. I ended up having enough of a safety net to know that my wife would not be upset for at least another year. That gave me some time. I could have always parked that money and never worried about it, but I made the decision to use it since it was money that I had made from investments anyways.

We never got nervous with the profitability side of it. I had not left my job yet, and we were working on a very simple premise. I had a pretty significant income stream which could support my lifestyle as well as the business operations. We were not going to go out and burden ourselves where a time bomb would go off earlier than we wanted it to go off. We did not want to have the burden and pressure of getting to market too quickly and have a situation where we would not be ready with a product that would capture imaginations.

Sramana Mitra: How long did it take you to get your first product out?

Girish Navani: We had Dr. Raj using it by the end of 1999. A few of his friends were able to use it then as well. We didn't even have to let the first doctors use it for free because we had a pricing model that was a no-brainer. We had set a price point where a doctor would not say no. We sold it for $250 a month. We still charge that same price today.

Sramana Mitra: What functionality does a doctor's office get for $250?

Girish Navani: They are getting a full EMR that will pass any certification and can be deployed in any number of situations that you can imagine. It does everything from scheduling to faxing, scanning, progress notes, drug interactions, lab ordering, prescription writing, and numerous other functions. It is a full, comprehensive EMR.

Sramana Mitra: Can you describe the user interface? Are there people other than doctors entering data?

Girish Navani: There are multiple ways to do data entry because we know doctors do not think similarly to each other. Some doctors like the point-and-click interface on a tablet PC. Very early on we started with a focus on tablet PCs, and we are very friendly to those environments. We allow you to dictate using voice recognition software like Dragon. We support the handwriting recognition software that comes with many PCs. You can hand write and have the data entered automatically. Of course, we also support keyboard entry. Physicians can mix and match any of those methods as they choose.

Sramana Mitra: How do you compare with Epic?

Girish Navani: I think we are two good companies that focus on different market segments. One focuses on integrated delivery networks and large hospital organizations and the other on outpatient and ambulatory doctors. At one time we used to focus only on small physician practices. That changed by 2005. Now we have large institutions with more than 600 doctors. We do not do any inpatient software. Epic does a lot of inpatient work with some ambulatory offerings.

Sramana Mitra: In 1999 when you went to market, how were you actually selling? Were you knocking on office doors?

Girish Navani: The sales model is the same as it is today. When we sold to one customer, they would refer us to four or five other people they knew would be interested. That has made us an inbound sales company from the very early days. We have 34,000 physicians, and the majority of them are happy. They tell their peers [about us].

Sramana Mitra: In 1999 you did not have 34,000 paying physician customers. What were you doing then?

Girish Navani: In the first three years we had 500 doctors. We found them by going to small regional shows and conferences. From there, word of mouth carried it. It was peer-to-peer sales versus a software company pushing its product. Because of that, growth has been steady. We never lost patience because we had recurring revenues. Our EMR was $250 a month and our practice management is $150 a month, which makes $400 a month for everything. At that price we were adding enough doctors that we could sustain our company.

In 2003 we won some national recognition. That is when the box really opened up. Then came Facebook and social outlets. A physician decided to open up a group of eClinicalWorks users without asking us for permission. It was open and unregulated. He started inviting all of the other doctors he knew through his professional associations. That group mushroomed into a 'doctors finding doctors' phenomena. That portal is still running today, and it has all the good and bad about us. That portal makes it very easy for physicians to decide why an EMR is good for their practice and what it will do for them.

Sramana Mitra: What kind of revenue ramp did you see through those years?

Girish Navani: When we received national recognition in 2003, that became our breakout year. We ended that year in $1 million in revenues. We went from $1 million to $6 million in 2004. In 2005 we hit $18 million. That rose to $38 million in 2006, $63 million in 2007 and $83 million in 2008. In 2009, we had $106 million in revenues.

Sramana Mitra: Do you still own 100% of the company, or have you taken institutional investments?

Girish Navani: The company is owned by the three founders.

Sramana Mitra: Do you host the solution yourself, or do you have a different delivery model?

Girish Navani: We host it, but the customer has the choice. We have 10 data centers in the country, and we are the largest SaaS EMR in the country. Nobody has the customer volume that we have in the SaaS model. We like that model because of the recurring revenues. That makes the company profitable. On the flip side, we understand customer needs. Many of our customers do not have reliable broadband.

Sramana Mitra: From a SaaS operations perspective, how did you manage that ramp?

Girish Navani: First, we have never burnt a CD in our life. If you do a standalone installation, you still download the application from the Internet. When I was with Fidelity, I built systems that were used by 500,000 people, and those were considered small systems. Building a scalable architecture was not difficult for any [member] of the founding team. We knew software and were able to develop a scalable solution, and we utilized the full capabilities of the Internet to distribute that solution.

Sramana Mitra: What does the cost structure of the company look like?

Girish Navani: Our goals are different from those of most other companies. We are not focused only on profits. Our focus is on building a company that has a long-term, positive economic impact on both our customers and the people who work here. Over 90% of our employees are based in the United States. We are headquartered in Massachusetts, where we have about 550 employees. We also have offices in New York, Atlanta, and San Francisco, and a reasonably small office in Bombay. Our cost structure is really a pure American cost structure.

The real key to our success is recurring revenues. Our sales costs are less than 6%. We built the product on Java. It does not cost an arm and a leg to license the technologies we use, and that lets us sell our product for less. The most important part in any innovation-driven company is how you organize the company itself. At one of the companies I previously worked for, there were nine layers between someone who joined the company and the CEO.

When somebody joins our company today, there is no more than one person between me and that person. There is no hierarchy. Employees are broken up into teams, and all teams have a leader. Teams get together and collaborate. Smart people get together and find ways to solve hard problems. That is as much a part of our innovation as our product itself.

Sramana Mitra: Going forward, are you looking to keep this company private?

Girish Navani: I think that is our goal, at least as long as I am tenured at the company. I don't foresee leaving the company for at least 10 years. I would like to leave it a private company with no external investors and absolutely no thoughts whatsoever about Wall Street. I am having fun and take great pride in my freedom. There is no reason I would give that up.

We are a cash flow positive company. We have recurring revenues and no debt. We have a large customer base that is growing exponentially. We have 50% volume growth in 2009 over 2008 and expect that to continue. I have no reason to believe that we will change our corporate financing structure.

Sramana Mitra: What does the market landscape look like in electronic medical records for you right now? If you have 34,000 physicians using your system and there are about 500,000 in the United States, then you still have room to grow.

Girish Navani: Depending on the surveys you read, some say that the TAM is 20% penetrated and others say it is 26% penetrated. It is somewhere in that range. It still has about 70% to go.

Sramana Mitra: What is your market share position today?

Girish Navani: If you look at it from a 20% number, we have 34% of the market. If you look at it from a 30% adoption rate, then we have 16% to 17%. It is still significant because the market is fragmented. There are 150,000 independent doctors' offices [in the country]. If I had to speculate, I would say it is anywhere from 17% to 22%.

Sramana Mitra: How does the stimulus bill affect you?

Girish Navani: The initial stimulus bill ended up dedicating anywhere from $39 billion to $46 billion to the adoption of electronic medical records in the Unites States. Do I like that? Part of me doesn't. I wish we had just stayed the way we were without external catalysts because we were succeeding. However, the other part of it is that $39 billion to $46 billion will flow into an industry that is no more than $5 billion today. It is going to change the landscape. We will see an adoption curve like no other. Between 2010 and 2015, we will go from 20% adoption to 85% adoption. Along the way eClinicalWorks will grow five- to tenfold depending on what the execution terms are. We are prepared to surf that tidal wave.

Sramana Mitra: Let's assume we do reach 80% adoption in the next five years. What does that save in terms of healthcare administrative costs?

Girish Navani: Regardless how I answer that question, somebody is going to object; however, I have a simple premise here. If you eliminate paper from any industry, the efficiency has to improve. There is a lot of communication among doctors in this industry. I cannot imagine how an electronic system cannot transform.

Having said that, I must confess I have not done an analysis on what it will save. I will tell you from my perspective where it will save and the significance of these savings. Let's look at two aspects. One is drug costs: because you can now prescribe medicines that are on healthcare plans, doctors will prescribe medicines which cost less. Doctors will be much more educated in what they prescribe, which will reduce pharma costs, which is one of the big components of healthcare costs.

The second component is orders: labs, X-rays, and diagnostic studies. EMRs will eliminate duplications. That is the second largest component of healthcare costs. Taking on those two will tackle two of the three largest cost structures in healthcare. I think that this will have a significant impact. The key is finding out how to give some of the money that has been saved to the doctors. Primary care [physicians] in the United States need to get a boost in their income levels to compensate for what they do.

Sramana Mitra: I recently was told the savings associated with the industry moving to e-claim processing and healthcare plans paying providers electronically would be $90 billion.

Girish Navani: Then you can double that savings for lab orders and medications.

Sramana Mitra: This is incredibly low-hanging fruit. I am astounded it is still an electronic process.

Girish Navani: The reason is twofold. There are obviously some physician concerns that adapting to the system will take them more time. I challenge that notion simply by pointing to the fact that we have added 34,000 doctors. We would not have grown if one doctor did not hear from another doctor that our solution was valued.

Sramana Mitra: I don't have a problem accelerating the process with a stimulus because the macro picture of the waste in the system is really awful.

Girish Navani: Isn't it amazing that we are in 2010 with a healthcare system that is still 90% paper?

Sramana Mitra: It is annoying!

Girish Navani: Excellent choice of words!

Sramana Mitra: I am delighted to hear your story. I love bootstrapping case studies and people who have the grit to succeed without taking millions of dollars of outside financing. It will be inspiring to other entrepreneurs.

I spoke with Girish again in October 2014. By that time Girish had built a $300M+ private company in Healthcare IT that would be valued at over $3B if he were to take it public. We continue the discussion here.

Sramana Mitra: Let's pick up from where we left off about four years ago. Of course, you're one of the key players in the healthcare IT ecosystem and started way before most of players in the current landscape. Catch me up on what's going on and how you've progressed. I want to set the context of what I love about your philosophy of building the company. You've kept it private. When we talked in 2010, you already had thousands and thousands of customers and had substantial revenue.

Girish Navani: People think the first five years of starting the company are probably the most hectic. I think I'm probably running faster today than I ever did. There's a lot of exciting things. If you follow eClinicalWorks' journey, we put the physician in the middle and we try to put everything else around it. I still think that's the core to the company to a big extent. Everything is streamlined from a physician's workflow. What has complemented that is that we've put the patient also on the same footing.

I'll talk about how I manage growth now while not making it bigger and bigger and slower and slower. I try to keep the culture agile. Over the four plus years, we have focused on the patient being an equal centerpiece. It's like the MasterCard commercial. You've got two circles and they intersect. We've had success on one side of that circle with physicians and we'll continue to. The exciting part is to make a similar impact on the consumer/patient.

Sramana Mitra: Let's take those two circles and double-click down. The physician side is relatively straightforward. You probably, metrics-wise, have made a lot of progress there.

Girish Navani: Very true. It's a hard industry but nonetheless, I think it's consolidating. The business today is not the same business from 15 years ago. 15 years ago, there were a lot of green fields where physicians did not have electronic records. Today, the landscape's different because many times, companies come up from different parts of the country. We've had customers adopt lots of different systems. As markets mature, you'll find consolidation because of many reasons. We're in that phase. Most of our growth now is coming from a customer base that is already on a first-generation system. I see that market continuing to evolve for the next five years.

Sramana Mitra: What is the penetration of EHRs into the physician marketplace right now?

Girish Navani: I'd speculate it's above 80%. But I'd also say that 30% to 40% of them are going to pick us. That happens in every industry. We love to talk about how healthcare has got challenges. If you look at every industry with a microscope, you'll find that it went through that same trend. As the market continues to evolve, you need to invest heavily in R&D and in services. Having a customer has its own responsibilities and not everyone comes through with it. I still think the market is going to continue to grow for the ones that want to innovate.

Sramana Mitra: When we talked sometime back, you were basically going into a virgin territory. Now, you're seeing customers switching.

Girish Navani: Eight out of 10 customers are switching. We actually have a program called *Make the Switch*. It's pretty popular. It's not only moving from one software to another, but also moving to the cloud. Those are the two trends that I see.

Sramana Mitra: If you were to look at the physician market, what percentage of the physician market has made that shift to the second-generation system?

Girish Navani: That's actually an intriguing question. I think it's still in the early phases, early in the sense that we are 18 months into that cycle.

Sramana Mitra: So probably less than 10%?

Girish Navani: Yes, I think so. I'm actually looking at next year with a lot of optimism. It will be the first year in five years that we won't have a government mandate. The market will then try to take its own shape. That's something that entrepreneurs find very exciting. I'm looking forward to it.

Sramana Mitra: Then let's switch to the other side of the circle, the patient side. Tell us what those are.

Girish Navani: Two things are happening, which are I think the stimuli for this becoming a reality. One is, employers have started moving to deductible plans.
So patients are picking up part of this expense through their own pockets, which was not the case 20 years ago when we all had insurance cards and assumed there was no patient pay other than the co-pay. Today, co-pays are not the only reimbursement that many employers are putting on their clients. Sometimes, it's $1,000. Sometimes, it's $2,000. The consumers are asking the question, "Is this the best care I can get for the money I'm spending?" That, I think, is a trend.

The other one is that we're moving reimbursements on the care delivery side from fee-for-service to outcomes. An ACO report says bonuses were paid to practices and groups that had achieved good outcomes while not spending the same amount of money as their peers. Both these trends now put the patient into focus. One, allow them to manage their care. Make them aware of what care is costing. Engage them in such a way that they get preventive care or avoid unnecessary care. Either of those two can result in positive outcomes.

That tells us that you need to have technology for consumers now. You can hail a taxi using Uber. I think you should be able to, at least, look up online what your MRI is going to cost. These are basic things you should be able to do. We are investing heavily. We've committed $75 million in R&D in this business unit. It's called Healow (Health and Online Wellness).

Sramana Mitra: For that business, what is the business model?

Girish Navani: It's an intriguing question. If you go back to our original interview, you asked me that question. I've always thought about making a difference first and then figuring out how to make money from it. eClinicalWorks wasn't that different. People didn't think you could get an EMR for $250 a month. We said they could. I think the long-term business model for patients is saving costs.

Sramana Mitra: For the physicians?

Girish Navani: For both sides – patients or providers. Saving costs, yet obtaining outcomes. Don't compromise the outcome. In fact, the outcome should get better – not worse. The business model might translate into reminders to patients. There might be a monthly model because rather than having to sit there and make manual phone calls and come up with archaic ways of communicating, technology could do it through text messages, voice reminders, or app notifications. There could be a model on just matching supply and demand. If I found a doctor a new patient, would he pay for that new appointment? We do that in all e-commerce settings.

Sramana Mitra: It's a marketing vehicle for doctors.

Girish Navani: Yes, and we're doing that. We've launched it nationwide.

Sramana Mitra: Are they willing to pay for it?

Girish Navani: For an appointment, yes. If you have an unused, open slot, you now get to fill it.

Sramana Mitra: What are the numbers of the business? You can give me ranges. In 2010, you were already at $100 million.

Girish Navani: We forecast this year that we will reach $320 plus million in revenues.

Sramana Mitra: You still don't have any desire to exit this company and take it public? You want to run a private company, right?

Girish Navani: Yes.

Sramana Mitra: That's great. I'm actually working on a book on Unicorn Companies right now. I would love to include you in that. The definition of this Unicorn Company is a billion-dollar exit. The truth is if you were to exit in the market today, you would be over a billion dollar in valuation easily.

Girish Navani: Easily. Maybe multi-billion.

Sramana Mitra: It's probably more like $3 billion plus valuation. You've probably seen my work in the last four years that we've launched One Million by One Million. Our philosophy is entrepreneurship equals customers, revenues, and profits. Financing and exit are optional. That's a very simple and powerful change in the way entrepreneurship is viewed.

Girish Navani: I wish more would do it.

Sramana Mitra: Over 99% of the companies out there who seek financing actually get rejected. We need role models like you and, another of my favorite entrepreneurs who is following the same philosophy, Sridhar Vembu. I don't know if you've met him …

Girish Navani: No.

Sramana Mitra: Sridhar Vembu is doing Zoho. Zoho is probably over $300 million in revenue. He has no desire to exit – 100% self-financed company and has no interest in exiting.

Girish Navani: I'd like to someday meet him.

Sramana Mitra: I'll be happy to introduce you. It's a different way of doing business. It's a different way of thinking about business. You guys are building gigantic cloud companies that can stand on their own two feet.

Girish Navani: I think you're right with cloud computing and business models that have recurring revenue. You don't need to go public and you don't need to exit. Exits are for professional careers. At 47, I have no desire to do that.

Sramana Mitra: That's the other thing. I'm glad that you brought it up. I actually have nothing against venture capital. I've done venture-funded companies. This one, I'm not doing as a venture-funded company—at least not at this point.

