ATDC Showcase Day Commencement Speech

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Thank you for having me today. It's incredibly flattering to be a part of this graduation ceremony. When Jen [head of ATDC] asked me to give the commencement speech, I asked myself, "What could I talk about from my experience that might be interesting to such an amazing and accomplished set of entrepreneurs?" My first thoughts were all about leadership and operations. Then I realized that the one thing that will be on everybody's mind, at last at some point: "How do I get an exit?" So exits became the focus of today's speech. The first version I wrote was called "Four Easy Steps to a Billion Dollar Exit." Here's how it went…

Four Easy Steps to a Billion Dollar Exit

First step:

Identify a tired, legacy market and create an absolutely disruptive idea for it, or even better, invent something that's never been invented that will change the world.

Second step:

Empower your employees, build an agile culture, and hire the best people.

Third step:

Fund it yourself, grow to 200% or 300% a year for many years, get to $200 or $300 million in revenue, and then...

Fourth Step:

Get Google, and Apple, and Microsoft in a bidding war, and then they pay you a billion dollars.

That's pretty much how you do it. Right?

Obviously, I'm being sarcastic.

The reason I tell you the story this way is it sounds so easy that it isn't believable. But if you read the Tech news media, this overly-simple four step process seems to be the way so many super-successful companies find exits. This just isn't the real world.

My actual talk today will be different. It's about the stories that don't go quite as well – both my stories and the stories of many others. I've been involved in about 30 exits, mostly as an acquirer but three as a seller. And I've seen some patterns I'd like to share with you. The big exits that we read about are great, but most of us aren't lucky or talented enough to have such glamorous and effortless exits.

It makes me think about those Hollywood stories, where some famous star tells their tale of rags to riches. They spent their last money on a bus ticket out to Hollywood. They waited tables at a restaurant, got discovered by an agent, and then they're a world-famous Hollywood star. I think when we read Tech news media, we get the impression this is how it's done for start ups. Among other things, I'd like to impart some perspectives that may help you avoid being that metaphorical waiter in Hollywood waiting a lifetime to be discovered. Given all this, I'm going to change the name of my talk today to, "Seven Very Hard Steps to Increasing the Odds of a Respectable Exit." A little more down to earth.

Fun Facts About Exits

Let me start with a few fun facts, just to set the ground rules on exits, okay?

Fun Fact #1…

Back to Hollywood. Exits are a lot like movie star marriages. We love reading about them. Now, in reality, some of those marriages are terrible, and some of them are wonderful. There's an entire industry talking about those marriages. I think exits, and fundings are the same way.

Fun Fact #2…

IPOs are not exits. Just say that to yourself. "IPOs are not exits." If business is like a game of blackjack, IPOs are like doubling down. You are staying in the game much longer and you are dramatically raising the stakes. Anyone that uses IPO in the same sentence with "exit" is probably either a very small investor or soon to be a very frustrated executive.

Some of my pubic CEO friends wistfully look back to the good old days when they were private, and all they had to worry about was bloodthirsty, terrible VCs. The VC's turned out to be nice by comparison to public investors.

I remember being a neighborhood party when iXL was public, and being introduced to somebody I had never met before. As soon as he found out I was the CEO of the company, he said, "Hey, that stock price blip you had last week cost me $10,000. What's up with that?" The glamorous life of a public company CEO…

Fun Fact #3…

Timing is everything. It's probably the single largest thing that affects the outcome of exits. It's also the one thing you can do the very least about. If you really want to talk to somebody who understands timing, look at companies who were just about to close a huge round, or about to be acquired right before the dotpocalypse in 2000, right before September 11th, or right before the 2008 housing crash. Those people have been schooled hard on the importance of timing as well as the inability to do much about it.

One of the best pieces of advice I've received in the area of exits is this: "Don't walk away from a very good exit, hoping for a spectacular one."

The Seven Hard steps to Increasing the Odds of a Respectable Exit

Let me shift to the main topic of today's presentation, The Seven Hard steps to Increasing the Odds of a Respectable Exit.

Step #1 – Forge a mission for your business

This may seem a bit strange in the context of exits, but give me a moment to explain it.

Step number one is forge a mission for your business. Too many companies either explicitly or unconsciously think that an exit is their mission or their reason for being. I've seen CEOs start companies where the initial strategy was entirely built on a near term exit. I've seen CEO's pound the table saying "One day, we're going to sell this for a fortune, and we're all going to be rich." This works once in a while but my observation is that it fails a whole lot more than it succeeds.

My advice to you is to grow a fantastic business with a mission that really matters. Look at an exit as just another step along your journey towards your mission. Beware of letting exits become the main reason you exist.

