



Orange County Venture Group (OCVG)
Under the Hood Series Part 2: Get It Growing
March 18, 2008

Moderator: Dave Ryan, Mission Ventures

Panelists: Allan Hunter, rent.com
Greg Hawkins, buy.com
Bill Markle, GluMetrics Inc.
Charles Warden, Versant Ventures

You've gotten funding, now what?

DR: How do things change when you have shareholders with rights and expectations?

AH: From a core operating standpoint, there aren't a lot of changes after you get funding. You've created a defensible company and assembled the right team. You have to be focused on growing top line and be mindful of sustaining margins and accelerating growth. Biggest difference after you get institutional money is more discipline – mostly in the form of Board meetings. Some CEOs like to become "submarine captains" based on past bad experiences with Boards – and the go underwater and only surface every five months. Not wise. Think of Boards meetings as mid-terms. It may be an agonizing process, but it helps you know your subject (your company) much better.

CW: The challenge is overcoming feeling like "we're from the government and here to help." Trick is to look at common set of objectives. Lay the foundation for a trusting, productive partnership.

BM: Effectiveness of a Board is based on the structure the CEO puts in place. You've heard the mantra, "Never surprise the board," and it's true. Have an expectation for what you want to accomplish at the Board meeting.

GH: Astronomical growth puts enormous pressure on management. Plan for personnel growth very early. Good planning is selecting the

right skillsets that can get you there. The successes I've experienced have been based on our ability to get great talent that was able to scale. When there hasn't been success, you may have had great talent, but they couldn't scale.

DR: The road to success is not linear.

AH: Early on at rent.com, had 115 employees, spent \$10 million and one year to build web site. Launched in May 2000. Had just raised last tranche of \$17 million. We were burning \$1 million/month and bringing in about \$25K/month. We were down to our last 6 million. We decided it was important to be brutally honest – this wasn't working, and we went from 115 to 14 people in 75 days. This included changing senior personnel (more qualified and better priced). The skeleton team determined key drivers, hit leverage points and scaled. 17-months later, hit breakeven. When I die, I want my epitaph to read "He hired right."

CW: Sometimes things aren't completely broken, may just need to shift sundial. Honesty is absolutely required. Confront reality. Don't "manage the Board." Give them facts.

The ideal relationship with management team is long-term financial partner. Get away from governance dynamic. Don't want to be a "defensive" management team. Openness, honesty and trust are key. Build relationships when times are good so you're tight when crises emerge.

GH: When raising money, find people you know you can really partner with. Look for value-add besides just money. That piece of the team is just as important as the management team.

DR: What about company cultures?

GH: Effervescent '90s culture didn't support serious business disciplines. Everyone wanted to get rich, that was the sole motivation. Leadership has to set the tone. Chip Lacey at Ingram Micro set the tone with a culture of picking up pennies. Build and leverage your team to reinforce that culture. Don't let any member of management team chip away at the culture – that's a cancer. Big or small, it's the same issue, set the culture and defend it strongly.

AH: Went from command & control in the '80s to flatter, entrepreneurial companies in the '90s. Be obsessively focused on your customers. Gen Xers and millennials don't like command and control and won't tolerate it [comment made by other panelist and met with appreciative laughter: they'll just move home with Mom & Dad]. The pendulum has swung too far. Can't confuse noise with activity/progress/contributions to growth. Empowerment and high transparency is imperative. Capital sustains a company and creates jobs – that's the point. 60-70 hour work weeks that don't tie back to growth are not well invested. Empowerment has to come with accountability. One without the other is anarchy/chaos. Can't be done on autopilot, have to have sweaty palms.

Chaos factor way too high in '90s – was bedlam. Spend a lot of time on culture. In the dot-com boom, we were in our early-40s and when the culture shifted we thought, "Maybe this is how it's supposed to go." It didn't take long for us to come to our senses and realize, "No, this isn't the way it's supposed to our go." Get people thinking on their own, not asking you what to do.

DR: What constitutes ideal VP of Sales?

GH: First, guys [or gals] who are totally relationally driven. Who walk into every client saying, "I'm not willing to have you less than 100% satisfied every stinking day!" Second, hating losing. In one nine year period, we never lost a client we wanted to keep.

CW: Have someone who can lead, who has strategic ability to crack the code/leverage points. Finding relationships is job one.

BM: Do they hate to lose above all else? Can they serve in broad scope? Tenacity and bandwidth are critical.

AH: A curse for young companies can be having too much capital. Two sinkholes to watch for: Sales and Marketing [caveat from Colleen: it is a sink hole if it is poorly invested; marketing and sales are necessary to grow a business – ensure you're using experts.] The key is to do more with less. Contribution margin is a key metric and so is cost of customer acquisition.

Find a sales exec who believes failure is not an option. Has passion. Does not feel the need to immediately load up on staff. Sales force at

rent.com was 7 people for the first several years (vs. competitors who had 500).

Q&A: What are your feelings on recession?

CW: Don't worry too much, investing over 5-10 year horizon. My primary concern is the FDA making it increasingly difficult to get product reimbursement.

BM: Stay focused on the customer, not money potential. And stay focused on end game. Money is enticing, intoxicating, addicting and you can get sideways.

Q&A: How do you make decision about incumbent vs. new management after you make an investment?

CW: What guides you through that is transparency and honesty about scalability.

Q&A: Misc.

GH: Board meetings are for confirming decisions made off line (via lunches, calls, emails, etc.), not for making decisions. You must communicate on an ongoing basis. Forcing people to make decisions on imperfect info can be devastating. Send a weekly email.

BM: Board meeting prep is not trivial, even for company of 22 people. I start every Board meeting with key decisions made in last meeting.

DR: I can remember one instance where we realized six months after making an investment, that dog wouldn't hunt. We closed the company and got 2/3 of our money back. It hurt, but first loss in company is best lost.

###