I think it's important to put more of your style of role models out there where you can build self-sustaining companies with customer money as opposed to investor money. I think it's an important thought process that needs to come into the industry.

Girish Navani: You, at least, have a different decision making in this business. Profit margins are important but they're not primary. You need to run a profitable business but you tend to look at customers and employees in much different ways than you would if you were a publicly traded stock.

Sramana Mitra: You also don't look at growth the same way. You don't have to grow at all cost all the time at the fastest pace.

Girish Navani: That's true. We have got four business units right now–Big Data analytics, patient that we just talked about, revenue cycle management, and then obviously the core business of EHR. I do it because I like to do it, not because I have to do it.

Sramana Mitra: You are investing sizeable amounts of money in R&D.

Girish Navani: Big time.

Sramana Mitra: That is eating into your profit margins.

Girish Navani: That's fine to me.

Sramana Mitra: I've only seen one public company making the case for not making profits and still convince shareholders to stay with them. That's Amazon.

Girish Navani: Amazon.

Sramana Mitra: Most companies can't get away with that but they do. These are very interesting differences in how you make decisions and how you build companies.

Girish Navani: It is no different than sky diving. It's no different than taking adventures that when you watch them on GoPro cameras, you'd go, "I can't even watch it." Wanting to stay private is no less adventurous than what I just discussed.

Sramana Mitra: I like it very much. The other thing that you said that, personally, philosophy-wise, I'm also very much in agreement with—I'm not interested in retiring. I love work. I love to do what I do. That's my primary focus.

Girish Navani: I wouldn't know what to do if I retired. I'd get bored. If I had to stop working for more than two weeks, I'd be in some form of withdrawal syndrome. Work is addictive.

Sramana Mitra: I think for people like us, work is how we add value to the world.

Girish Navani: True.

Sramana Mitra: Relatively speaking, we are very young. Having an exit and getting a chunk of money and then what? You can't eat money.

Girish Navani: Very true. Then what? People ask the question, "Girish, why don't you exit?" Then I ask the same question you asked, "Then what?" None of those answers have been exciting. I have found a cause with healthcare. In healthcare, there's a purpose – we can help somebody live a better life, live a healthier life, or get diagnosed sooner because technology created that platform. Beyond profitability, we've done something for society even though it's a for-profit and not a non-profit.

Sramana Mitra: If you can add value to society in a for-profit mode, I think it's a much more sustainable model.

Girish Navani: Very true.

Sramana Mitra: I don't particularly like the idea of having to go raise foundation money and all that.

Girish Navani: I think you're right. Innovation creates value. Use that to generate both growth in the company and growth in the principle. You have mentioned Amazon. I have a fascination for their business model, which is doing everything between consumers and supply.

Sramana Mitra: Vertical integration.

Girish Navani: Yes. I expect to see eClinicalWorks as a vertically integrated company for healthcare and even wellness. That'd be exciting. It's short of owning the delivery standpoint itself or owning the practice of medicine, which we won't get into. I think we'll close into that practice and connect it all the way to the consumer.

Sramana Mitra: Let's take the thought process a bit further. How do you view the industry right now? When you look at the different players who are trying to serve the same purpose of making the healthcare world better using technology, who stands out as making interesting progress and contribution?

Girish Navani: What is fascinating to me, and I encourage this, is for the first time in a long time, I am seeing a significant excitement for healthcare and technology innovation. Technology in healthcare was not considered to be so cool 15 years ago. It was dull. It was for the geeks. It wasn't for hardcore entrepreneurs.

Sramana Mitra: Healthcare IT has seen a renaissance.

Girish Navani: Big time. That renaissance will really merge companies that you and I don't necessarily talk about today, but their business models are appealing—find me physicians wherever I can, find the cost of care, transmit my medical records to my provider of care, allow the doctor to do telemedicine versus trying to do traditional medicine, allow providers to communicate with other providers but not through traditional health information exchange models, which I think are primarily there to hide the duplication. This is in contrast with patients carrying their information on a Smartphone to another provider of care. These business models are going to take shape.

I think we've finished the first or second innings of a baseball game of digitizing healthcare. About 80% to 90% now have an EMR in the hospital or in the doctor's office. We just think that's the first leg of doing anything substantial. It's too early to say which five companies are going to have a big impact. Companies that are focusing on using cloud and this idea of tying consumers to suppliers and suppliers to other suppliers and break the mould of this traditional payer-based system of healthcare will create a big, dynamic difference. We expect to be one of them, but we do fully expect many, many more.

Sramana Mitra: AthenaHealth is doing good work.

Girish Navani: They're doing well. But many others are not. You should not just look at these five to six companies including us as people that can make a difference.

Sramana Mitra: There are small companies.

Girish Navani: 15 years ago, we were nobody. I remember this day when we went on stage in 2002. Siemens presented before us and GE presented after us. There were five of us at that show, and that was 95% of our industry. We were the nobodies of this industry. Today, those two companies in healthcare don't have the same presence, if you're being very polite.

Sramana Mitra: They have other roles to play in medical imaging. In the equipment sector, they're big.

Girish Navani: Yes, not in healthcare IT. This is the fun part and also the nerve-wracking part. As an entrepreneur, you have no fear because you have nothing to lose.

Sramana Mitra: Given your structure, what are your thoughts about acquisitions? One way that people deal with that threat is to bring in people from the bottom.

Girish Navani: I agree with the idea of having individuals whose focus is exclusively in that particular objective. You can do that through acquisition of teams and bringing them in. I have always enjoyed building a team or building a company that goes ahead and excels in R&D and service. We have started becoming, in a way, our own investors. We invest in ideas and then give these ideas a lot of freedom and a lot of entrepreneurship. We give them lessons learned. I participate on Thursdays and Fridays in these discussions called LEAPs – Leadership Acceleration Programs. Many from eClinicalWorks have moved into those teams. Many have come from the outside. It doesn't really matter.

Sramana Mitra: That's an Intrapreneurship model.

Girish Navani: I like that word actually. I've never used it – Intrapreneurship. These business units that I just mentioned are directly done that way. Rather than looking at other companies to see if we can acquire, we try to build on cool ideas.

Sramana Mitra: Intrapreneurship is very hot right now. We're doing a lot of Intrapreneurship work in partnership with major corporations where we set up a formal 1M/1M incubation program inside corporations to encourage Intrapreneurship and teach people how to bring the product to market.

Girish Navani: It's hard, but I think we have figured it out. It took a year of my almost constant staying on top of it all. All of these business units are starting to become successful. They have significant customer base. They are starting to generate revenues, but we also think that they're now competing with the "individual entrepreneurship companies" head on. In population health analytics, we were nobodies 18 months ago. We were non-existent. Today, we think we're among the top two companies in analytics for healthcare. This was an internally funded initiative.

Sramana Mitra: What does the R&D operation look like? Is it still primarily Boston-based?

Girish Navani: Yes, because I am there. I'm still the software engineer that has learned how to run the company. The biggest difference I bring to eClinicalWorks is the ability to take customer needs and put technology and engineering together, and come up with products that have an appeal. We have offices in Atlanta, Chicago, New York, Boston, and India. R&D will still stay in Boston. It doesn't mean that it can't be done outside of Boston. It's just that I find it to be that much faster with me being able to work with them hands-on.

Sramana Mitra: How many people do you have in Boston?

Girish Navani: Boston's about 800 plus people today.

Sramana Mitra: The whole company?

Girish Navani: 4,000. In our business, I think I've learned that customer service and customer implementations take up a big part of our company.

Sramana Mitra: Do you have a professional services unit then?

Girish Navani: Very big. In healthcare, I can't sell technology and not go on-site to help them implement it. Even though it's a SaaS model with recurring revenues, we still give services. Not necessarily charged on a per-day basis. In our recurring revenue fees, we will bundle in X number of days of on-site presence to implement it. I think we also provide a lot of free online support.

Sramana Mitra: Implementing well prevents churn.

Girish Navani: Yes. Either I do that or I immerse in sales. We chose to invest in service because it will result in a customer telling another. Our sales team is still very small, while our service and implementation teams have grown significantly. R&D has grown as well.

Sramana Mitra: Is there anything else that you want to discuss?

Girish Navani: I think we will see a different healthcare system where the payer is not necessarily the one clearing a bill without telling you someday what it costs. I'll tell you something new that we're doing next year. We just went live with it inside our company. I think there's a business model for it outside of eClinicalWorks. We mandated that our insurance company gives us our claim files, which was a tough one to get. It got to a point where it was frustratingly being ignored. They would say, "I don't have it today. I'll give it to you day after tomorrow." It went on for about four months until it came to a point where I said, "Either I get it or I'm going to another company." We got our files then.

We built technology to allow each one of our employees to look at that data and see what it costs when they go and get a lab, a flu shot, or an MRI done. We have an employee who went for a brand name prescription. The doctor recently switched it to a generic. Her son didn't react well to the generic, so she had to go back to the branded one. She asked the doctor if she could do anything to manage the co-pay because co-pays are different for branded and generics. One of the employees in the company who had watched this data point in claim files then told her that Walmart is cheaper than CVS. It turned out to be true. She now saves $20 on every prescription she fills.

Employers helping employees create wellness and visibility along with technology companies providing consumers tools at home can change healthcare. It'll take time because it's regulated. There's a lot of bureaucracy.

Sramana Mitra: Some of this stuff does not really need a lot of regulation change like optimizing the cost structure of a patient, which you just talked about.

Girish Navani: It does not. What needs to change is price. The initiatives coming out next year, because of government mandate, are still not going to give you the exact price for care. It's going to be a reference range. But I still think that'll go a long way. Getting price visibility and preventing sudden changes where the status quo gets challenged and people start getting into network contracts are good signs of a big tidal wave coming in. It'll happen a little bit slower than it happened in the cab industry because there were lesser regulations, but I think it'll happen in two or three years.

Sramana Mitra: I think what's very encouraging about healthcare IT right now is that we are well within striking distance of the whole system digitizing.

Girish Navani: Yes.

Sramana Mitra: We are also well within striking distance of the healthcare administration costs becoming optimized significantly. There has been a lot of wastage in that area. All those add to the healthcare system becoming more efficient and being able to deliver care at a lower cost.

Girish Navani: And then we have population health analytics. New York City is doing something interesting. New York City has technology that is allowing them to understand outbreaks every 24 hours. They're able to push medication recalls into provider and patient inboxes. They're also able to understand chronic care management matched up against social, economic, and ethnicity breakdowns. This was not doable before. We take credit for the technology side because we put it in. But when you combine whatever we just discussed – consumerism in care with population health-analytics, I do think we might actually live healthier and at a lower price point than what it is today. That will be a fun experience in life.

Sramana Mitra: What is your perspective on end-of-life care because one of the big chunks of the cost structure problem is in end-of-life care?

Girish Navani: Personal experience tells me that I can say whatever I want today but if your relative or family member ever had to go through that, you would try everything to see if it can work.

Sramana Mitra: I experienced this with my grandmother about five years ago. This was in India. She was in a coma essentially and she was not responding. It was about 18 days. We would have been happy to let her go but no one would let us do that. She was 87 years old.

Girish Navani: I won't say it's easier, but some of them are more rational. I don't know about this one because I have actually struggled with it internally. I like to tout the idea of health and wellness and I have somehow tried to avoid such situations. Maybe the person inside me doesn't know how to react when faced with a decision like this myself. I would always say that if it's better for the patient in terms of pain and outcomes, then it's an easier one. If it is not, then which way do you go?

Sramana Mitra: It's a tricky one.

Girish Navani: If you look at why we get two X-rays done for the same tooth when we visit two different dentists, one for our initial and one for the oral surgery, you're costing the system twice and you're getting no better outcomes.

Sramana Mitra: Those are unnecessary.

Girish Navani: Those are unnecessary. Those should go.

Sramana Mitra: There's a tremendous amount of optimization to be done just in the system that would dramatically cut down cost just by moving things properly, quickly, and efficiently.

Girish Navani: With better drug trials leveraging this health technology to try and see which meds have better appeal, I think technology can create that big change that it needs. You and I can still come back to end-of-life and deal with it.

Sramana Mitra: Take the low-hanging fruit.

Girish Navani: Let's take the person who's living healthy and try and have them live healthier.

Sramana Mitra: The trend lines are all very good. This is encouraging. There are all sorts of bad things happening in the world—ISIS and nonsense like that, but this is a very good trend line that there is actually technology adoption and cost reduction. All these things that need to happen in the healthcare system are all happening.

Girish Navani: Since you brought up international, we have an interesting customer that has signed up with us. They're based in Israel, but they are healthcare providers in the US. They allow international patients to seek second opinions online and they're going to use eClinicalWorks technology for it. This is amazing. You get a specialist in US who is probably the thought leader in that space and knows a lot about that domain being able to provide an online second consult to somebody else in the world. It's fascinating.

Sramana Mitra: What is the business model?

Girish Navani: The patient pays for getting their second consult.

Sramana Mitra: It's a private consult.

Girish Navani: Yes, but nonetheless it is something that creates value. There are intriguing models coming up like this and will be fascinating to have someday. I hope we can cross state lines in terms of healthcare delivery regulation. I don't understand. If you can be a doctor in Connecticut, why can't you be a doctor in Massachusetts?

Sramana Mitra: Yes, then there are other possibilities of course, because if everything is possible digitally then you can train your software to be able to

take that data, analyze that data, and come up with diagnosis and all kinds of things. If the doctor can do it, then the software can do it.

Girish Navani: I'd get into trouble for saying that. I'll say this, technology can definitely assist healthcare.

Sramana Mitra: Come on! We're computer scientists. Doctors memorize and learn what the algorithm and the heuristics are.

Girish Navani: So technology is helping physicians with better decision-making. We start giving them some understanding of outcomes based on prior historical data, which can be computed a lot more quickly.

Sramana Mitra: This is not in the 5 to 10 year-timeframe but it's definitely in the 50-year time frame. There is a much bigger role that software plays in the diagnosis process.

Girish Navani: According to Harvard Business Review, robots are going to be helping in surgeries a lot faster. Actually, my neighbor sells into this space. He believes that robotic surgery is evolving very fast.

Sramana Mitra: It is. That was a great discussion. Thank you very much for your time.

Interview with Atul Jain, CEO of TEOCO

There is, of course, a myth that you cannot build a large company by bootstrapping. What a total pot of crap! You just met Girish Navani. Now meet Atul Jain, and get your premises checked and readjusted. This interview was conducted in October 2014.

Sramana Mitra: Let's start at the very beginning of your story. Where were you born, raised, and educated? Tell us a bit of the backstory of your current entrepreneurial story.

Atul Jain: I was born in Kanpur, India. I was born in a lower-middle class family. My father was an engineer in PWD. I am the youngest of three children. The eldest is my sister Manu Jain and I have an elder brother Naveen Jain. At the age of eleven, I received a merit scholarship from the Government of India to study in a residential school. After I finished high school in 1976, I studied at the Indian Statistical Institute and graduated with a Bachelors and Masters in Statistics. My goal and dream all along was to be a Professor, so I came to the US to do a Ph.D. at the University of Illinois. I did my research in probability theory in the field called *Brownian Motion*. I completed my Ph.D. and got caught up in a game of cards called Bridge. Five years later, I realized that my life was going nowhere and my career was going nowhere.

I decided to get a job. I went to Silicon Valley and got a job with a company called Teknekron Corporation, the parent company of TIBCO. I started there and eventually ended up in the portion of the business that is known today as TIBCO. At that time, it was known as Teknekron Software Systems. Vivek Ranadive was the lead entrepreneur of that company. He had convinced me to move from Teknekron Corporation to Teknekron Software Systems. I then moved to Palo Alto. At that time, it had less than 20 employees and I was one of them. I started with them in late 1988 and left the company in early 1995 to start TEOCO. I was with the company when it was a tiny little company serving just the financial sector.

Sramana Mitra: When you started TEOCO in 1995, what was the premise? What did you see and what did you want to do with this company?

Atul Jain: I just wanted to prove to the world that you don't have to be mean to succeed in business. Most companies were built on the premise that we have to worry about clients first and then at times, we worry about employees. I wanted to reverse the model. I created a business model based on the concept of alignment with employees, client, and community. At that time, I used to say that if we take care of our employees, they will take care of our clients, and that will take care of the business. I wanted to focus on creating joy and a certain degree of alignment. I wanted to invert the pyramid. I didn't know what I was going to do. I didn't know what industry. I just wanted to build a business on a set of values and principles.

Sramana Mitra: How did that evolve? How did you get yourself going?

Atul Jain: When I started the company, I was based in Northern Virginia. I had come here for a project for TIBCO with a company called Mobil Corporation. Then I sold them a project on behalf of my previous company and I was working on that project for two and a half years. Then I decided to leave and find a client.

Almost always the first person that gives you your first break is somebody who knows you. My first break came from Mobil Corporation. They gave me an opportunity to serve them, because I knew some of the people there and had a good amount of expertise. Initially, I was just doing some consulting work for them. I understood that

I wanted to build a business with some intellectual property but I had no capital. I started with $2,000, and that's all the money I ever put into the business.

