Lessons Learned from the successes and failures of View2

1. Taking dumb money is dumb

   Background

   View22 was self-funded with personal risk debt financing and managed to turn a profit and retire its debt with above market rate interest. The business model was B2B licensing and customization fees to the largest corporations in the world (e.g. GE, Siemens, Philips, John Deere, Kohler) on an automatically renewable annual enterprise agreement. The average order size was $150,000 with a minimum of $50,000 year licensing fees. The company became profitable within 9 months of its inception and revenues doubled year-over-year for 4 years running reaching close to $3 million.
   In 2006 the market for web based consumer applications was heating up and the company evaluated the possibility of repurposing its existing technology for the mass consumer market under a B2C model branded under the SceneCaster name. It became apparent that scaling up a consumer model requires a significant capital investment with the understanding that significant monetization will be far latent and that the KPI for a B2C model would be the number of active users to be monetized later on an advertising or subscription for a “Pro” version. View22 did not fit the profile of VC series A finacing and the company embarked on whhat looked to be a faster more efficient and timely financing strategy through a private placement from high networth individuals and merchant and investment institutions. Indeed the company raised in relatively short order $3.2 million dollars in 2006 in a three round plan with a commitment to create investor liquidity through a go public transaction within an 12-18 months windw. In round 2 the company raised an additional $5.6 through an expanded and diverse institutional and private equity base of some 60 shareholders. By this time the proceeds were used to scale up Scenecaster user base to just over 2 million and it was forecasted that the proceeds of the public offering in round 3 estimated at $15 million will scale the user base to about 10 million a critical mass that will begin to monitize on an accelerated basis. The initial offering at $0.70 was more than doubled in round 2 to $1.75 and the go public transaction through a Reverse Take Over (RTO) in the fall of 2008 was estimated to be priced at $3 which would have given the original investors a minimum of 4-5 times return. The company went through the entire process cleared all the regulatory requirement and was scheduled to go public with an IPO on October 2, 2008. On September 17, 2008 Lehman Brothers went down and the financial market collapsed. The IPO of course did not happen. Worse yet the financial collapsed caused the large corporate client base of View22 to severley cut back on its marketing budgets including renewals of existing annual licensing fees.

This caused the bottom to fall out of the profitable core business of View22 while at the same time caused it to cut back on the capital intensive consumer advertising and thus halted and later declined the growth of the consumer base. By mid 2011 the company ceased operation.

Lessons Learned:
Notwithtanding the circumstances of the financial collapse of 2008 that few have predicted, the financing strategy while creative was ill conceived. View22 investor base had no prior interest and experience in technology companies. Their primary investments were in the resource industry as typical of Canadian institutions. This for the investors was a viewed as a low risk divestment strategy to hedge against lower commodity prices or to reinvest mresorces market gains in the"hot" technology market. The investors were not even interested in sitting on the board as an indication that they were not in a position to add value to the company beyond capital in the form of advice, contacts and sales. By contrast management came under a lot of pressure to accelerate its liquidity event at the first sign of softening forecasts. Who knows how View22 would have fared had it not been for the financial collapse. Given its efficient cost model it could have gone a long way with an additional $15 possibly to brace the recession. In hindsight Dumb money is Dumb. When a company is serving for growth capital any money seems like good money and the temptaion overrides the discretion. In the technology business informed, knowledgeable, well connected and networked investors are worth more than just their money.

2. Partnership models are risky

Background:

As direct B2B sales cycles tend to be long and expensive the temptation is always to develop strategic partnership or channel partners to accelerate the client acquisition cycle. As a rule this should be seriously considered as part of a balanced mix. View 22 signed a strategic investment with the Edgenet Corporation of Nashville, TN whose largest clients included Lowe's and other major home products distributors and retailers. Edgenet required to have access to the technology that it concluded rightly so was only available from View22 in order to win a $7 million contract from Lowe's and signed what appeared to be a lucrative deal for View22. Whereupon the Lowe's procurement was delayed or modified and a new CEO embarked on a different strategy, Edgenet defaulted on their agreement that in the end resulted in a mutually satisfactory settlement but one that required enormous amounts of management time and energy not to mention legal costs at the expense of running the day-to-day business. Similarly a Chicago Configuration company required View22's technology to maintain its competitiveness in the market place and signed an integration and distribution agreement with View22. However once they were able to demonstrate the technology to their newly acquired clients they encouraged them to begin with "phase one" implementation of their core product with the View22 integration as a "Phase2". This known as the Phase two approach may be detrimental to the company as it expands its sales and technology resources for a potential delayed revenue return which resources could possibly be better directed toward the direct B2b model.

