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Highlights of the June 14th IVCA Luncheon Event 'Homegrown Successes: Serial Entrepreneurs', sponsored by Neal, Gerber & Eisenberg

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CHICAGO – For some entrepreneurs, a successful exit or a company buyout is not the end of the career. Serial entrepreneurs are the innovators that start up another venture (or several additional ventures) after an initial success. The IVCA luncheon on June 14th put the spotlight on four such serial entrepreneurs, as they talked about the risks, rewards and compelling paths to beginning another new initiative.

The event was sponsored by the Neal, Gerber & Eisenberg Law Firm, and moderated by Michael Gray, a partner at the firm. Lon Chow of Apex Venture Partners helped to coordinate the event, and the entrepreneurs featured were Brian Hand (current company: **Timelines**), Eric Lunt (**BrightTag**), Al Warms (**Appolicious**) and Alex Zoghlin (**VHT**).

The program was moderated in a Q&A format. The following are the highlights of the presentation.

Al Warms: I grew up on the East Coast, and started in Chicago by going to Kellogg [Northwestern]. After working for a couple of internet start-ups in D.C. and the West Coast I came back here and started my first company, **Participate Systems**. We grew that into about \$9 million in revenue in a couple years, filed to go public, got through the 2000-2001 period, then sold the company in 2004. That same year I led an investment in a local play media company in Chicago, **Real Clear Politics**. I sold that, and sold another company called **Buzztracker** to Yahoo. In 2009, I began a new company called **Appolicious**, which is an 'Apps' discovery site, we have services that helps people find Apps for their iPhone, iPad and other devices.

Eric Lunt: I grew up in Chicago, been here my whole life. In 1992, I started with Andersen Consulting. When the web took off in 1996, I formed with a partner a web consulting business. That was acquired, and so we started **Scene Server**, which was an enterprise blogging platform. After that, with four other partners we started **SpyOnIt.com**, which was a web based alerting platform. Built that up, and that was acquired by a Canadian company. In 2003, we began **Feedburner** and built that up over four years. We sold that to Google in 2007. My most recent Chicago company is called **BrightTag**, which optimizes the way that first parties work with third party marketing organizations, specifically e-commerce sites and other sites.

Brian Hand: I'm an East Coaster, but came here in 1984 to go to Kellogg. I started with First Analysis, and was there until 1999. I did a lot there with technology companies, corporate finance and business services for environmental concerns. I started **ShopLocal** in 1999, built that up, and sold it to Knight-Ridder in 2004. For every major retail outlet in the country, ShopLocal is used to tell people in individual markets what is going on in their physical stores. I left there in 2006, started a company called **Timelines** in 2007. What we do there is provide services that allow people to record and share events.

Alex Zoghlin: I dropped out of New Trier in Winnetka to start up **ZTC**, and sold billing systems to law firms in the mid-1980s. The entire company fell under a ton of lawsuits, which I was able to escape by joining the military. The moral there is don't sell anything to law firms. [laughs] I did get the last laugh, because 6 years later I entered the University of Illinois, and got a job as a computer programmer. I worked

on the first web server. There were so many ‘patches’ associated with that first server that it became ‘**Apache**,’ which is still the largest web server on the internet. The good news was the law suits I deferred by going into the military, I ended up winning, which gave me the money to start **Neoglyphics Media**. We then grew it pretty big, six offices in several countries, and sold it to Renaissance Worldwide in 1998. I then started **SportsGear**, which I sold to Global Sports Interactive. I came back in early 2000 and started **Orbitz**, stayed until its first IPO, and then started **G2 Switchworks**. That was sold to a travel concern in 2008, and then I became CEO of **VHT**, which I am doing currently.

Michael Gray: Let’s go back to your first start-up experiences, what made you guys decide to be entrepreneurs and was it a success?

Hand: My first was ShopLocal, and it turned out to be a great success. The genesis of that was when I was with First Analysis (as a VC), where I did a lot of work localizing environmental information. I was going home one day, and I heard an ad for a sale at a ski shop, and it just clicked. It would be great to let people know what’s on sale where they live. This gave me an opportunity to go from investor to entrepreneur.

It was originally called Sales Hound, but the model was wrong at first. Originally, it was going to be a platform for small merchants to sell goods locally. It wasn’t working. The base idea, though, to allow local retail and local buyers to connect was right on. The light bulb went off when we tried to sell Sales Hound to Sears. Sears told us what we had on Sears.com didn’t match the local stores. Chicago is different from Florida that is different from California. So we built a platform to do all that. We realized it wasn’t about our website it was about our client’s sites. As soon as we changed our business model, business took off.

Lunt: My first start-up was very simple, moving from a large consulting organization to a three-person consulting organization. Recognizing the opportunities that we saw regarding the web. I would call it a success just because this was the first time I was jumping without a net, an appetite for start-ups. Fortunately we had a couple of clients, we saw there was an opportunity to provide the interactive technology for websites, not just the static stuff. It was making the leap and not looking back.

Gray: What did you learn from that?

Lunt: You can control your own destiny, really, as long as you surround yourself with the right people and have the right mix. It was instilling that idea of just doing it.

Zoghlin: There are some very important things that a lot of start-ups miss. One is how critical cash flow is to the business. With most entrepreneurs there is an inverse relationship to financial savviness and entrepreneurial skills. That is one of the areas that Venture Capital can really help out, with an analysis of leverage and cash flow to understand what levers to pull.

Secondly, how critical sales are, especially in a B to B environment. There is a level of sales skills that is under-appreciated by both entrepreneurs and VCs. You really have to build up the sales structure.