Sramana Mitra: You got a service contract with Mobil Corporation?

Atul Jain: They bought my consulting services, yes.

Sramana Mitra: What were you consulting on?

Atul Jain: I was helping them build a system for oil trading. I had developed a certain amount of expertise in doing that, so they were happy to get my expertise to help them figure out how to go about building an integrated oil trading system. I told them upfront, "I'm not doing this to be a one-man shop. I have a clear goal of building a team of people so if you don't feel that you want to give me additional opportunities, please tell me upfront. Because if you take me, you're committing to me that you will give me additional opportunities to begin building a team and a company."

They accepted my terms. A few months later, they told me that they are going to hire three or four people. They wanted me to find one person to add to the team. Slowly, I built a team of about four or five people who were working with me on the project. I hired people very carefully – people who I felt were aligned with our values and who were deeply technical.

Sramana Mitra: How did that pan out? What is the timeframe we are talking about? Starting from 1995, you now have four or five people and you have this one client.

Atul Jain: That was in the first year. It took me about nine months to get to a team of about four or five and at the end of another year, we were probably about 15 or so. The company and I have been very fortunate. I have never seen a day where I couldn't meet payroll. Most entrepreneurs struggle making payroll in at least some point of their journey.

My philosophy was that if I didn't have six months of somebody's salary in the bank, I wouldn't hire them. In the first nine months, I didn't take a salary. I deposited all the money I generated into the company. Three months later, I hired a second person. A couple of months later, I hired the third person. I was very conservative.

Sramana Mitra: In these two years that you built up this 15-person team, was Mobil Corporation your only client?

Atul Jain: We acquired one or two other clients. We got some business from Siemens in Germany, Cable & Wireless, and Freddie Mac. Mostly, they fell into our lap based on the reputation of the people we hired when they called on us to ask if he/she could do some work for them.

Sramana Mitra: Where were you hiring these people from? What were the basis and the logic of hiring these people? What kinds of people were you hiring?

Atul Jain: I was hiring technical people. These are people who knew how to do programming. I was giving them a dream of sharing the equity of the company. I was presenting them a picture of building a principle-centric workplace and a model of shared success. Since the concept of ownership in the East Coast is not quite prevalent as it is on the West Coast particularly 20 years ago, the concept of shared ownership appealed to a group of people.

Sramana Mitra: You were doing this in Virginia?

Atul Jain: Yes, I was doing this in Fairfax, Virginia.

Sramana Mitra: If you're talking about Boston or New York, the picture is a bit different. Virginia is definitely a different story.

Atul Jain: I didn't mean to say East Coast very broadly. I meant to say that in the region that I was in, the concept of shared ownership was not as prevalent. I must have in some ways been able to sell a dream. When I look back at it, I cannot believe that I was able to convince people about some of my stupid ideas.

Sramana Mitra: What kind of projects were you doing for Siemens and Cable & Wireless?

Atul Jain: It's mostly technology projects. For example, with Mobil we've been building this oil trading system. For Cable & Wireless, we were helping them build a system to do some interface between two of their telecom systems. They were all specialized projects to do specific tasks around custom software development.

Sramana Mitra: Other than random custom software development projects, there was no tie-in between any of these projects?

Atul Jain: It was whatever walked in the mall to the kids. I always felt that I wanted to build some capital and intellectual property. As I built up the capital from the profits of the company, I began to think about what we could focus on to build some intellectual property. This was about three years into the journey.

One industry in this area was telecom. Everything else was garment contracting, which I didn't want to have anything to do with. The only technical sector that seemed to have some traction was telecom. I decided that if I was going to go after an industry, it was going to be telecom.

I bought a very small piece of intellectual property around which I started building a solution where we process invoices that carriers were sending to each other for validation. It's called bill reconciliation. These carriers send bills to each other and there are always errors in those bills. We built a system to import those bills, put them into a canonical format, and then process, audit and, pay those bills.

Sramana Mitra: What was the intellectual property that you bought? From whom did you buy it?

Atul Jain: It was a one-person entity. I hired a person that had a bit more telecom knowledge than I did. I asked him about what I could build and he talked about doing something in the billing reconciliation system. I said to him, "Is there something that I could buy as a starting point." He told me that there was this one guy who had an intellectual property. I bought that and found out that it was incomplete and didn't have a back-end. We bought a little something that didn't quite work as a standalone.

Over time, our first software product became BillTrackPro, a product focused on doing billing reconciliation of what we call expense invoices in the telecom carrier space.

Sramana Mitra: How much did you charge for that?

Atul Jain: In the beginning, we used a license-based model. We typically charge over a million dollars.

Sramana Mitra: How many of these million dollar deals were you able to do with this product?

Atul Jain: We just got one to start out with. It took me probably two years to find two customers.

Sramana Mitra: Million-dollar deals can really have long sales cycles but it can pay a lot of bills.

Atul Jain: The first client we ended up going live with was Williams Communications based in Oklahoma. I want to tell you a little story about this deal. We received an RFP and we answered pretty honestly about the things that we could or couldn't do. They sent it to 10 people. They selected five people to come in and do demos. We were not one of those five because we honestly said we couldn't do half the things. All the other five people came, but it turned out that none of them could hardly do any of the things they had asked for.

They invited us as the sixth person. We went there on a Friday. Our only laptop crashed at the customer site. They told us they would give us a second chance and that we could come back the next day. We bought a laptop and loaded it, and we did the demo on Saturday. They eventually decided to buy from us. They said the reason they were buying from us is because our values are aligned with theirs. We had not lied. We had not misstated our functionality. We were not as far along as some of the other companies, but we were the most honest. We got that deal partly because of our integrity. That was the first deal that we went live with. We had two other clients that had signed up but were struggling to get them to work with us.

Over time, we ended up realizing that a license-based model is difficult to survive in a situation where you have very limited target clients. Very early on, around 2001, we shifted to a monthly model. It was partly because the market had crashed. Capital was not as easily available. We felt that it's good to get recurring revenue. We shifted to a monthly fee model where we would get $30,000 a month deals. That slowed us down in terms of building revenues, but it created a predictable revenue base. It took a while to get to critical mass, but once we got to critical mass, we were profitable. We ran our business profitably every year, but it was easier when we had the recurring model.

Sramana Mitra: You were doing direct selling with the telecom customer base?

Atul Jain: Correct.

Sramana Mitra: How big did this become over the course of the next years?

Atul Jain: We got to about $20 million.

Sramana Mitra: With this business?

Atul Jain: Yes, with this business. But then we realized that we were probably not going to have that much room for further growth. At that point in time, a fortunate accident happened. We were very focused on building a very strong culture. I didn't have any desire to do any M&A because I felt that it will eventually make it difficult to create and preserve a culture. However, one of our direct competitors was in deep financial trouble, so we were able to buy it at a very attractive price. It was very much in our space. It was an acquisition that we did on cash. Two of the three of our direct competitors were also contacted about the deal but they didn't have the cash in the bank. We have been very conservative. We have preserved our cash, so when the deal came on the table, we were able to pay cash.

Sramana Mitra: What timeframe are we talking about when you were $20 million in revenue in this business?

Atul Jain: About 2005 to 2006 timeframe.

Sramana Mitra: A $20 million dollar business and now you have a competitor that is going belly up and you buy that competitor for cash.

Atul Jain: They were about a $5 million revenue stream and we were able to buy them for a little over $3 million.

Sramana Mitra: So you bring another $5 million worth of revenue into the company in the next year or so.

Atul Jain: Correct. It was all recurring revenue also, so it was not something that was one time. We got a good team of people. They had a very good technical team in Rochester. We got an office and a bunch of people in Rochester. We consolidated our position and became the clear industry leader in telecom cost management.

We had just begun to go down the path of building an analytics solution on top of very large volumes of CDRs. We might have been able to deliver it on our own, but with some of the additional expertise that we gained from this acquisition, it became a whole lot easier. That analytic solution ended up becoming our growth engine. We were able to sell to a couple more clients. It was a large ticket item. We would typically sell it on a monthly fee of several hundred thousand dollars a month. It was on a very large data warehouse appliance. I don't know if you recall a company by the name of Data Allegro?

Sramana Mitra: No.

Atul Jain: Once upon a time, there was Teradata. The first competitor to Teradata was Netezza. Then there was another company that was coming up by the name of Data Allegro that eventually Microsoft bought and destroyed. We were the first customer of Data Allegro and we built this Data Allegro-based solution. Today, a lot of our data warehousing work is done on top of the Netezza platform. We built the solution and it was hundreds and hundreds of terabytes of data. It was a small number of clients, but a high-value added solution.

Sramana Mitra: What was the analytics application that you were focused on?

Atul Jain: We were focusing on fraud detection. We were doing certain amount of usage cost analysis and certain amount of margin management. It was margin, revenue leakage, fraud detection, and a certain amount of cost management. We built the solution and we were able to sell it on a hosted basis. We bought the hardware and charged them a monthly fee for a combination of the hardware and the software. We even ran it on our own data center.

Sramana Mitra: Did this product go into your existing telecom customer base?

Atul Jain: Yes.

Sramana Mitra: It was basically upselling into your existing customer base several hundred thousand a month kind of product.

Atul Jain: Correct.

Sramana Mitra: Fantastic product strategy!

Atul Jain: Some of it is luck and some of it is taking some chances. I had to make a half a million dollar bet on buying an appliance to do a proof of concept before we got the sales. In those days, half a million dollars for us was a lot of money but we made the bet. We made that bet and bought the appliance. We did a proof of concept and sold it to the client. After doing the proof of concept, it took another six to nine months to close the deal. The deal got us onto the path of doing analytics. That began to grow that business. Now with one acquisition under our belt, some organic growth, and some new innovation, we were feeling pretty good. We had done a good job of integrating the first acquired company. So we thought we'll do more acquisitions.

Sramana Mitra: What year are we talking about?

Atul Jain: We did our first acquisition in 2006 when we were around $20 million. Over time, we have done five acquisitions and this year, our revenue is going to be about $180 million.

Sramana Mitra: So in 2006, you bring in another $5 million of revenue with an acquisition and then you launch this analytics product into your existing customer base. What did that do to your revenue?

Atul Jain: We were able to get to north of $30 million.

Sramana Mitra: In what timeframe?

Atul Jain: Probably 2008.

Sramana Mitra: In 2008, you have $30 million in revenue. What's your next strategic move?

Atul Jain: We bought another company by the name of Vero System, which was doing routing management in telecom carriers. All of our business is in the telecom sector. We bought this company that had got into trouble. They were one step away from bankruptcy. In fact, we bought it and its assets and liabilities for $1 million. The liabilities ended up being north of $10 million. We spent about a good $10 million to deal with the liabilities that were attached. In reality, you can say we purchased it for $10 million even though we paid $1 million as purchase price, but we assumed a lot of liabilities. It was about an $8 million revenue stream.

Sramana Mitra: You were at $38 million in the 2009 to 2010 timeframe, right?

Atul Jain: This acquisition was done in late 2008. Then we continued to do some organic growth. In 2009, we ended up doing a little north of $45 million. We had an

EBITDA of about $15 million that year. Then we had a private equity investor call on us who wanted to invest in our company.

Sramana Mitra: Who was that investor?

Atul Jain: A company called TA Associates. They ended up taking a little over a third of the stake in the company. They came in as a private equity player in October of 2009.

Sramana Mitra: The new money coming in through TA Associates—did all that money go into the growth of the company or did some of the founders take some money off the table?

Atul Jain: Initially, when we had negotiated the deal, it was supposed to be $40 million liquidity and $20 million growth. Before the deal closed, they changed their mind. They wanted to do $60 million liquidity and no growth.

Sramana Mitra: Why is that?

Atul Jain: They felt that they wanted to get the greatest amount of ownership. You know how it happens when you do growth. You get lesser ownership because the money goes into the company, so the overall valuation goes up, right.

Sramana Mitra: Yes.

Atul Jain: If they put less growth capital, they would have a greater ownership percentage. I fought against them tooth and nail. I said I don't want to take all the money out. I want to leave money in. After a lot of negotiations, they agreed to leave $3 million in. In the final deal, $57 became liquidity capital and $3 million became growth capital.

Sramana Mitra: Oh my god!

Atul Jain: It's what happens in most deals. The founders want to take the money out and the investors want to put the money in. Here, I was fighting in reverse. I want to have money for growth so we can possibly have more safety, more growth capital, and more acquisition capital. They said, "You guys are making so much money. You have positive cash flow. We don't feel that you will struggle for cash flow. If you do, you can take a loan." We were not into taking loans.

Sramana Mitra: It is an unusual negotiation for sure. You have now TA Associates as a partner, which means that you're no longer a full private company. Now you have to put yourself on an exit path.

Atul Jain: That's correct. One other thing that I wanted to share with you that might be of some interest to you is the liquidity that existed was about 35%. Because I had a commitment of making sure that I shared in the success of people, I offered every existing shareholder an opportunity to cash out up to 60% of their stock. It was important to me that people felt assured that when the money showed up that I wasn't going to get greedy about it. Every existing employee had a chance to cash out up to 60% of their equity and I made up the rest. That created a very positive sentiment in the employee base because they felt that they had a chance to benefit, to some degree, before I did.

Sramana Mitra: How many employees did you have at this point?

Atul Jain: I would say probably 250.

Sramana Mitra: What is the geographical configuration of your company at this point when the private equity deal was happening?

Atul Jain: Almost all North America.

Sramana Mitra: All Virginia and Rochester. Where did Vero come from?

Atul Jain: Vero came from New Jersey. They had a small office in New Jersey and a small office in Atlanta.

Sramana Mitra: It was all mostly in the New York and Washington area, right?

Atul Jain: Yes.

Sramana Mitra: What happens next?

Atul Jain: Since then, we have become a global company. Today, we are about 1,300 employees and doing about $175 million in revenue. We are global with 50% of our revenue coming from outside of North America.

Sramana Mitra: Your target customer base is still telecom?

Atul Jain: Yes, still in telecom software. We only do telecom software.

Sramana Mitra: You have a whole suite of products within the telecom space.

Atul Jain: Correct. We have three main umbrellas under which we sell. We call it financial analytics, network analytics, and RAN (Radio Access Network) analytics.

Sramana Mitra: Is the employee base still North America?

Atul Jain: No, it's a worldwide employee base. Today, we have employees in almost every country you might think of. We have customers in over a hundred countries. We have employees in Dubai, South Africa, and Latin America. We have eight offices in North America. We have three or four offices in India. We have an office in Israel. We have offices in London, Italy, and Australia.

Sramana Mitra: These are mostly sales offices.

Atul Jain: No. For example, we have a very large R&D presence in Israel of 200 people that came from an acquisition. We have a sizeable presence of about 100 people in London. A good percentage of the people are in R&D. We have a sizeable presence in India where some of the work is a bit more BPO oriented, but some of the work is software and delivery oriented. We also have customers in India. We truly have a global presence today with presence in any major location where you would expect a telecom software company to possibly have presence.

Back in 2009, it was close to 98% North America. I never imagined that the day would come where it would be 50%. I thought for sure it would be very difficult to bring North American revenue below 70% but through a combination of acquisitions and organic growth, we have been able to build a pretty global client base and diverse revenue stream and employee base.

Sramana Mitra: What about financing? Was TA Associates financing the last round?

Atul Jain: TA Associates was not really a round of financing because only $3 million came in. Pretty much, it was almost nothing. We have not raised capital from anybody. We have, at times, taken bank loans to do acquisitions and have paid them off. The last time we took a loan was to buy a company in Israel. It was a three-year loan for $20 million, but we paid it off in two years. Now, we have done another large acquisition and taken a loan, which is still outstanding. We have not created any dilution to shareholders other than giving stocks to new employees.

Sramana Mitra: What is your profit margin?

Atul Jain: In terms of EBITDA of the $175 million, we probably have $30 million.

Sramana Mitra: So it's a profitable company.

Atul Jain: Yes, we are solidly profitable. Next year, I expect our EBITDA to be $40 million.

Sramana Mitra: What is your growth rate?

Atul Jain: You can compute it from the $20 million to the $175 million. Some of it is through organic growth but a good bit of the growth in the last two to three years has been through these acquisitions, which has also slowed down organic growth because a lot of your energy goes into integrating the acquired companies. We typically buy what we call distressed assets and it takes a ton of energy to understand what is broken, how to fix the bleeding, and fix the business. So far, every acquisition we have done has been less than 1x revenue. Meaning, it's always distressed. If we buy $10 million of revenue, typically we pay less than $10 million.

Sramana Mitra: If you just look at the kind of financial trajectory, what kind of growth are you achieving?

Atul Jain: I would say to you that, chances are, with the combination of our organic growth and acquisitive growth, we'll probably end up growing 15% to 20% a year.

Sramana Mitra: It's a sizeable company and very profitable with a 20% steady growth. What do you peg the valuation at?

Atul Jain: I'm not going to answer that. I have no clue. You guys are experts.

Sramana Mitra: It's definitely a $1.5 to $2 billion valuation.