I use the word "forge" very intentionally. Weak missions are easy. Great missions are really hard to create and need to be "forged". I suspect every entrepreneur here has a fantastic mission, and if you're really lucky, it's what you get to do for a living – even if you haven't found the precise words for it yet. A mission is like the north star for your business. It adds meaning to a job that would otherwise be 9 to 5. As entrepreneurs, we regularly have the privilege going after missions we really believe in, that in many cases like today's graduating companies, missions that can, quite literally, change the world.

The great part about missions is that no matter how crazy things get, the mission is the best way to keep you steering straight. I remember back in 2010, my company Silverpop made global news when a hacker got into a couple of our customers' accounts. Those were really dark days for Silverpop and for those customers. It seemed like the world was caving in around us. At a few points, we thought we might not survive. With almost nowhere else to look, we focused our energies on a mission we called behavioral marketing.

Behavioral marketing was a new way to think about a 1:1 customer journey. It elevated marketing from audiences and blast advertising into a truly personalized dialog – like having a personal sherpa that carried customers, one at a time, through the journey of buying and being successful with a product. We doubled down on this, and it worked. It was a tiny candle in a tornado, but eventually as we moved towards it, it became something that gave us a powerful sense of purpose. It gave us that north star, and the amazing part was, through that process, it became so deeply ingrained in who we were that we created some revolutionary new technologies to support the mission. I believe behavioral marketing was the main reason IBM ended up acquiring us.

Step #2 - Find your most likely acquirers, and become the best partner they have.

The thing about getting acquired is that somebody in that acquiring company is going to have to bet their career when they tell their bosses they want to acquire you. I've been on both sides of this. When I was at IBM, the people that championed an acquisition had a lot to lose if it didn't get done, and they had a lot to lose if it got done and it didn't work out. Big upside but even bigger downside. The champions with these acquirers are making a huge bet on you. If you are already known to their company, your champion is a lot more likely to get the green light to take that \$50 million, \$500 million or \$5 billion bet on you.

At Silverpop, we had a whole universe of potential acquirers, and all of them came and talked to us at one point or another. Adobe was one of my favorite potential buyers. We worked hard to be a great partner. We were Adobe's partner of the year. When we co-sold alongside Adobe's sales team, both companies would routinely beat their targets. We did the same thing with Salesforce.com. Ultimately, IBM was the best company to acquire us. Even though we hadn't been a particularly deep partner with them beforehand, our relationships with Adobe and Salesforce.com were widely respected and proved to IBM that we could play nice with bigger companies to find mutual win-win business opportunities.

Step #3 - You have to kiss a lot of frogs to find your prince or princess

Now, some of you are going to have one of those story book exits. Someone will knock on your door and say, "You know what? Here's a billion dollars." Congratulations.

Realistically, though, most of us will never have that experience. My first company, Da Vinci Systems, probably talked to five or six high potential acquirers before we ended up selling it to ON Technology.

With Silverpop, in the 5-6 years leading up to our acquisition by IBM, we had serious conversations with a dozen companies, and even received a few term sheets. I see a couple of our investors in the room, and you guys drove that crazy road with us. The process requires that you're signed up to kiss more than a few frogs. Early on, I learned to pick the frogs carefully and not get too excited each time they knocked on the door. Each frog can be a huge time suck. Your executive team gets wrapped up for a month or two, and if things get serious, your board actually gets pulled into it as well. I hope all of you have easy exits – quick conversations, buyers lined up, escalating bids. But if your experiences are like mine and many of the companies I've seen, know that long, tough exits are common and that you're not alone.

Step #4 – Execute very consistently

This may sound a little bit obvious but bear with me. For 5-6 years in the mid-history of Silverpop, we were able to grow like clockwork at 50% a year. Some years we could have done better. Other years it was really a struggle to reach that growth. But putting consistent numbers up gave us a great deal of credibility – it made our company look like a machine. This is very attractive to investors, and very attractive to acquirers. Most acquirers are looking for the same thing I did – they're looking for what I call a momentum machine. They want to bring this little black box you've created into their company, turn the knob, and watch it crank out years of accretive, predictable revenue and profits.

I think of it like peacock feathers. Male peacocks have these giant colorful feathers on their backs. Biologists say it's a way of showing prospective mates that they are so healthy and vigorous that they can invest some of their health in less critical things like colorful feathers. The same goes for private and public companies. Despite the reality of ever changing markets, companies that can demonstrate highly consistent growth are really showing just how well run they are.

Step #5 – Keep it Simple

I learned the real cost of complexity while I was at IBM. The company has so many different products, different customers and different marketplaces, that most of their work ends up being just managing themselves. IBM is always at risk from simpler, more focused competitors who are able to invest most of their work in innovation and customer success.