Warms: The first time I thought about a start-up, I asked my grandfather, who ran a butcher shop on Columbus Avenue in New York City, how did you know how to start a butcher shop? He said, first you have to work for a butcher shop run by somebody else, before you figure it out. So that’s what I did. The first start-ups I worked for was for Freeloader and E-share. I saw what was going on, and once I figured out the economics, it was much better to be a founder than a guy working for the founder.

When I was looking around, I found that everyone wanted help with online communities, what they call Social Media now. We put into place a service bureau model, so people started paying us recurring fees and unit economics was fantastic. We went out in 1999 for one round of angel financing, \$1-3 million. We were looking for that range and we took \$15 million. We ramped up the infra-structure to go public, and then the bubble burst. In retrospect, we didn’t need to take \$15 million, but we did need to go public. Anybody who lived through ‘01 and ‘02, it was brutal. We changed our perspective, drilled into online communities, bought a software business, and sold that software. We then got that to profitability, and sold it in 2004. Was it a success? The company that bought it has done very well. But we raised too much money initially, and that ultimately wasn’t a success.

Gray: I’m hearing a theme. Everybody here in their early start-up days started doing deals with large multi-national companies or selling to them. Can you guys talk about your deals with big companies, how you

got it done in the early stages?

Warms: The reason you do deals with big companies is the same reason Willie Sutton robbed banks – that's where the money is. [laughs] You need to be prepared...the first deal I did with AT&T Worldnet, which was by far the most important, it was done on a handshake. I told them I wasn't worried about the contract, if you shake my hand I'll do this for you. You've got to take risks, and bet the company on these things, show them that you're worth betting on.

Hand: Sears was our first client at ShopLocal. This is when we switched our business model. On the old model six other businesses seemed to have the same idea at the same time and launched at the same time. We all realized it was a failed model at the same time. Three of us switched gears, the rest went under. Sears then went the other two companies and wanted to get some bidding going on. Our initial bid was \$1.1 million, the next closest was \$250,000, then the third was \$200,000. I just sat down and said to Sears that if you go with the \$200,000 range bids those companies will be out of business, because there is no way they can make money. If you put your faith in them you will get killed. You have to pay a fair price and find a vendor that will do it right. Our economics made sense, and we ended up signing with them. It was all based on the chutzpah of saying don't go with the other guys because they're going out of business.

Zoghlin: It's really Sales 101. You have to identify someone within the client business who has ambitions and aspirations, build a solutions model for them. If it is successful, they will be viewed as the one who did it, be associated with it and will probably get promoted and bring you along. If it's not successful, they've got plausible deniability. You have to identify the influencer, and all of other impediments will all go away.

Gray: In your current businesses, what are the major challenges you face, and how do you use your experience from the past to solve those problems?

Lunt: With BrightTag, we have a very ambitious mission, which is to really make the web a better place for everyone. We want to increase the speed of the services, and give a measure of control with the data that we're sharing. We basically want to clean everything up. In order to pull this off, we have to have the software behind to serve the thousands of requests and be global. It's a huge engineering challenge.

What attracted me is the scope of what we're trying to do. My previous experience with Google and Feedburner, building those up to multiple data servers, means that we're ready for those challenges at BrightTag. So far so good.

Warms: One of the big components of our business right now is that we're actually white labeling our App discovery systems. So we're talking to some pretty large OEMs and carriers. So we're going through the usual massive company hell, but the flip side if it's this hard to get done, and you get it done, you're in an extremely advantaged position. Nobody is going to come and take it away next week. Another thing is regarding talent and getting the right people together in time to go after the opportunity.

Zoghlin: With VHT, this was the first time I came in as a CEO and was not the founder. They were losing a lot a money, they were a photography company that specialized in residential real estate. Their core business shrunk dramatically. I came in to raise money in 2009, and spent the first year taking the company apart and putting it back together – including ousting one of the founders. But we exited that first year with a profit, not taking any outside money, with enough resources to start building the technology platform we wanted to build. In 2010, we transitioned the company from a photography business to a marketing services platform at the real estate broker and franchise level. Agents are good at sales, but they know nothing about marketing. We're automating that process to close the loop. The super secret is to please the customer and find something unique that they're not going to find anyplace else.

Hand: The biggest challenge was finding the right business model with Time-lines. What I learned when I was a VC and ShopLocal is you have to be flexible. You need a broad vision, and then allow the people in the company to evolve to that vision. The evolution might be changing business models. Our first few models didn't work. Cut bait at that point, don't keep working on something that is demotivating. If you have doubt, look for other models.

Gray: In comparison to Silicon Valley, Boston and New York, is Chicago ready to be a prime time entrepreneurial hub?

Warms: Every region that has emerged as a hub, has had a real dominant, multi-billion dollar company that attracts people. Groupon has been fantastic in that way for this city. The growth that they have accomplished is the missing piece to what we're doing. There is more talent in Chicago today than the early 1990s, we still have a ways to go, but everyone has a ways to go. I think it's all good here.

Lunt: As serial entrepreneurs who are staying here and putting resources back into the companies, financial, mentoring or otherwise, I think we're seeing a great return on that. We're also seeing the different type of communities coming together, like through the Excelerate incubator. I'm very bullish on Chicago.

Hand: The risk taking in the city has moved from financials to a much broader push towards technology. The last ten years have seen a big growth in early stage companies. There is more money for technologists. Another thing that's changed is that failure has become okay. People are willing to take the risk, and learn if it does fail. That is a great thing for Chicago.

Zoghlin: Whether or not Chicago has the critical mass right now, that is the crucial question. Investors have seen more failure than entrepreneurs have, and they can see the pattern recognition when things are going the wrong way, and you do not often hear Chicago VCs talk about failure. To get that type of feedback is critically important. West Coast and East Coast VCs are more specific, and there is as much to learn from failure as there is for success.