Atul Jain: I would feel that is overvaluing the business.

Sramana Mitra: Why do you say that?

Atul Jain: My view is that in our industry, you don't get 8x revenues. I feel that in our industry valuations run, in a good case scenario, 3x to 4x of revenues. I feel that the valuation will be somewhere between 2x to 4x revenues.

Sramana Mitra: Your industry operates in the principles of the software industry, right?

Atul Jain: Telecom software is valued differently than enterprise software.

Sramana Mitra: Really?

Atul Jain: Yes.

Sramana Mitra: You're running a SaaS company and you have a recurring revenue business.

Atul Jain: First of all, not all of it is recurring. Number two, our business revenue stream has a tangible amount of services even if it is recurring. Let's say you buy Salesforce. Salesforce doesn't have to do anything other than giving you access. Even in our cost management model, we have to load invoices. We get their invoices sent to us. We are loading the invoices into the system. We are responsible for tracking which invoices we get. We are responsible for making sure that they're properly loaded. So our business has a services component to it. We are not a true SaaS company in the sense of Salesforce.com.

Sramana Mitra: What percentage of the revenue would you say is BPO services?

Atul Jain: We are mostly a software company. When you say professional services, do you mean to say installation and implementation kind of stuff?

Sramana Mitra: No, anything that is custom where you're not selling software.

Atul Jain: We don't do any real contract-based software development. Sometimes, we do services that are not selling software. For example, we do have a portion of our business, which is not very large, where somebody will hire us to do optimization of their network. They're not buying our optimization software. They want us to come in and optimize their network. Sometimes they will hire us to do managed services on an ongoing basis. There are services like that, but there are no services where we are building custom modules of our software. Our software is mostly product-oriented because there are components of the solution where we have to interface with your data and we have to make sure that we can import your data and solve your use cases.

Sramana Mitra: I think you're underestimating your value. I think your business is closer to the $800 million valuation. What do you want to do with the business?

Atul Jain: When you take private equity, I have to create some liquidity. I have an obligation. Eventually, there has to be either a sale of the business or an IPO. I have a clear preference for an IPO simply because I didn't do it to make money. I did it to create a culture. I'm assuming you've figured out that TEOCO stands for "The Employee Owned Company".

Sramana Mitra: Oh, really! I had no idea.

Atul Jain: It was important for me to communicate how I think and feel about it. That it's a model of shared success. I will make every effort to see if we can go down the path of liquidity. My preference is to create an IPO that will enable us to preserve the brand and culture to a great degree. It will change and evolve because a public traded company does have a slightly different nuance in terms of culture. More than that, I want people to have a great place to work in and to continue to feel that what they've dedicated their blood, sweat, and tears to isn't going to be taken away by somebody else in a manner that they didn't sign up for.

Sramana Mitra: Fantastic. Atul, I love your story.

Atul Jain: It's kind of you to say that. Just so you know, it's important for me to teach and coach so I'm writing a book. It's called "At What Price?" It's not published yet. Our India Country Manager is Srinivas Bhogle. He has co-authored the book with me. The words are his and the ideas are mine. We are hoping to publish it in the next 12 months. Does the name Bhogle ring a bell for you?

Sramana Mitra: It does, but I can't place it.

Atul Jain: Harsha Bhogle, the cricket commentator.

Sramana Mitra: Right.

Atul Jain: So this is his elder brother. He's three years senior to me. We know each other for 37 years. He's like an elder brother to me. My goal in sharing that story is to promote the concept of principled entrepreneurship. To show people that you can have a set of values and principles and you can build a successful business on those sets of values and principles. Creating a successful business doesn't have to be based on trampling people. You can create joy for people and still create a successful business.

Sramana Mitra: As you can tell, what we do is very much in line with that principled entrepreneurship. The emphasis of the principles perhaps is on different parameters.

Atul Jain: I have watched a couple of your videos. I'm a huge fan of entrepreneurs. I like the concept of lean startups that you articulate. A lot of people think entrepreneurship is about money. You don't. I completely subscribe to that. It's about customers and profits. It's about understanding that it can be done with little or no capital.

Sramana Mitra: That was a great story. Thank you very much for your time.

The Best Work-from-Home Opportunity: Your Own Venture

Paris-born Valerie Holstein had a difficult time finding a place where she felt she belonged from the time she first came to the U.S. to attend college in 1993. Though she settled domestically in Fort Lauderdale, Florida, and married her fiancé, she continuously searched for the professional opportunity that would allow her to travel home for a month at a time each year, and for a place that would provide her with comfortable work despite the fact that English was her second language.

In 2002, when Valerie was pregnant with the couple's first child, she was actively searching for work-from-home opportunities; as a result, she and her husband were in the process of renovating their home office. It came to Valerie's attention that a beautiful room was largely cluttered by ugly electrical cables required to run the office equipment, so she and her husband set up an informational page explaining where others might find storage and organizational solutions for such cables. Overwhelming interest soon led to the couple selling the products online, and CableOrganizer was born.

In the first year, business scaled surprisingly well as Valerie fielded an average of 20 customers per day. She was able to make a profit by purchasing in bulk at retail price and incorporating a 20% markup – that is, until business began to really grow, and product referrals began to flow in along with inquiries. Valerie began to reach out to large-scale vendors in the cable management industry, who lent their support and offered special bulk pricing for their products. All revenue was reinvested to purchase additional inventory.

Google, word of mouth, and SEO combined to increase the company's customer base. Eventually, a mention in The Wall Street Journal provided a major boost. It was then that business truly took off, and both Valerie and her husband had to jump into running the business full time – often working up to 19-hour days simply to field increasing customer demand.

While Valerie's husband brings his background in finance to the table, with past experience as a CPA, Valerie herself studied graphic design and does not hold an MBA. Valerie is and was in charge of the website, hiring, bookkeeping, supply chain management, logistics, inventory management, inventory control, and much more – all while raising her child.

The company serves primarily local contractors, but it is also popular within the marine industry, especially boat manufacturers. A subsidiary in France assists by handling all sales in Europe, Africa and the Middle East.

Since its inception, CableOrganizer has grown from a grassroots, garage-based operation to a thriving organization with 47 employees. Fully bootstrapped, CableOrganizer has reached close to the $16 million mark with Valerie as CEO.

Interview with Valerie Holstein, Cableorganizer.com

This interview was conducted in May 2012. 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?

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.

Interview with OJ Whatley, CEO of WatchUwant

This interview was done in April 2014. OJ Whatley built a business up to $6 million with 'me, myself and I' and scaled it to $20 million with a small team. It's a jaw-dropping ultralight startup story!

Sramana Mitra: Let's start at the beginning of your story. Where are you from? Where did you grow up and in what kind of background?

OJ Whatley: I was raised in Chicago. My father was a commodities trader. That's where I got in my blood the idea of buying low and selling high – the idea of speculation and entrepreneurship.

Sramana Mitra: Entrepreneurship and speculation are not the same things.

OJ Whatley: I think in a way they are. Entrepreneurship involves a lot of risk.

Sramana Mitra: I don't believe in the idea that entrepreneurship is speculation.

OJ Whatley: Put it this way. To me, speculation is calculating risk as a function of reward and making good decisions based on that equation.

Sramana Mitra: I'd be very blunt about my absolute bias against speculation in the raw form, which has come to dominate, especially, the world of finance today. It's reckless and unbridled speculation that is causing a tremendous amount of damage in the financial system. That's something that we are vehemently against. If you actually care to look at our site, you would see that

the whole project – 1M/1M – to a large extent came in response to that kind of speculators hijacking the system.

OJ Whatley: Then I can see where you have a bias against that word, so I will certainly refrain from the use of that word.

Sramana Mitra: This is not a trading company. It's a company where you're selling products. That's not necessarily speculation. Let's go back to your roots. What about college?

OJ Whatley: I was raised in Chicago. The day I graduated high school, my parents retired to the west coast of Florida whereupon I went to the University of Miami for college. I majored in International Finance and Marketing and received the BBA degree in 1992. Having a father who was a commodities trader, financial services was always in my blood. Prior to starting WatchUWant, my foundation was financial services. That's where I learned to establish relationships and build value-added relationships where the value proposition is to understand what's important to your clients and help them basically visualize what's important to them, querify it, and then bring them the solutions that will allow them to get where they want to go.

Sramana Mitra: You graduated in 1992. What happened after that? Did you start the company right after?

OJ Whatley: No, I started this company in 2000. I was in the financial services industry working with life insurance and brokerage companies. I started with John Hancock Life Insurance and then went on to New York Life Insurance and Merrill Lynch.

Sramana Mitra: What time frame does that cover?

OJ Whatley: 1992 to 2000.

Sramana Mitra: So in 2000, the dot-com crash happened. What did you do after that?

OJ Whatley: In 1999, I sold my soul for the dot-com world, so to speak. I left the financial services industry to go work for a Linux-based software company.

Sramana Mitra: What is it in your background that drew you to that?

OJ Whatley: I think that's a really good question. I think there were two pieces to it. Number one was the allure of the dot-com world and technology. More fundamental than that though is that I was tired of being rejected. I had a lot of conviction and knew that the solution that I was offering was the best solution. No matter how good you are, it's still a game of numbers and about getting in front of as many people as you can. The level of competition and differentiation is minimal and the level of rejection is extremely high. So when I started WatchUWant, it was with the idea that I would buy watches and put them on eBay. Then, people who were interested in buying those watches would contact me. That was the genesis of WatchUWant.

Sramana Mitra: You didn't want to do in-person selling that would give people an opportunity to reject you. It sounds like that's the core motivating factor.

OJ Whatley: No, what it was about was that I didn't want to spend my time trying to court people who weren't interested in what I had to say. So I wanted to find something where people would come to me. I could still sell and selling is still a key component but the idea of selling to people who are interested in what you have to say as opposed to trying to find those people – a world of people who are sort of desensitized because they've heard it every day.

Sramana Mitra: When did you start WatchUWant?

OJ Whatley: I started WatchUWant in 2000 while I was working for the software company.

Sramana Mitra: Why watches?

OJ Whatley: I've always loved watches. Even going back to my days as a 10-year-old, I was always enamored of watches.

Sramana Mitra: It's a passion.

OJ Whatley: Yes. The price points were $10 to $300. I was always obsessed with watches and I've been wearing a watch since I was about 12 years old. It evolved. It started with Star Wars R2-D2 and Darth Vader watches. I wear some of them on a chain around my neck. It progressed to Casio calculator-type of watches and watches that would play music. Then, it progressed to the freestyle sports watches and Casio G-Shocks.

While a freshman at the University of Miami, I was representing my college on the Wheel of Fortune and won $16,900. Of this, $4,500 was a gift certificate to a jewelry store in Beverly Hills where I redeemed that gift certificate for two stainless steel Rolex Submariner watches – one for myself and one for my father. That was the first real luxury watch I ever bought.

Sramana Mitra: What were you doing to do with WatchUWant in 2000? What was the game plan?

OJ Whatley: The game plan was to make millions in the dot-com world.

Sramana Mitra: I'm asking for more specifically what kind of watches were you going to sell? How much inventory were you going to buy? Where were you going to source these from?

OJ Whatley: I couldn't afford the watches I wanted to buy. I couldn't afford to keep them but I could buy them and sell them for more than what I paid for them. So I could take a passion and turn it into a profit opportunity. While working for this software company, we started getting notices that said something to the effect of, "Great news! For every dollar you don't take in salary or payroll, we'll give you a thousand stock options." After not taking any compensation for about two months, suddenly the light went on that this company may not survive. That's when I stepped up my efforts to buy and sell watches primarily focused on one particular brand, which by 2000 I had a keen interest in. It was a brand called Panerai.

Sramana Mitra: What drew you to that brand?

OJ Whatley: What I like about Panerai is it was the largest watch in terms of size. It was 44 mm and that was gargantuan in 1999. In fact, it was comically oversized. What I fell in love with about the watch was that it had a genuine and unique history. During World War I and World War II, it was involved in making military spec-type components for special force military groups. Panerai was making the watches and underwater compasses that the underwater ballistic guys would use while diffusing bombs underwater or in underwater tactical warfare . It was a real history. There are history books written about these various special force groups. There's an Italian special force group. There's an Egyptian special force group and they're all outfitted with gears from Panerai.

Sramana Mitra: What was the price point of this watch?

OJ Whatley: One of the reasons I like Panerai so much was because it was half the price point of Rolex. I couldn't afford to buy and sell Rolexes but I can afford to buy $1,500 watches and make $500 to $800 on every watch.

Sramana Mitra: Where were you buying these watches?

OJ Whatley: I was buying these watches from collectors on a collector's forum site and on a watch-trading site.

Sramana Mitra: These were separate sites? You were buying from these collectors from other sites and then selling on eBay?

OJ Whatley: That is correct. In fact, one of the sites was called Paneristi.com, which is still in operation today. The other site is Timezone.com, which is a watch enthusiast community and one of its parts is the watch-trading forum. What I found was that I could buy watches from enthusiasts who owned the watch and have grown tired of it or ready to buy something else. I could buy those watches from them and create a market to sell those watches to people who were just starting to learn about Panerai.

Sramana Mitra: How many of these transactions were you able to do?

OJ Whatley: In 2000, I probably sold 25 watches.

Sramana Mitra: You were by yourself, right? How about in 2001?

OJ Whatley: In 2001, I just stepped up the volume.

Sramana Mitra: Were you investing many to buy inventory?

OJ Whatley: I was reinvesting every dollar I was making back into my business.

Sramana Mitra: It was basically organically funded?

OJ Whatley: It was organically funded with a $3,500 credit card.

Sramana Mitra: In 2001, what kind of volume did you get to?

OJ Whatley: In 2001, I probably sold 25 watches at an average of $2,500 per watch. In 2002, I probably did 40% to 50% more. My business just grew exponentially from there. In 2006, I was doing $6 million in revenue out of my house with me, myself, and I.

Sramana Mitra: Just selling these watches?

OJ Whatley: Buying and selling watches.

Sramana Mitra: On eBay?

OJ Whatley: On eBay, that's correct. My model became eBay-driven in 2003.

Sramana Mitra: Talk a bit more about some of the granular details of specific elements?

OJ Whatley: In 2000, I walked into a watch store and I happened to pick up these hardcover books on the history of Panerai. They were like coffee table books. I went on eBay and found about eight of these in different languages. I noticed that they were selling from $100 to $150 each. I found out that you could call Panerai on the 800 number and ask them to send these books to you and they would send them to you for free. I had my co-workers order these books and in exchange, I would take them out for lunch. I would then sell them on eBay for anywhere between $50 and $300. That was a big piece of my capital.

Sramana Mitra: Was that also getting you in touch with people who are passionate about Panerai?

OJ Whatley: 100%. These went hand in hand with the people who were buying the watches – who were trying to educate themselves about the watch. They were starving for every piece of history that they could get their hands on because Panerai is a company that's been around since 1860. In fact, one of the interesting facts about Panerai is that they're the only company that's ever been able to buy watches from Rolex, put their name on those watches, sell those watches with Rolex dials or Panerai dials. It really was an unheard of relationship that to this day, no one understands how it came to be. That association with Rolex really drove the brand and drove the reputation especially for vintage Rolex collectors because when they had finally owned every vintage Rolex watch they could get their hands on, they turned to Panerai. All of a sudden, a new market was born. These vintage Panerai watches, which in 1998 were going for $5,000, were selling for $150,000 to $250,000 once the Rolex collectors hopped on.

Sramana Mitra: Were you able to get to that market – to be able to source a $5,000 watch and be able to sell up for $150,000?

OJ Whatley: That's a great question. In fact, part of my success was by being an enthusiast as well as a dealer. I created alliances with other collectors and enthusiasts. I couldn't possibly dream of paying them $100,000 for that watch that I might sell for $120,000. They allowed me to sell the watch on their behalf via a consignment basis.

Sramana Mitra: Then shared the profit?

OJ Whatley: Either shared the profit or they would just say, "Hey, get me $100,000 and anything over that is yours to keep."

Sramana Mitra: You were making very good margins from these transactions?

OJ Whatley: Yes. Every watch you buy, you don't always sell for a profit. Sometimes you do lose money.

Sramana Mitra: Go back to the book strategy through which you connected with some of these passionate individuals.

OJ Whatley: The book strategy was a website called Paneristi.com, which in 1999 had 10 followers. Today, they probably have 100,000 hits a month.

Sramana Mitra: You own that site?

OJ Whatley: I don't own that site. I became friends with the founder of that site and I basically served on that site as an advocate. I was an advisor so that whenever anyone had a question about buying their first Panerai, I would normally get shout-outs from the community. People would say, "Hey, call OJ. He can get you what you're looking for." I have a lot of support from the community because I put myself out there as someone who wanted to meet other people who were enthusiastic about Panerai. I became accessible. My calling card was my name and my cellphone number.

Sramana Mitra: You were active in the Panerai community?

OJ Whatley: Yes, very much so and I still am today.

Sramana Mitra: How big is that community?