Beware of the low-hanging fruit. Complexity is your biggest enemy. There is a natural tension between exploring market opportunities and picking so many low-hanging fruit that you become distracted and slow down the growth in your core market.

If you're an acquirer, a company that is chasing revenue streams outside its core market can be tough to swallow. Silverpop had a small product line for Microsoft. I found out after we got acquired that IBM basically removed that product revenue from their valuation. Even though it was growing and had nice profits, IBM considered our Microsoft business to be a distraction. They felt it needed to be shut down or sold off – either of which were a lot of trouble they would have preferred to avoid. Like all acquirers, IBM wanted a simple, pure play revenue stream that directly served their strategic goals. A little extra revenue turned out to be more trouble than it was worth.

Step #6 - Be awesome, and wait for someone to knock on your door.

I'm going to give you a little saying here to help this stick.

Getting acquired is nothing like hunting. It's entirely like fishing.

It's not about going to the woods and finding something to kill. It's about putting bait in the water and waiting for something to bite. Of course, there are many exceptions to this but, generally speaking, big "for sale" signs are usually a turn off to most buyers. In some odd ways, one of the most attractive things about a possible acquisition target is that it's in no hurry to get acquired.

When I was at IBM, and even today, I'll get calls from CEOs asking me to share the secret of getting acquired by IBM or some other large company. In most cases, the company would indeed be a great strategic fit for IBM, or Google, or Microsoft, or Apple, or whomever the buyer might be. The CEO will say, "Why don't they see it? Don't they understand that if they buy my company that it's going to be a perfect addition? They're going to be famous and look great for it - how do I get them to see this?" What I've come to realize is that most acquisitions aren't driven by strategic fit – they are done because the buyer thinks they have a big problem that can only be solved with an acquisition.

If you have the choice, avoid knocking on doors and being for sale. Just be awesome, and let them come to you. Partner with them. Be visible to them. Tell some great stories that fit with the problems these prospective acquirers need to solve. If you can, hang some fishing poles off the back of your boat and just go about your normal business. The best buyers will find you. I don't fish, by the way, so I'm probably killing this metaphor here. But I have gone fishing with many companies and had more than my fair share of bites. I've even reeled a few in over the years.

Step #7 - It's that mission thing again.

I wanted to make sure that I really drive home the point about missions, so I'm bring it up again.

A great mission does so many things for a business. Missions keep you out of a rut. One of the greatest challenges in a business, especially if you've been at it a few years, is what my partners at Greylock used to call "going sideways". You're not dying, and you're not growing at an interesting rate. You're just kind of existing. In some ways, it can be worse than bankruptcy, at least to the investors. They can't write you off, and they can't get liquidity. A strong mission will keep you from losing sight of the bigger picture. It'll raise your stakes and it can pull you out of a rut.

A great mission is incredibly contagious. It draws in your employees. It draws in your investors. It draws in your customers, and it draws in acquirers. When you've got a great story to tell like behavioral marketing, and someone at IBM hears it, they tell you something like, "We've looked at a lot of the companies in your space, but behavioral marketing is a story we've never heard before. A lot of your competitors look like just-another-company but you guys really stand out."

One more benefit of a great mission. When you're negotiating with a buyer, the worst thing you can do is be too eager. You've got to do some serious negotiating – even in the numbers being thrown around are wonderfully large. If you can be credible that your mission is your main priority, you will be credible playing "hard to get."

Wrapping it up

I will be the first to admit that my advice can be a little conservative. I'm not a "swing for the fences and risk it all," kind of executive. But I've had a fair degree of success and some nice exits, and I plan to have many more.

When you read those stories in the tech news media, remember that for every one of those unicorn exits, like that two-year old company General Motors bought for a billion dollars, just remember this. For every one of those companies that bet it all on the long odds and won, there are dozens more than you've never heard of that slowly sunk into bankruptcy and death.

Acquirers are looking for momentum machines that solve a clearly identified internal problem. They will look first to their closest and most trusted partners so make sure to be one of them. Acquirers want believe that you have magic, and they want to believe your magic will get stronger as part of them.

My advice is to run your company like you're going to run it for decades. Focus on a mission that's going to make a difference to you and your employees and your customers. Expect that interested acquirers will knock on your door once in a while. Have that conversation, but keep in mind that, if you're like most people I've worked with, you're going to kiss quite a few frogs before you find that princess. Just sign up for the process and don't get frustrated or dejected if the first two or three don't turn into a princess. Just keep at it, and follow your mission.

As my final message, I want to congratulate the four companies that have graduated today, Partpic, Star Mobile, UserIQ, and First Performance Global. You have accomplished something that most other companies can only aspire to. On behalf of all us here, we're incredibly proud of you.

For all of you and for all the other companies here at ATDC and elsewhere, I leave you with this parting thought… May all your exits come true.

Thank you.