OJ Whatley: From 2000 to 2010, Panerai was the number one hottest selling watch brand in the world.

Sramana Mitra: How much of that community are you in touch with?

OJ Whatley: It's a really good question because what I quickly found out was that Panerai enthusiasts were typical watch enthusiasts. You don't decide you like watches and then fall in love with Panerai. You typically love watches and then you discover Panerai. Or you liked watches but there was something about Panerai that you just didn't understand. When someone explained it to you, all of a sudden it made sense and you develop this voracious appetite to learn, and consume as much Panerai knowledge and buy as many Panerais as you can get your hands on.

One of the keys to Panerai's success in the early 2000 was a very limited production along with every watch being individually numbered so you knew exactly how many watches they made for that year. It was a very simple serial number system where you could identify the year of manufacture followed by how many pieces were made for that year. There was total transparency. This was ground breaking because no other watch brand had any way to tell people when watches were made or how many were made. Rolex had a serial numbering system but it was a little convoluted. With as many watches as they are turning out, it was very difficult to really get clarity but with Panerai, if there was an A on the case stack, it means that it was made in 1998. B is 1999. C is 2000 and all the way up to the current letter which is P, which is 2014 production.

Sramana Mitra: It sounds like your business was entirely Panerai until what year?

OJ Whatley: Until about 2003.

Sramana Mitra: What did you do after 2003?

OJ Whatley: Again, I've always loved watches. Panerai has captured my heart. In fact to this day, my license plate is Panerai. I fell in love with Panerai like no other watch. I love watches to begin with. It took me a couple of years because a lot of people were telling me that Panerai was a bubble. It was going to burst – that Panerai couldn't justify the resale prices or the profit margins on the watches I was making.

Most importantly, I had conviction because I really loved the brand and loved what it stood for. I put myself out there as a specialist, an advocate, and an enthusiast. I was willing to talk to dealers about it because most dealers didn't understand Panerai. I became their go-to Panerai guy. Whenever they got a Panerai to buy or sell, I was the first call they made. I would tell them exactly how much I want to buy it for. I would tell them exactly how much they could sell it for. Sometimes, they sell it to me and other times, they didn't. I figured it was all part of the business.

Sramana Mitra: In 2003, you decided to sell other watches. Can you talk about that?

OJ Whatley: It wasn't necessarily that I decided. It was that I figured I could sell more watches if I took trades. As much as I love Panerai, to buy and sell only Panerai was a limiting proposition. Coming from the investment field, I know all about diversification. I figured out that I could sell a lot more Panerai as well as other watches by taking trades and by becoming an authority in other brands. I can't say that from 2000 to 2003, I never sold anything but Panerai. I sold other brands other than Panerai but Panerai was where my passion was.

Sramana Mitra: So what happened in 2003?

OJ Whatley: It became a little harder to get the watches. There was a little more competition. Again, I didn't make a conscious decision per se, but my inventory had diversified, so I was selling more watches and doing more volume. In doing more volume, there was more trade.

Sramana Mitra: This is actually a good segue into a question I'd like to ask you. How much of an inventory do you have to manage? It sounds like you were doing this out of your house. These are big-ticket items. You're operating out of a small space.

OJ Whatley: I recall one time leaving on vacation for a week and taking my inventory of watches, putting them in a bag, and putting them in my ceiling because I didn't have a safe. I only had an alarm and I didn't have insurance because I wasn't a business operating out of a business. I was a business operating out of a house and therefore, I can't get insurance.

Interestingly enough, because I started this business working out of my house, I never advertise my home address as my business address. I always use a shipping store. That would allow me not to have to worry about being there for package pick-ups and deliveries. It also allowed that people I didn't know wouldn't just stop off of my house, ring my doorbell looking to see watches. Even before then, I was conscientious of security and trying to maintain a low profile. In fact, I would meet people at Starbucks to show them watches. If I was unsure after I showed them the watches at Starbucks, I would drive around in circles before I went back to my house just to make sure I wasn't followed.

Sramana Mitra: If you looked at the progression through the years, is the volume that you're transacting significantly high now? Do you need a warehouse?

OJ Whatley: We have private showroom and sales office. I've got 20 employees here and we do maintain a substantial amount of inventory.

Sramana Mitra: You're based in Florida?

OJ Whatley: When I was working out of my house in 2003, I moved in to a new house and I got a safe built into the closet. At that point, I probably had about 30 watches with a value of around $2,000 per watch. Again, I was just turning watches. I would put them on eBay. I would sell the watch. I'd get an offer to take another watch in trade. I had private clients I was doing business with locally in South Florida. My business was just growing. Again, I wasn't taking anything out of the business. There was one watch I sold for a substantial profit and I didn't get a penny out of the business. I just used it to buy more inventories.

Sramana Mitra: You said in 2006 you were doing $6 million?

OJ Whatley: Yes, $6 million – $500,000 in receipts per month.

Sramana Mitra: What was the inventory situation at that point?

OJ Whatley: I probably had closer to 50 to 80.

Sramana Mitra: That's still out of your home?

OJ Whatley: It was still out of my house.

Sramana Mitra: The built-in closet was where you were storing all these?

OJ Whatley: Yes. The reason I moved into an office was not because I wanted to expand the business. It was because I couldn't get insurance working out of my house. That and I needed a phone system. I really needed to build a real infrastructure.

Sramana Mitra: When was the first time you added employees into the business? You said until 2006, you were alone.

OJ Whatley: In 2005, I brought on an accountant who would come in once a week and help me with my books. Then when I moved into the office, he became my controller. Then I brought on a sales associate.

Sramana Mitra: What was the role of the sales associate?

OJ Whatley: Helping to put watches on eBay as well as to help us buy and sell watches.

Sramana Mitra: Is the business still an eBay only business or has it gone beyond that?

OJ Whatley: It's definitely beyond eBay. eBay is still an invaluable showcase for our watches. We have a website where we have substantial traffic as well as our offerings get taken and get aggregated to other watch sites.

Sramana Mitra: What year did you move beyond eBay?

OJ Whatley: In 2007, I was told that I could no longer sell watches on eBay.

Sramana Mitra: Why?

OJ Whatley: To this day, I still haven't gone to the bottom of it.

Sramana Mitra: That sounds very odd, doesn't it?

OJ Whatley: It's extremely odd. It's unheard of. I had to sue them to get back on to eBay and I was reinstated on eBay in November 2008.

Sramana Mitra: I assume you were a huge eBay power seller at that point in 2006. Why would eBay cut you out?

OJ Whatley: It's still an unanswered question to this day. I literally had to sue them over the course of a year to get reinstated.

Sramana Mitra: While you were shut out of eBay, what did you do?

OJ Whatley: I started building my own website and I started allowing dealers to represent my inventory.

Sramana Mitra: Did that generate commensurate business as you did on eBay?

OJ Whatley: I don't think it generated the same level of business because it took us six months to get our website up and going. Even then, you still had to start growing traffic. It was enough to survive. In a world where I thought the sky was falling, it was enough to survive.

It goes back to my philosophy that I had when I started this business. When I started this business, it wasn't about profit. It was about cash flow. It was about as long as you've got watches, and you're not taking money out of the company, and you need money, so you need to sell those watches. It's not about what you can sell those watches at. It's that you need money, so you need to sell watches. As you long as I had inventory, I was able to sleep well at night.

Back in those days, I wasn't looking at gross profit margin. I wasn't looking at average cost per unit or average profit per unit. I didn't have that kind of business intelligence or metrics. For me, it was how much cash flow did I generate? How many watches do I have in my safe? How many did I sell last week? What are the watches that I can buy? Much of my selling activity was generated as a function of buying opportunities more so than having any kind of sales goals, per se.

Sramana Mitra: At the end of 2007, you got reinstated on eBay?

OJ Whatley: No, in November of 2008.

Sramana Mitra: So 2007 to 2008, you had to operate with your own website?

OJ Whatley: Yes.

Sramana Mitra: It sounds like this also forced you to look outside of eBay and start building your own site, which at the end of the day, turned out to be a good thing.

OJ Whatley: That's diversification, right? When we got kicked off of eBay, I had registered the domain name WatchUWant.com. However, when you went to WatchUWant.com, you would basically see a hyperlink that said, "Click here to view our watch collection." That would take you directly to our eBay store. That's how devastating being kicked off eBay was, especially not knowing why and not having anyone that you could talk to about it. To this day, I still don't know why. I believe it was pressure put on eBay by the manufacturers. For what reason, I don't know because I've never knowingly sold a counterfeit or fake watch in my life. I'm the biggest fan of the manufacturer there is. Like I said, it's one of those mysteries that will probably go to my grave unsolved.

Sramana Mitra: Regardless, in 2008 you were generating business at your own site. Talk to me specifically about your own site – developing your own site, business on your own site, the traffic. How much business do you do today on your own site?

OJ Whatley: Back then, as it is today, it's primarily keyword-driven. Originally, it was all organic. It was a matter of getting as many relevant keywords in the title and in the top 10% that Google might scrape to have relevancy. I think one of the things that gave us greater relevancy and searchability was the fact that we were constantly putting up new inventory. That's true today as well. Each day, we probably post five to ten new watches every day. There's a constant new supply of inventory and content coming in.

Sramana Mitra: In that effort, what kind of competition do you have to deal with? Are there other sites online that are doing similar things that you compete with?

OJ Whatley: Our business has evolved significantly. We have now become the largest buyer of pre-owned luxury watches in the world. As a result of being the largest buyer of pre-owned luxury watches in the world, we're probably the largest seller of pre-owned luxury watches as well.

Sramana Mitra: From a search engine optimization point of view, you are in the first or second slot in every single search of pre-owned luxury watches?

OJ Whatley: Yes.

Sramana Mitra: So organic search traffic is still powering a lot of your traffic?

OJ Whatley: Yes, but you can imagine, we have a substantial pay-per-click and digital marketing budget today. It's probably one of our single greatest expenses on an annual basis. It truly is about staying on top of mind and it's truly about maintaining the position on top. There're always ten guys looking to spend more money than you, take your credibility, just knock you off the block, or render you irrelevant.

Sramana Mitra: What is the split today – from business that happens on your own site versus business that happens on eBay?

OJ Whatley: I would say eBay. I would say probably that 20% of our business is done via eBay. Keeping in mind that eBay is still the largest aggregator of watches in the world, so consider eBay to be a showcase and some people choose to do the business through eBay. Other people see the watch on eBay and choose to call us directly. It's not a perfect science in that you can't say exactly what percentage is eBay-driven.

I can tell you what percentage of our business is done on eBay with people completing the transactions through eBay. That's probably around 20%. But as far as what our real eBay business is, it's a hard number to get a hand on because you get a guy who sees a watch on eBay and then he calls our office. We have to track the fact that he saw us on eBay first.

Sramana Mitra: Is the price different on your site versus on eBay?

OJ Whatley: No.

Sramana Mitra: Do you have the same price on eBay versus direct?

OJ Whatley: Our goal is to maintain clarity. The price at which you can buy it on eBay is typically the same that we advertise on our website. Does that trend right into the prices we sell our watches out on eBay? No, because eBay has a built-in fee structure that can be pretty significant when you start adding in 3% for PayPal and 2% to 3% completed auction surcharge.

We have more negotiating room when someone buys a watch from us off eBay because you can negotiate the method of payment. I'm not going to charge you the same price if you pay me by wire transfer versus paying me by credit card because my best price is a function of payment by wire transfer. I'm going to give you a discount for payment by wire transfer or check. Whereas with credit card, I'm going to stick to my ask price.

Sramana Mitra: Today, you have 75% to 80% of your business on your own website, right?

OJ Whatley: Yes.

Sramana Mitra: It sounds like that whatever calls that got you got kicked out of eBay actually turned out to be a blessing in disguise. You were forced to build up your own diversified strategy that you are much more in control of and have better margins on. It looks like this has resulted in a much more robust business today.

OJ Whatley: Absolutely. There's certainly much more corporate value, so to speak, of having a website that gets 100,000 hits a month. I know that we can put up a watch today, and probably within three hours, someone will call us to buy that watch.

Sramana Mitra: What is the revenue right now?

OJ Whatley: We're shooting for $20 million.

SramanaMitra: $20 million for 2014?

OJ Whatley: That's correct. What I want to emphasize is part of my journey. I started this business as a guy who wanted to work out of his house without relying on anyone. Now in 2014, the success of my business is from relying on other people. Being able to communicate my vision as it evolves so that we can grow the way I see us growing.

Sramana Mitra: How many people do you have?

OJ Whatley: We currently have 20 employees.

Sramana Mitra: That's very good – 20 employees, $20 million in revenue.

OJ Whatley: Half of those are sales associates.

Sramana Mitra: That is my next question. What is the composition? Half are sales associates, what is the other half composed of?

OJ Whatley: I just want to clarify because our business is about buying watches. We'll sell the watches we buy but we've to get the watches in first. About 70% of our efforts are focused on getting watches and 30% are focused on selling.

Sramana Mitra: When you say sales associates, it's actually the buyers and sellers?

OJ Whatley: Correct. In addition to those 10 sales associates, I've a full time professional photographer on staff who brings to life all of our watches. I've a full-time controller and bookkeeper because we have a lot of transactions and we have a lot of documentations. I've an operations manager who handles all of the incoming and the outgoing. I've a full time professional master watchmaker on staff. I've got a full-time refinisher and an assistant watchmaker on staff. I got a President who oversees all daily operations. I also have an eBay manager and a posting manager.

Sramana Mitra: Nonetheless, it's a relatively small team. $20 million in revenue being managed by a headcount of 20 people, it's a very light team. From a business model point of view, the beauty with what you built is it's, in a sense, an ultra-light startup.

OJ Whatley: We've been growing and shrinking. It's definitely an evolving process and one that you just can't stand to chance. You have to be constantly asking yourself, "Is this the right structure?"

Sramana Mitra: I have one last set of questions. In the realm of optimization, it sounds like you have an ad hoc process of figuring out what price to sell something at. If you applied some more systematic optimization here, you could make a lot more money.

OJ Whatley: I think you're very perceptive in that. In fact, we do have a lot of systemization. In terms of identifying the watches we buy and the watches we sell, that's where we've taken a really hard look and not left it up to chance. We have metrics where we can measure if we're doing a better job at buying or a better job at selling. We have metrics to dictate what we should pay for that watch, what we should ask for that watch, or how we can optimize the turnover on that watch.

For example, for us to buy a watch and sell it the first day we have it, is to me leaving money on the table. If the watch is here for two weeks and is reduced in price and is then sold, that tells me that we're optimizing and being the true market maker we want to be. That tells me that we are making the market for our watches as opposed to taking orders. Just because we buy right doesn't mean we can squeeze more profit out of each watch we sell. Again, trying to translate that to multiple layers is a big challenge, but we do have internal processes and systems that are unparalleled by any other company. They are all homegrown that are allowing us to scale and optimize internally so we don't make the same recurring mistakes.

Sramana Mitra: This might be something that you want to run by a Mathematician or an Operations Research person. You can see if they can model and help you come up with a process that allows you to do more. It sounds like that market of buyers has a lot of elasticity. They are tolerant of price. They will want the product. There's a lot of passion and desire to own the product. That's the kind of buyer with whom you have lots of negotiating leverage.

OJ Whatley: We have more leverage with the seller than the buyer. The seller of the watch only has a few different alternatives where he can turn around and sell his watch. We get our customers more money for their watches than anyone else because we know what watches sell. We know what makes a watch more saleable. We understand what's important to our customers when they're selling a $20,000 watch. It's not about the price at that point. It's about the relationship, credibility, reputation, the process, and the experience. That's where I believe we're unparalleled at. That's where our differential advantage is. We understand that we are the best way to sell that watch for that customer if it's the right watch for us.

Sramana Mitra: Very interesting story, OJ. Congratulations on what you've built here.

Interview with Mattias Larson, Founder, DefinitiveDeals

This interview was conducted in May 2014. 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!

Platform Ecosystems In Big Data

I have written about the platform eco-system trend in technology recently. To recap, a business that has been gaining ground in the tech world is the technology platform developer network model, wherein large numbers of developers can use the platform to build their businesses cost-effectively without the handicap of huge infrastructure expenditure. Some of the better-known illustrations of this trend are Apple's iOS, Salesforce.com's Force.com and Google's Android, which provide developers the necessary tools to build and release their apps rapidly.

This model is now seen in the Big Data and analytics segments as well.

One of the major platform players in the analytics space is SAP's HANA development platform. SAP HANA is based on a columnar in-memory database that allows deep analysis while capturing fresh transactions in real time. Through its HANA Enterprise Cloud programs, it targets developers as eco-system partners. At 1M/1M, we have a collaboration with the SAP Startup Focus program that is focused on startups developing on the HANA platform. One of the companies we've been working with, Approyo, gave us an opportunity to peek somewhat closely into the mechanics of the HANA platform and how startups are leveraging the platform and its eco-system.

Chris Carter, the CEO of Palo Alto, CA-based Approyo, shared with me some interesting vertical solutions that Approyo has developed leveraging the HANA platform. Chris has been in the SAP eco-system for nearly 20 years. Approyo is a SAP HANA value added solution provider focusing on developing predictive analytics applications for specific verticals. It has been providing HANA services for the past two years to customers in retail, oil & gas, manufacturing, healthcare, CPG, etc.

One of the solutions Approyo has developed that has broad applicability is in the domain of managing energy costs for hospital facilities. It brought about a 28 percent reduction for one hospital by considering various data sets—average energy costs, quarterly costs, patient days, housekeeping down to their cafeterias, maintenance, and repairs. All those have implications that can be used to understand the facility's cost and the reason behind the spikes in particular periods. By deeply understanding and programming large data sets that impact energy consumption within the workflow of a hospital facility, this solution is now able to predict opportunities for cost optimization, as well as process changes that may lead to further cost reduction. (Related reading: Thought Leaders in Big Data: Chris Carter, CEO of Approyo.)

Based on their early success, SAP's Startup Focus program promises to help sell Approyo's energy optimization solution for hospitals to a much larger set of customers through the SAP channel.

There are other such vertical solutions that Approyo and other solution providers are developing on the HANA platform. For SAP, the platform ecosystem model has contributed to a broad-based adoption of its platform across 25 industry verticals from life sciences (genomics), mining (predictive maintenance), and automotive (targeting promotions by dealership for instance) to sports and entertainment (player scouting and fan experience).

And for entrepreneurs like Chris Carter, it makes it possible to develop a cutting edge solution faster and much more efficiently without having to sustain high infrastructure, research, and development costs, as well as time-to-market disadvantages. Additionally, access to the channel of a large platform vendor partner is tremendously advantageous in bringing industry specific solutions to market.

I am very bullish on the platform eco-system trend, and am seeing faster adoption of the model up and down the technology value chain. Just in the last 3-4 months, I have talked to at least 30-40 executives in various technology companies who are developing platform ecosystems. They each consider the initiative to be a cornerstone growth strategy for their businesses.

It's a great model that not only helps the platform vendors scale, but also helps startups build businesses rapidly, without having to build the entire stack of cutting edge technology.

Interview with Brian Knight, Pragmatic Works

Brian Knight is a great example of the kind of platform eco-system based entrepreneurship I have discussed in this volume. His platform of choice is Microsoft's SQLServer. This interview was conducted in April 2012.

Sramana Mitra: Brian, let's start at the beginning of your story. Where do you come from? What is your background leading up to the Pragmatic Works story?

Brian Knight: I was born and raised in Jacksonville, Florida. I started programming when I was seven years old. I was a teenager in the 1990s, so when I was graduating high school I was right on the cusp of the dot-com boom. If you could say the word 'computer' you could get a job very fast. It was a great time to be living. It was one of the best times of my life and one of the most stressful times of my life at the same time. I was working for a dot-com and we were working 90-hour weeks. At the same time I was trying to go to college.

Over the years I have made decisions. I could not continue to work those hours while attending college. After I got my associates degree, I left college to pursue more work in the dot-com industry. I did continue to do that type of work, and I worked in the corporate world for a while. About five years ago I started Pragmatic Works. I have been fortunate and blessed to have always had a job. One of the things that I wanted to do when I started my business was to provide opportunities to others who did not have the same opportunities I had. I wanted to be able to find a way to get people into IT who did not have the financial means to get there, and to help them find a job.

Sramana Mitra: You wanted to equip people who did not have IT skills with IT skills so they could enjoy the IT career field as well?

Brian Knight: Yes. We have a plethora of jobs in IT. It is not a bad economy in the IT sector. It's a great economy, especially if you look at my sector, which is business intelligence. There is less than 1% unemployment in my space. In fact, there is lack of skilled labor to fill those jobs.

Sramana Mitra: So is Pragmatic Works a training company?

Brian Knight: I was working in the consulting world and we saw a key gap that Microsoft was missing. When you upgraded to the latest version of the database platform, they did not provide you with a way to upgrade a big key portion of the technology. I decided to start Pragmatic Works to build software that would help people get from the old version to the new version of the Microsoft platform. That is how we started. We also offered services around conducting those upgrades. From that client interaction, we realized that a lot of clients did not understand the latest version of the software, so we started offering training courses.

Sramana Mitra: Your company is essentially offering three main products, which are software tools, training, and consulting. Is that correct?

Brian Knight: We provide software tools to help people migrate from one version of a Microsoft server to another. We provide training for those who are trying to learn new platforms. We also provide consulting services around those offerings.

Sramana Mitra: Would you talk about starting the company? Who was involved in the beginning? How did you get the company off the ground?

Brian Knight: We built the company organically. We had no investment capital other than some money I put into the company that I got from a website company we had started just before. I used the revenue from that website sale to start the company.

Sramana Mitra: What was the website you sold?

Brian Knight: IT was SQLServerCentral.com. It was not a ton of money, but it was enough to make sure I had a guaranteed salary for about a year.

Sramana Mitra: It sounds like you were running a domain-specific website that also provided you with a certain number of skills.

Brian Knight: Exactly. I sold that website for a five-figure amount, but that still provided tens of thousands of dollars that I was able to use to start Pragmatic Works. That allowed me to do this company organically. Five years ago, the VC money had dried up. We knew it would take us longer to grow the company organically, but we felt it was the right thing to do in order to maintain control of the company

Sramana Mitra: What did the SQLServerCentral.com website do?

Brian Knight: It was a community website that taught people how to use the SQL Server database platform. It was a free website that had about 1.2 million members. It was an ad-supported website, and we sold it to Red Gate, which was one of the companies we were providing ad space to.

Sramana Mitra: What does Red Gate do?

Brian Knight: Each vendor that bought ads from us was a software company that wrote software that aided SQL Server developers. They were .Net developers, and they provided software tools.

Sramana Mitra: You had 1.2 million members in that community. Was there any correlation between that membership and what you have started at Pragmatic Works?

Brian Knight: We are trying to appeal to the same market I used to go after as a community website. If I had that website now, we would be able to do some pretty amazing things! Right now we have about 100,000 members who use us. It was the right decision to sell at the time.

Sramana Mitra: However, you must have had a deep understanding of what was going on in that community and what people were looking for. Is that a fair statement?

Brian Knight: I had written ten SQL Server books, I spoke at a lot of conferences, and I knew that community well. The goal was to take that knowledge and apply it to business intelligence. The SQL Server marketplace was pretty saturated from a tool side. The business intelligence side was not addressed yet.

Sramana Mitra: Once you started Pragmatic Works who were your first customers?

Brian Knight: I went after a few customers around town. I provided consulting services just to build the capital in the account. I would sell a consulting job for a certain price and take 30% of that revenue and re-invest it into the company. It was a very informal model at first but I did it that way to ensure I could build capital to enable development of our software product. Many software companies start out by offering a consulting service first. We followed that model because we needed capital. However consulting is like a drug you can’t get off. Once you get good at it, you don’t want to give it up.

Sramana Mitra: What kind of consulting work were you doing for your customers?

Brian Knight: It was all business intelligence, SQL Server work. That helped us to eventually build our tool suite. All the stuff that I was doing manually took hundreds of hours. However, I learned the patterns and used that to develop software tools that could reduce hundreds of hours of work into two hours of work.

Sramana Mitra: How many consulting clients did you have early on before you had your software tools developed?

Brian Knight: We had a few dozen customers at that time. I hired my first consultant about three months into the company. Once we started developing the software, we were able to bring our first tool to the market six months later. That tool automated a lot of our consulting work. The problem was that nobody was buying it. I did not know how to get the word out about our tool, and I had lost a great marketing tool when I sold the website. I had a few dozen customers, and so we had one or two customers who bought the tool here and there.

I had to find a way to double down and sell the software licenses by the hundreds. I got introduced to Tim Moolic who is now our COO. He brought the sales force online. Early on in company development I was naïve. I was giving away equity easily, and I did not keep bigger goals in mind. I partnered too easily. That was the biggest mistake I made. I would bring on a new equity holder before I gave them a goal to achieve to earn that equity. I had to buy out a few partners early on. Tim was one of the people who was still with the company five years later. I gave him clear goals, and he built our sales force, our marketing force, and just helped the company take off.

Sramana Mitra: Did you and your consultants use the software tools that you had developed?

Brian Knight: We did. Those tools gave us a huge comparative advantage. We would go against huge powerhouse companies like Accenture and win. One time we bid $40,000 for an engagement that a major consulting powerhouse had submitted a $500,000 bid for. We won the deal, and our final bill was 20% less than that. We even beat our own estimates. That enabled us to go from customer to customer and underbid our competition. We were even able to leverage that for offshore engagements. A computer is much cheaper than a person.

Sramana Mitra: Was your business model at that time still primarily consulting fees?

Brian Knight: Yes. It was consulting, and for one problem set, we had a software tool. The software would do 90% of the work and the consultant would do the final 10% of the work. This was all going on during 2007 and 2008 when the economy was really low. Customers were laying off staff aggressively.

Sramana Mitra: How were you finding your consulting opportunities?

Brian Knight: In the early days I found a lot of customers via Microsoft. They had a barrier that their sales people could not get past, which was that they did not provide a way to upgrade from their old SQL Server to their new one. We lifted that barrier for the Microsoft sales force, so a lot of our early growth came by evangelizing inside of the Microsoft sales force. We got a lot of referrals from them.

Sramana Mitra: What process did you follow within Microsoft to make that happen?

Brian Knight: We took two approaches. One was at a corporate level. At Microsoft, getting attached at the corporate level can be a challenge. They constantly rotate their personnel. The marketing person you have built a relationship with during one quarter will no longer be in that role the next quarter.

Our second approach was to contact the field offices. We built relationships with the FSP's inside of Microsoft. We would go directly to the person who was talking to the customer. We found it much easier to establish relationships with the field offices than with the corporate office.

Sramana Mitra: This is where you prior experience building that 1.2 million member community kicked in.

Brian Knight: Exactly.

Sramana Mitra: Did most of your referrals come from field sales reps?

Brian Knight: We had very few referrals from corporate. We only got them from corporate if one of their folks was speaking at a conference and they mentioned our product or service to get past an upgrade barrier. Sometimes they would invite me to speak at a conference, which at times gave me a chance to speak to the customer directly.

Sramana Mitra: What was the volume of leads that Microsoft was generating for you?

Brian Knight: They gave us a relatively steady stream of small and medium businesses. Big companies did not aggressively migrate. We found that we had SMB's up front. That was great because it gave us a chance to perfect our offerings. Now that the big companies are hitting us this year we can safely anticipate exactly what is going to be required.

Sramana Mitra: Even though they were SMB's were they able to afford $40,000 consulting engagements?

Brian Knight: The good thing for us is that we were able to charge a per-component upgrade fee. For a small business, that could be $900, and for a larger install that could be $40,000. It scales based on the need. We were able to make our volume across all of our clients.

Sramana Mitra: So you also serviced sub-thousand dollar projects?

Brian Knight: Exactly. Those were raw software deals that had no services attached. The work to be done was so simple that the clients were able to do the upgrades themselves. Our software would do 90% of the work, and the clients were able to do the remaining 10% of the work on their own.

Sramana Mitra: How did you build your company from an organizational standpoint during that timeframe?

Brian Knight: We started with commission-only sales people. We are no longer that way, but it did serve its purpose. We aligned our five commission only sales people into the same five regions that Microsoft had for their sales force. At the same time we built a high number of leads for our sales force by doing Webinars. They would bring boatloads of leads for our sales team.

Our Webinars were all about education. They were not about our products. By doing that we learned what software various companies had in their environments. We could do a hard sale after the webinar. That was the number one lesson learned as far as growth goes. We now train about 40,000 people a year with those Webinars. We do them like clockwork on Tuesdays and Thursdays. We don't have any particular vertical or size of company that attends these webinars, but the key is to lead via education. That builds our brand and establishes goodwill.

Sramana Mitra: How did you find commission-only sales people in each region?

Brian Knight: Tim had built several small companies. He already had contacts and he brought those people together. Keep in mind that at this time the economy was lousy. Finding people who just needed something to do while they were looking for a job was easy. All five that we brought on were unemployed.

Sramana Mitra: How do people find out about your Webinars? How do you market them?

Brian Knight: At first we partnered with niche websites to get the word out there. We were co-branding webinars together. Our first one was called our Summer School program. We saw 10,000 leads that came from that first webinar. We took a publishing company, a professional community website and we partnered with them to do the first webinar as a co-branded effort. By doing that we kick-started our company with 10,000 leads.

Sramana Mitra: What was your lead qualification process?

Brian Knight: After the webinar we sent out a two to three question survey. A question on that survey would be something like: "What version of SQL Server are you running in your enterprise?" and we would gain good intelligence from that. If the same person came to three or four webinars and we asked different questions each time then we were able to get good business intelligence from that. We would then have an inside sales rep call on a very warm lead.

Sramana Mitra: From the 10,000 leads you had, what percentage were you able to convert?

Brian Knight: The initial campaign launched our company. That first year about 20% of our leads converted to opportunities. I think about 8% converted to actual business. That is far better than any direct marketing campaign we could have done. We tried to get people to buy something, even if it was small. That started the funnel of converting leads into customers.

Sramana Mitra: What were you teaching in your courses?

Brian Knight: We had a course that we taught virtually which carried a $795 tuition bill. It taught the new version of SQL Server. Normally, someone would have to spend several thousand dollars to attend a course. Our course still had labs and everything else you would expect, but it was much less expensive. We were able to get about $40,000 in paid training from that first course. That shocked us. Paid training accounts for about 20% to 30% of our business today, and we had revenues of over $1 million last year.

Sramana Mitra: How many of your paid training customers go on to purchase other products from you?

Brian Knight: Quite a few. Our inside sales reps call class attendees. We try to convert that into more training opportunities. People who take certain classes will have a 6% chance of wanting our software. We sprinkle a little bit of our software into the training, which gets them curious. We have a funnel for our leads now.

Sramana Mitra: What percentage of your business is software versus consulting engagements?

Brian Knight: We decided to break the company into two companies. One is for Software, and the other is Services, which includes training. We did that for valuation. We knew a software company would have a 3x valuation and a consulting company would have a 1.5x valuation. About 40% of our overall company is Software. Training and Services account for 60%. This year is a very good year for Software.

Sramana Mitra: When you look at software sales, how do those sales break out between SMBs and larger companies?

Brian Knight: On the revenue side, it is 70% large companies. On the number of customers, it is probably 40% large companies. It depends on the type of metric you are looking at. This year Microsoft is no longer supporting their old release of SQL Server, so large companies are being forced to upgrade. Our revenue for those projects has quadrupled this year. Those engagements are also much larger.

Sramana Mitra: When you combine the product categories, how big is your business?

Brian Knight: We have doubled every year. This year we are tracking towards a $12 million business. We did about $7 million last year.

Sramana Mitra: You also do non-profit work as well. What is the story there?

Brian Knight: We have a **501(c)3** that we get no revenue from, but we do get a lot of goodwill because of it. We have done this for three years. Our goal is to train veterans who are coming back from the war, unemployed workers, and underemployed workers, people who make less than $40,000 as a family.

So much of our lives is based on what family or city we are born into. We wanted to find a way that our company can give back to the community. One week a month we have a training class where we teach those three categories of people how to get into our IT market, specifically the database and .Net market. There is a glut of jobs and no people to fill them. We teach them the technology for four days, and on the last day, we do resume screening and speed dating mock interviews. We put people through 30-minute interviews to teach them how the interview really goes, so when they get a real interview, they are comfortable. We have found that 75% of our graduates are employed a year later. We have people who were carrying guns in Afghanistan or lifting boxes for UPS who are making $90,000 three years later. These people are passionate about changing their stars.

Sramana Mitra: How do you find the people to take these courses?

Brian Knight: Last year it was word of mouth. This year a number of news organizations got word of us. Now, for every class of twelve, we have 30 applicants.

We do rigorous screening to make sure they have the aptitude and desire to commit to the course. When you are reinventing yourself, you are going to work more than 40 hours a week. They need to spend 80 to 90 hours a week.

Sramana Mitra: When you are screening them, what kind of backgrounds are you looking for? How do you check aptitude?

Brian Knight: We show them a skill that they have never seen before. We might show them how to back up a database and then ask them to teach it back to us. We see how good they are at learning and regurgitating knowledge to us in just two minutes. We also give them a long quiz which requires them to go do their own research in order to complete. It takes about three hours to do. The goal is to see if they can find information on their own. Can they find websites with the answers? Can they post in a forum and get those answers?

Sramana Mitra: How many people have you trained so far?

Brian Knight: We have trained several hundred of them. We also have partnerships with companies around town who hire them. Even though the job requisition may describe someone who needs to have 3 to 5 years of job experience, they waive those requirements for our candidates. They know how passionate our graduates are. We have entire teams at Fidelity who are filled with our graduates. These are extremely loyal employees who are grateful to the first company that takes a chance on them.

Sramana Mitra: Is this all happening in Jacksonville?

Brian Knight: To date, yes. We got a grant from Microsoft this year of $20,000. We are going to start taking this course to bases around the country. Starting in Q3 we will visit bases around the country and provide training there.

Sramana Mitra: I really like what you are doing.

Brian Knight: It is fun. During Spring Break last month we did the same program for kids. What really got my attention on this one was the number of neighbors I have who are from broken families or foster families. So much of your life is what you are born into. I wanted to find a way to expose kids to IT at a very early age. We are teaching robotics and game development using Microsoft platforms and Lego Platforms for kids 8 to 12. We do that over the summertime. Most of the children who attend this program are foster kids and children from underprivileged homes in the inner city.

Sramana Mitra: What happens next for your company?

Brian Knight: Every entrepreneur's dream is to sell the company and get a quick exit a couple of years later. I really have become less and less interested in that. We are building something special. We have two offices in South Africa, and we are opening one in the U.K. We have 90 employees and are about to cross 100 next month. I wanted to keep on growing. I don't have a good answer on the future. I work 90 days at a time, and I have a one-year plan. I don't have a five-year plan.

Sramana Mitra: It sounds like your plan is to grow your company organically, and I think that is a great plan. When you don't have investors you don't have the pressure to sell.

Brian Knight: Exactly. That is why I have not brought investors in, although the opportunity certainly has been there.

Sramana Mitra: Your story is inspiring. Thank you for sharing your expertise.

Interview with Bill Loumpouridis, CEO of EDL

We have seen numerous system integrators transform themselves into product companies. EDL did so on the Salesforce eco-system. For these transformations, riding on the coattails of a larger platform vendor is very effective as it comes not only with technology leverage, but also customer acquisition opportunities. This interview was done in October 2010.

Sramana Mitra: Bill, let's start with a review of your background. What is your personal story?

Bill Loumpouridis: I am the son of Greek immigrants. My parents got here in the late 1950s and did not know the language and were unskilled. All they had was a burning desire to be successful and make it in the land of opportunity.

Sramana Mitra: What city did they come to?

Bill Loumpouridis: Chicago, which is where I was born.

Sramana Mitra: What did they do to establish themselves in America, and what kind of environment did that create for you to grow up in?

Bill Loumpouridis: My parents were always working. As a result I needed to be very self-sufficient. I needed to be their window into the country and world. I was my father's secretary and dealt with bank correspondence from a very young age. I was balancing the family checkbook at 11.

Sramana Mitra: What drove that? Was it the language or schooling levels?

Bill Loumpouridis: My parents were busy working, and I got to do a lot of the things around the house that were normally done by adults. That gave me a strong grounding in written and oral communication. Their hard work and their entrepreneurial spirit were passed down to me. I had my first business in my early teens. We had a lot of snow, so I started a snow shoveling business.

Sramana Mitra: What did you do after high school?

Bill Loumpouridis: I went to the University of Illinois and got a degree in math and computer science. I got into consulting at a very early age, and at the perfect time for our industry because the IBM PC was just coming out. This was in the mid-1980s, and it was a very exciting time to be entering consulting. I watched that progress through successive waves, on to client servers, on to Web 1.0, then web 2.0, and now the cloud era.

Sramana Mitra: Did you consult for large companies?

Bill Loumpouridis: My first firm was Lante. They eventually IPO'd during the dot-com bubble. I left in the mid-1990s to start my first company. The great thing about Lante is that we were all the same age. It was a very forgiving learning environment. We could make mistakes and consider learning a part of the result. We learned a lot about what to do and what not to do. We learned that being focused is very important and that you need to choose your partners closely.

Sramana Mitra: What was your first company, and what were the circumstances in terms of leaving Lante to start that company?

Bill Loumpouridis: The primary motivator to leaving Lante was to start my own business and apply my lessons learned. In the early 1990s there was a big shift away from procedural programming toward object-oriented programming. It opened up a whole new way of approaching how problems were solved and how IT was applied to solve business problems. Reusable components made a lot of sense in the business world. I created Strategic Technology Resources, which was extremely successful in the Chicago area and is still around. We were able to carve out a niche as the experts for object oriented programming. We were doing work on the NeXT computer and its operating system. When Steve Jobs came back to Apple, that operating system became known as OS X.

Sramana Mitra: Where did you apply the object-oriented paradigm? Did you go to IT organizations within the Chicago-area enterprises? How did you generate business?

Bill Loumpouridis: As specialized consultants, we tried to align ourselves with some larger companies that needed our skill set. Larger companies would then pull us into more deals.

Sramana Mitra: Were you operating as a value-added resller?

Bill Loumpouridis: The focus was system integration.

Sramana Mitra: Was NeXT one of the brands you aligned yourself with?

Bill Loumpouridis: We never had a formal relationship with NeXT. We worked with some financial services firms in the Chicago area that were deploying NeXT computers.

Sramana Mitra: How long did the consulting company era last for you?

Bill Loumpouridis: I was there for about five years. I was there through the mid-1990s. The, I founded the company and moved on.

Sramana Mitra: Why did you move on?

Bill Loumpouridis: Because of another powerful lesson I learned. Choose your partners wisely. I learned the importance of chemistry at the founder level. We had some disagreements about the future direction of the company. I felt it was best if I moved on to pursue my own vision.

Sramana Mitra: What was your next move?

Bill Loumpouridis: I took advantage of the dot-com era to work with some startups. There were a lot of stock options flying around, and I took a look at a couple of those. By the time things busted in 2001, I had come to some hard conclusions. The lessons learned from the dot-com bust were around unsustainability of business models. That is where EDL came into play. The acronym stands for Excellence in Delivery Leadership. It was a response to the greed and excess that largely drove a lot of behaviors in the dot-com run-up.

After watching a lot of companies mismanage their products, I saw that a back-to-basics movement was needed. We founded EDL with a strong focus on the fundamentals of consulting such as process, methodology and behaviors that drive sustainable growth. We focused on integrity and honesty.

Sramana Mitra: What was the value proposition of EDL?

Bill Loumpouridis: Coming out of the dot-com bust, we felt the value would be in e-commerce. There was a lot of hype, energy, and attention on B2C. There were some failed initiatives with Ariba and Commerce One, which attempted to disrupt the B2B paradigm. We realized that the notion of disintermediation, which was part of the hype of the Internet, was fundamentally unsound. If you look at how a high-tech manufacturer goes to market, their distribution channel provides a valuable function. The idea of selling direct through the Internet and skipping the channel was misguided.

We connected with a company called Comergent. They were a B2B e-commerce platform that was considered best of breed largely because of their ability to handle complex pricing. B2B has very different pricing issues because every company has different prices. There are a lot of B's in the B2B. We hooked up with them at the right time as they were a brand that had velocity and greater recognition. We were able to become their go-to implementation partner for large enterprise B2B e-commerce installations. We are talking about Pitney Bowes, Best Buy for Business, Intel, and Hitachi. At the time we had about 20 people.

Sramana Mitra: How did you establish your relationship with Comergent?

Bill Loumpouridis: Entering business partnerships like the one we did with Comergent is crucial and difficult. Establishing that relationship came through my personal business network. When the dot-com crash happened I reached out across my network and had a lot of conversations with people across the entire industry. The importance of a network is very great. I had a couple of former employees who ended up at Comergent.

The more I looked at Comergent, the more impressed I was with the space they occupied and the elegance of their solution. I saw the potential for a significant business. I liked the fact that their solution turned the paradigm of the dot-com height on its head. Fortunately, we were in the right place at the right time. I also had a level of credibility. If this had been my first job right out of college I don't think I would have been afforded the opportunity.

Sramana Mitra: How big was Comergent at the time you established your relationship?

Bill Loumpouridis: They were doing $25 million in revenue.

Sramana Mitra: They had already achieved some measure of success, so in getting behind them you were getting into a validated business. What was the first major account Comergent dropped you into?

Bill Loumpouridis: Pitney Bowes. We went to market as a staff augmentation firm because that was our only choice, but the goal was to be project centric. The staff augmentation was supposed to be interim to allow us to build critical mass around a problem set so we could go direct and sell projects. That is what we did over the course of five years. With Pitney Bowes we did a staff augmentation model.

Sramana Mitra: You said it took you five years of staff augmentation work before you started doing project consulting. What were the years you did staff augmentation consulting?

Bill Loumpouridis: We did that from 2002 to 2007.

Sramana Mitra: What kind of revenue level did you reach with that model?

Bill Loumpouridis: We made it to $4 million.

Sramana Mitra: What happened to Comergent during that period?

Bill Loumpouridis: In 2007 they got bought by Sterling Commerce.

Sramana Mitra: How did that impact you?

Bill Loumpouridis: In a very big way. All of our contacts within the first two years of that acquisition ended up leaving the company or moving on to other roles. That is around the time that Salesforce.com became more important to us. In late 2007, Force.com was announced. That was a very significant event for our firm because we saw the potential for that platform to be significant in our space. That is when we started shifting our resources to developing custom applications in the cloud versus development of traditional Web applications.

Sramana Mitra: Does that mean that your Comergent business went away?

Bill Loumpouridis: It did not go away. In 2007, I saw the trend that would take us away from traditional premise-based application development and move us toward cloud development.

Sramana Mitra: How did you leverage that trend, and how did it translate into business for you?

Bill Loumpouridis: It took time to leverage it and ramp up that business. It has taken two years to get to where we are today (2010) where we do significant work in the cloud. When you see a trend emerging you need to invest, train, and build a capability. We did the exact same thing with the Force.com platform that we did with Comergent. We hired people, trained them, and put them out as staff augmentation. We then built a capability to the point that we had critical mass and we are now doing project work. A lot of our early work in the Force.com space was staff augmentation to Salesforce.

Sramana Mitra: What kinds of clients were you working with? The Force.com model is different. Comergent was an application for B2B commerce where you could help manufacturers that sold through multilayered channels with staff augmentation and system integration which turned into the project business model. Force.com is a platform on which a lot of development has occurred. How did this trend evolve for you? What kind of projects were you brought into?

Bill Loumpouridis: A year later Sites was announced, and that allows companies to expose their Force.com work as a website. You can use Salesforce as your Web platform. We saw an opportunity to become an ISV and build that premier package for e-commerce for Force.com. That is how CloudCraze was born. We are able to codify our very rich legacy of building out complex enterprise e-commerce deployments within Force.com.

We took CloudCraze and became the pre-eminent solution provider for e-commerce on the cloud on Force.com. That is where we find ourselves, and that is what is so powerful for us today. We saw the opportunity, seized the day, executed our strategy and became the go-to option all in the space of 18 months.

Sramana Mitra: What is the focus of this CloudCraze product? Is it also a B2B platform like Comergent?

Bill Loumpouridis: One of the trends that started to emerge in the middle part of the decade and became more prominent in the second half of the decade is the need to provide both B2B and B2C capabilities in a single platform. We call it hybrid B2B and B2C. You need the rich UI capabilities associated with B2C, but you also need to provide the B2B underpinnings as it relates to channel selling. A lot of manufacturers do both. Today there is also the expectation that the B2B experience is going to be a high quality experience. Five years ago that was not the expectation. Today, everyone shops on the Web, and expectations regarding look and feel have risen.

Sramana Mitra: Clearly you have enormous domain knowledge in the e-commerce space collected over a decade. Now you are bringing that knowledge to a new cloud delivery model.

Bill Loumpouridis: Salesforce's objective is to be an enterprise platform. We fulfill a big part of that requirement. By demonstrating our capability, we become the poster child for how Force.com can be a game-changing platform for your business. Salesforce is no longer just CRM, because all of that CRM data can be taken to the next level as an e-commerce play.

Sramana Mitra: How did the business development happen? How were you able to leverage Salesforce.com to gain new customers?

Bill Loumpouridis: What we had built was significant to Salesforce. As a result, they are pointing a lot of customers to us when the subject of Force.com or e-commerce comes up. We are one of their top tier go-to partners. Any time someone takes an e-commerce approach to Force.com, the executives at Salesforce will tell them that they need to talk to EDL first. There is a tremendous amount of flow coming from Salesforce explicitly. We are also listed on the AppExchange. If you type in e-commerce on the AppExchange, you will see we are one of the top results. We get a lot of lead flow from the AppExchange as well.

Sramana Mitra: How has that translated into customers? What type of revenue ramp have you seen?

Bill Loumpouridis: Right now in terms of a run rate, it is about a third of our services mix business.

Sramana Mitra: In this model, are you using your CloudCraze product as well as offering all of your integration services on top of this platform to your customers?

Bill Loumpouridis: Yes. We are still doing some legacy Java work. We are still doing work with Sterling Commerce, and they have their own value proposition, which is the right mix for some clients.

Sramana Mitra: Are you using the Sterling Commerce service business to fund the CloudCraze product business?

Bill Loumpouridis: You could say that, although we are doing a lot of Force.com consulting work that is funding the product as well.

Sramana Mitra: Earlier you articulated the desire to go from staff augmentation to project-based consulting models. Is your vision now to move away from the consulting model to a product model? Your current business is

one-third product, two-thirds service. Are you looking to change that mix?

Bill Loumpouridis: We see tremendous potential for the **CloudCraze** product. Right now, we are taking it week by week. We are measuring the interest in this product. Product companies tend to have higher valuations than services organizations. There is a lot of appeal behind having a repeatable revenue stream that is associated with subscriptions versus one that is based on time and material. How the proportions work out will be hard to say, but there is no question that we have a goal to increase our product revenue. I don't know where it will land.

Sramana Mitra: You must have dedicated a substantial amount of resources into developing CloudCraze on the Force.com platform.

Bill Loumpouridis: Yes, we have, and it remains ongoing today. We have dedicated developers and support staff. It is a significant ongoing investment.

Sramana Mitra: What was the decision process? Do you own the company 100%?

Bill Loumpouridis: I am the majority shareholder.

Sramana Mitra: Were you in position to make that strategic decision on your own, or did you have to get buy-ins from other partners and shareholders to make that type of investment?

Bill Loumpouridis: This was entirely my decision.

Sramana Mitra: I asked that question because your decision was one that changed the company culture and required taking a certain amount of risk, which services companies are often not comfortable doing.

Bill Loumpouridis: Having the advantage of hindsight has been helpful. I have seen four disruptive waves in our industry. This is now the fifth wave. This is the greatest opportunity that I have ever had the chance to capitalize on, so I am going to give it every ounce of energy and financial backing that I can without putting my consulting business at risk.

Sramana Mitra: You have reached the point in your career where you have ownership of a company that has sufficient liquidity and cash coming into the business that it can fund a product development effort without raising outside financing. That is an evolution in your personal journey.

Bill Loumpouridis: Absolutely.

Sramana Mitra: Can we discuss some of your customers who are worth mentioning?

Bill Loumpouridis: Our flagship customer for CloudCraze is LI-COR Biosciences. They went live on October 27, 2009, and have embraced the cloud and cloud-based development on the Salesforce platform. They have seen tremendous value and benefit.

CloudCraze allows you to maintain a site without programmers. When we built CloudCraze, one of the imperatives was that it had to be as easy to administer as Salesforce is. That was the secret sauce for Salesforce. A VP of sales could pick up his or her credit card and be automated in a week. That is what I wanted for CloudCraze. It needed to have no more than a couple of months of development time, and the administration needed to be done by a functional marketing person.

Sramana Mitra: So a marketing person could just upload the stock-keeping units (SKUs) and perform functional administration?

Bill Loumpouridis: Exactly. They can upload SKUs, change prices, and create coupons. They can do it in real time, on the fly, all through our user interface. LI-COR is living the cloud dream right now. Their head of marketing and his team are capable of doing things that nobody else can do with their e-commerce system in terms of breadth and depth of administration. They have seen dramatic upticks in user volume and order sizes. All of their e-commerce metrics have gone up by healthy double digits in the past 12 months.

Sramana Mitra: Are the increased e-commerce metrics experienced by LI-COR a direct result of their use of CloudCraze?

Bill Loumpouridis: Yes. They have used CloudCraze in a manner that has allowed them to focus on their business, not on running an e-commerce architecture and the associated challenges.

Sramana Mitra: What model do you follow in the use case you mentioned? Does LI-COR pay a subscription fee?

Bill Loumpouridis: There is an initial setup fee as well as an ongoing subscription fee.

Sramana Mitra: What is the pricing model?

Bill Loumpouridis: The pricing depends on the scope of the project. In the Java world with Comergent, a typical project for us would be $500,000 to $1 million in services. Large enterprise e-commerce projects would easily run into the multi-million dollar range for services. Most of the proposals we are doing now are for 10 to 15 percent of the cost that the legacy Java technology solutions would have cost.

Sramana Mitra: Is the 10 to 15 percent the integration cost for CloudCraze?

Bill Loumpouridis: Yes. If you are a client of ours you will receive a million dollars of value at a cost of $100,000.

Sramana Mitra: Integration costs are significantly lower than legacy systems. Are you still doing legacy integration work?

Bill Loumpouridis: We are, simply because of the nature of e-commerce. Businesses still need to connect to ERP systems and accounting systems. E-commerce systems do not stand alone. They have to be wired to legacy systems. There is some effort required to drop the solution into a legacy environment and have fluid operations.

Sramana Mitra: What is the size of your typical customer?

Bill Loumpouridis: We are seeing shorter sales cycles in the mid-market. We consider mid-market to be $100 million to $300 million in revenues. There is a screaming need for enterprise e-commerce in the mid-market, and it is largely unfulfilled because until now it has been too expensive. Businesses in the mid-market have the same complexity as their larger cousins. We are able to provide mid-market companies with millions of dollars of value at a hundred thousand dollar price tag.

Sramana Mitra: Who is your competition? Who else is targeting that market segment?

Bill Loumpouridis: We run into companies like Demandware and iCongo. We occasionally run into Microsoft products hosted by IT organizations. In that case we are breaking through the IT departments' internally hosted Microsoft solutions. It takes vision and courage for those shops to break out of the Microsoft mode. E-ecommerce to the power of CRM is unprecedented, and right now we are the only ones with that solution.

Sramana Mitra: What do you mean when you say "e-commerce to the power of CRM?"

Bill Loumpouridis: We are native on the Force.com platform. We share the same data objects as the CRM system. If you are using Salesforce CRM, then there is no reason to create another silo. The product data and the customer data are already there. Why replicate that in another cloud?

Sramana Mitra: From Salesforce's perspective, having you as an extension of their CRM system means all of their customers who are in the B2B e-commerce space, such as manufacturers catering to value-added resellers and retail customers, are all potential clients for you. Is it just an extension of their current deployment to get into your product?

Bill Loumpouridis: Exactly. We are on the same platform and share the same data objects.

Sramana Mitra: How many customers that fit your target profile does Salesforce have?

Bill Loumpouridis: That number grows every day. Right now it is in the tens of thousands.

Sramana Mitra: So you can get into those tens of thousands of companies with customer little acquisition cost?

Bill Loumpouridis: Yes.

Sramana Mitra: Great. Good luck! You should have a very good run for the next few years.

Interview with Alex Fuller, Co-Founder and CTO, CloudSense

The Force.com platform has been a great bootstrapping device for entrepreneurs. Read how Alex Fuller and Richard Britton bootstrapped CloudSense to a sizable product company using the platform. In fact, there are many PaaS products out there right now that can make bootstrapping a cloud venture substantially easier and cheaper. If you have domain expertise in an area, and want to get a cloud venture off the ground rapidly, this path is highly recommended. This interview was conducted in August 2014.

Sramana Mitra: Alex, let's start with your personal journey. Where were you born and raised? What are the roots of your entrepreneurial story?

Alex Fuller: I was born in Wimbledon in the UK where the tennis championship is held. My educational background was not focused on technology. I studied classics at Oxford University, which focused on Latin, Greek, and Linguistics. Before that, I had already acquired an interest in technology. I got into computing as a child when I was 12 years old. I had a keen interest in computing throughout my school years.

When I left university, the Internet had already started growing. Its value proposition to everyday people and businesses was increasing. The Internet was changing traditional fields and moving them forward.

Around that time, I also started my own business doing website builds for film and TV companies. We had some good successes there, which included building sites for Channel 4 Television and 20th Century Fox. Before then, I had done some work with some telecommunications firms, which is where I met my future co-founder. The firm was a subsidiary of Sky Television and they were getting ready to embark on a transformation project to re-platform their business. They had a legacy of many different systems, data siloes, and disjointed business processes as a result of organic growth and organic business acquisitions.

When we started that project, it looked like a really difficult multi-year transformation effort. Yet through selecting cloud technologies such as Salesforce, which were new capabilities on the market, we discovered that we were able to do the entire project within 18 months at significantly less cost than we had anticipated. The value proposition that we saw really excited us. That is what inspired us to form CloudSense.

Sramana Mitra: What year was this?

Alex Fuller: This was around 2007 and 2008. We founded CloudSense in 2009.

Sramana Mitra: What was the premise of CloudSense. What were you trying to do?

Alex Fuller: We wanted to take our experience and combine it with this new value proposition. We wanted to leverage a rapid and agile approach to developing powerful business systems without the encumbrances of traditional solutions. We wanted to offer a new product in this cloud environment to enable businesses to reduce their cost and improve their ability to transform, adapt, and innovate in the marketplace. We saw a need for a new generation of order management tools, and that is what we set out to build. We wanted to allow companies to improve the quality of their order capture by putting rules around that process to get the orders right the first time and reduce the cost of errors in the system.

Sramana Mitra: If you were to position this in the context of 2009, when you founded the company, what would the competitive landscape look like? Who was your closest competitor?

Alex Fuller: That's a good question. We were offering this system to a number of companies but the telecom sector was a key focus for us early on. We were getting our software, which was on Salesforce's Force.com platform, on the roadmap of large enterprises who were otherwise looking at systems from Oracle, Siebel, and so on.

It's a testament to the way that the cloud works that we were not required to acquire or manage the devices in the cloud ourselves, so we were able to focus on adding value. We were able to put intelligence into the software and create a layer of functionality and value that we were able to offer our customers.

As a result, within months of introducing the product into the market, we started significant-sized pilots with very large companies. I don't think that would have been possible without the cloud advantage.

Sramana Mitra: Did you deliver your initial product on the Force.com platform?

Alex Fuller: Yes, we built on top of the Force.com platform from the very beginning.

Sramana Mitra: That is interesting. You built your order management product on the Force.com platform, which I presume allowed you to go to market very quickly and generate leads from the platform. Was that indeed the case?

Alex Fuller: Yes, you have hit the nail on the head. While it was great to have the ability to build our product very rapidly, we also benefited tremendously from the greater Salesforce ecosystem and partnership. They run a very proactive platform and it is a benefit to be on that platform. There are tremendous benefits to leveraging that when you are trying to get a business to take off.

Sramana Mitra: How long did it take you to build an initial version of your product to release on the platform?

Alex Fuller: We took a modular approach to our application as well as an agile approach to our development lifecycles. This enabled us to get functionality out quickly and iterate. It is really difficult to measure the man-years that went into this, but within the first nine months, we had software that was available and good to go.

Sramana Mitra: During the nine months of software development, who was involved in the company and how did you sustain yourself financially?

Alex Fuller: Initially, there were the four of us who had founded the company. We were headquartered in the UK, so very early on we set out to build a team in Croatia. The reason behind that is because one of my co-founders is Croatian. We saw that as a significant step for us and it allowed us to tap into a tremendously energetic talent base and build a team in an area that was both cost-effective and operationally effective. The time zone difference was only one hour and it was also a very short flight.

Sramana Mitra: How did you go about building your team in Croatia?

Alex Fuller: We flew out there and did some relatively simple job advertising. We set up an assessment center where we invited people to come and spend a couple of days with us. We put them through a training course because the Force.com platform was a new technology. It was not a well-known platform at the time, so we knew that we would not find experts in Force.com development. Our strategy was to acquire talent with the right technical skills, experience, and understanding. Once we knew they had the skill set we needed, then it was just a matter of training them to understand the Force.com platform.

People came to our assessment center and did a two-day course. We gave them the benefit of getting introduced to the new platform and it also gave us a chance to assess how they responded to that. We got to watch how they worked and see how they liked to communicate. We finished the process with a formal job interview and made our selections after that. Overall, this process was very successful and that is how we found our first hires.

Sramana Mitra: How many developers did you have involved in the nine-month period leading up to the product launch?

Alex Fuller: Initially, we approached the market as a hybrid of product and services work. We used the market as part of our bootstrapping mechanism. We hired these developers and used them in consulting work. That helped fund our product development.

Sramana Mitra: ***Bootstrapping using services*** **is a very common strategy. We have a book on this process. When you were doing services, was it in the same domain as your product?**

Alex Fuller: We were not building solutions for customers that we would replace with the product. We did work in the same domain as far as the work was in cloud-based technologies. We would help companies with CRM implementations and custom functionality around that. We also did strategic advisory around that. In 2009, in the UK, that was still the forefront of technology.

Sramana Mitra: So your consulting work was not necessarily in the order management area?

Alex Fuller: The order management software that we have is a natural extension of the CRM and sales process. We were in the same areas in some companies and we proposed our product to them when it was available, but we generally started higher up in the domain.

Sramana Mitra: It sounds like there was leverage from the services work into the product business.

Alex Fuller: Yes, there certainly was. We operate an R&D team now, but back then, the consulting division was key to funding our R&D.

Sramana Mitra: During the nine-month bootstrapping phase, how many people were focused on the services business and how many people were focused on product development? I'm also curious about how your business breaks down between Croatia and London.

Alex Fuller: The business breaks down 50/50 between London and Croatia. We also bring consultants from Croatia onsite with UK customers because the distance is not prohibitive. During the first year, we had 25 people. Most of them were focused on projects with clients. We had about eight people doing R&D development during that time.

Sramana Mitra: What costs did you have to cover during those nine months with the services revenue?

Alex Fuller: The principal cost was people.

Sramana Mitra: Providing salaries for eight people is not insignificant.

Alex Fuller: That is definitely true. There were four of us who were founders and we put a lot in ourselves. We obviously did not take money out of the company, and we worked hard to keep cost as low as possible. We considered whether or not we should solicit funds early on, and we decided to bootstrap so that we would not give away equity in the business before we had value. That has proven to be beneficial for us.

Sramana Mitra: Once you had the product ready and listed it on the exchange, how did you find your first customers?

Alex Fuller: We went after our customers. One of the things that we did do was talk to people at Salesforce, especially with the UK Salesforce team, to socialize what we had and what we were doing. That was very useful to us. That gave us an awareness of what we were doing. They knew of customer needs, plus when they heard of new requirements from customers, they were able to remember us.

We did our own direct selling as well. Everyone who goes through this process knows that there is a lot of time and hard work that goes into that. There is a lot of investment in sales and marketing.

Sramana Mitra: How much of a role did the Salesforce AppExchange play in the early phase of your business?

Alex Fuller: AppExchange itself was not the vehicle we were using. We really focused on relationships. We worked hard to make sure we were in front of the minds of account executives and sales engineers. That is partly a reflection on what we were producing. AppExchange has a wide variety of apps and it is particularly strong for apps that have definitive purpose and can be installed with a few clicks.

We are much more enterprise-oriented. You can't get away from the fact that at some point you have to have some conversations about how the customer wants to use the software. They will want to analyze their own business to get the most out of the capabilities of the system. We have left the one-click installer approach and have those conversations with our customers.

Sramana Mitra: Did the AppExchange or Salesforce teams generate leads for you even if you had to do the selling?

Alex Fuller: We definitely had some leads coming off of the AppExchange. Our own direct selling efforts accounted for the vast majority of our leads and closed deals. I include the legwork of staying in front of the Salesforce sales teams in the region into that bucket. We kept meeting with them and explaining product capabilities so when they ran into a customer who had requirements that could be met by our product, they would be willing to refer them our way.

Sramana Mitra: Did you focus on selling in the UK or throughout Europe?

Alex Fuller: Our territory was Europe although we did have a primary focus on the UK. Our territory is now global. That is one of the great things about the AppExchange and Salesforce in general, it is very easy to expand operations. Initially, we felt that it would make sense to have a European focus.

In 2011, I spent some time in Barcelona doing workshops with some customers. There were plenty of opportunities to do regional engagements around Europe. We took those opportunities strategically but primarily for financial reasons we limited ourselves to the UK in our early years.

Sramana Mitra: To summarize, your lead efforts were a result of your own direct selling efforts and a result of the time you spent with the UK Salesforce field reps. Is that correct?

Alex Fuller: Yes, those were the main sources.

Sramana Mitra: Was there a vertical or domain that you were targeting?

Alex Fuller: Absolutely. Telecommunications and Media have historically been strong for us. We capitalize on the success that we have had in those industries by producing customized features for those verticals. Verticalization of the product has been a key aspect to our growth.

Sramana Mitra: When you talk about telecom, are you talking about very large telecom?

Alex Fuller: Absolutely. We have large telecoms such as Telefonica, Vodafone, and Tata Communications.

Sramana Mitra: What size of deals can you get from these larger players? What is your business model?

Alex Fuller: We have been successful in larger enterprise accounts. Our deals are fewer and larger rather than numerous smaller deals. We have a high number of seat licenses and the deals tend to be in the hundreds of thousands of dollars.

Sramana Mitra: It sounds like you have a business model that supports direct sales teams.

Alex Fuller: Absolutely. We have a direct sales team established and we generate our own leads via our direct sales team. We are actively hunting down our deals.

Sramana Mitra: What is the geographical scope of your business today?

Alex Fuller: We are headquartered in London and we have an office in New York as well. We also have an office in Croatia, which is more of a delivery center covering R&D, technical, and business consultancy. We also have a team in India.

Sramana Mitra: What is your geographical scope in terms of the markets served?

Alex Fuller: In terms of product software license sales, our focus is led partly by our regional presence. The US, UK, and Europe are our primary areas. We are also engaged in Australia. Additionally, we have system integrators who have partnered with us all over the world.

Sramana Mitra: How has CloudSense ramped in terms of revenue?

Alex Fuller: We hit the million dollar mark quite early. I believe it was during our first year. We have had fast growth since. We had about $5 million in revenues at the two-year point. We are now approaching our five-year mark and have crossed $15 million dollars in revenue.

Sramana Mitra: What about financing? Is the company still self-financed?

Alex Fuller: We closed an investment round last year and will continue to look at options going forward. We are planning on aggressive growth and invest in the business heavily. Our three-year plan is based around that.

Sramana Mitra: How much revenue did you achieve before you raised your first round of institutional financing?

Alex Fuller: We were approaching $5 million in revenue by that point.

Sramana Mitra: Are you working with London investors?

Alex Fuller: One of our investors is based in the UK. However, Salesforce is also an investor.

Sramana Mitra: One of our philosophies is to tell entrepreneurs to bootstrap early and raise funds later as the terms will be more equitable. To the extent that you can, can you relate your experiences in this aspect?

Alex Fuller: I could not agree more with that strategy. One of the things to consider is how to build value in the business. One of the key things for us is that we sell SaaS, which is a recurring revenue business model. That is very beneficial in dealing with company valuations. The product side of the house made valuations interesting. A consulting company is not going to attract the same kind of valuation, if any at all.

Sramana Mitra: Between that first round of financing and now, there has been a substantial revenue growth. What are the strategic levers that have been moved? What are the marketing strategies that CloudSense has put in place that has helped with this strong growth?

Alex Fuller: We have consistently grown our revenue year by year because of the quality of our product and what our customers have been able to achieve as a result of our product. Prior to external investment, the growth of the business was built on reinvesting profits both into R&D, to keep the product ahead of the competition, and into Sales & Marketing. As a business, CloudSense had customers using our software in 26 countries and we had built up a good number of well-known brands as customers, especially in Telecom and Media. However, we also knew that the size of the market was such that there was much more room to grow and that now is the time to maximize the opportunity.

External investment has allowed us to increase our Sales & Marketing investment to reach more companies. Our R&D investment has allowed us to create more vertical specific features that further differentiate us from the competition. We have also established a US presence with people on the ground in a number of locations, although we're headquartered in New York. We have a very good win rate versus the competition and as such our communication strategy is to raise awareness to a wider audience with relevant messaging for their industry segment. For example, it could be a hosting provider or a magazine publisher. We then ensure their journey to become a customer is expedited by dealing with people that not only know CloudSense but also their industry and can help provide leadership in achieving their goals. We have a vertical sales team with specific geographic coverage and marketing campaigns that addresses those companies that we know need our help and we can help today.

Sramana Mitra: It sounds like you really focused on verticalized selling and product differentiation with the funds that you raised.

Alex Fuller: It really was about developing our ability to sell. We wanted to create sales of product licenses. The services will follow the product license sales. We also have strategic partnerships that we did not have before. This allows us to cover geographies that our services can't reach and develop license sales in those geographies.

We have increased headcount in our R&D offices in Croatia. We have also built a marketing team in the UK and really built that team out so that we could do brand marketing. We were never able to present ourselves like that in the past. Our structure around marketing events and the way we present ourselves has dramatically changed.

Sramana Mitra: Where do you see the company going from here?

Alex Fuller: We are continuing to focus on our vertical product propositions. That is a very strategic element for us. We will be offering product solutions into other verticals as we move forward. The other aspect that is worth looking at is what we have done around the mobile space. We have the ability to deploy the intelligent rule sets and data we need into mobile devices. That allows you to run the same capabilities such as auto capture, validation, and pricing wherever you are. You can take the phone offline, talk to a customer, and then come back to the cloud later. That is a key point. The expansion into mobile functionality allows you to operate your business from mobile devices anywhere, even when not connected.

Sramana Mitra: Do you have a lot of mobile innovation on your product roadmap?

Alex Fuller: We have a group of core products but everything we do should be available on the mobile device as well.

Sramana Mitra: Thank you for your time and for sharing your story. Congratulations on your success to-date.

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

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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/accelerator 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