Lessons Learned:

Recruiting channel or strategic partners requires a dedicated strategy and execution to ensure that it is not carried out at the expense of the primary (direct) sales strategy. In a technology integration model the strategy better be based on a deep white label integration incorporated into the partner's core product as opposed to an option or a "Phase Two" implementation. Management must be prepared to absorb strategic, structural or technology changes within the partner's organization and insulate itself up front from adverse circumstances. Partnerships are tempting, low cost, high exposure (for a smaller company like View22) and following integration high margins but are volatile as a primary marketing strategy as management has no direct control over the propsed, predicted and even the contracted returns.

3. Good agreements trump good faith

Small companies who, like View22, sign what for them are major agreements with large corporations are frustrated by protracted legal delays and negotiations and cannot afford the legal resources to match corporate lawyers. The desire to accelerate the contractual phase has seen management at times compromise on terms and conditions or offers and/or accepts loosely defined terms, believing that good faith and reason will prevail in the event of a dispute. Small companies cannot match corporate power in a dispute resolution and are therefore better advised to retain good legal counsel upfront even if it appears to be expensive. Just to illustrate the point, View22 got into a contract dispute with Edgenet over a misplaced comma.

4. Government incentives are bonus

Background

Small companies, like View22 and all pre-financing start-ups live and die by their cash flow especially in the pre-revenue stage when they do not qualify for debt financing from banks, BDC let alone VCs. One source of funding that appears attractive is government money in the form of grants and/or unsecured repayable loans. This could be a double edge sword. First, most founders/owners are not fully aware of the significant array of government programs nor can they afford retaining consultants to advise them on these matters. Second, and by its nature, government programs are bureaucratic instruments requiring mounds of paperwork, time and resources and naturally take a long time. This time and energy is naturally taken away from the day-to-day running of the business with the ultimate reward (money) constantly in doubt. In the post 2008 financial collapse View22 retained one of the “Big 4” to qualify for the Ontario, Interactive Digital Media Tax Credit. (OIDMTC) In the opinion of the consultant and preliminary reviews by the OIDMTC, View22 were to expect a grant in an amount close to $2 million. This was a last resort life line to keep operating the company and potentially overcome the harsh realities of the recession. In the final analysis and owing to a contested opinion by a government bureaucrat the grant was approved for only half the amount. Management spent endless time and resources in contesting and appealing the ruling supported by its consultant, energy that could have better been channeled towards survival.

Lessons Learned

Especially in Canada, small companies are NOT taking advantage of many government programs either for being unaware or reluctant to engage. That is wrong. However the lesson learned is that government programs need to be studied but dependent upon for cash flow financing but rather seen as a bonus with the proceeds allocated to reinvesting in the business for expansion, development or commercialization.

5. Diversification increases risk

In hindsight the View22/ SceneCaster strategy was sound, timely and responsive to market conditions. However it was built on a foundation of a profitable enterprise B2B model. Few companies are capable of maintaining a dual focus on B2B and B2C. Culturally, procedurally and financially these are two different businesses. When diversifying and when possible the dual or multiple focuses must be maintained in parallel where each business unit lives or dies on its on merit rather than depending on the success of the other.

6. It is easier to sell the big guys

I remember a saying by a prominent VC: “For a small company to sell strategic solution to a large (corporate) enterprise the company must have 10X the value of a larger company offering similar solutions. To illustrate the point: If as Ditek had a Computer Aided Design (CAD) engine that was superior in functionality, cost and performance, companies like GE or AT&T would rather buy CAD software from the market leader AutoCAD. But when a company has innovative, disruptive technologies (e.g. View22 3D Web Visualization) and it is first or early to market it may well possess the 10X value to the large enterprise. Under those circumstances it is easier to sell the big guys than the neighborhood company. The big guys have the resources and the mandate to innovate and can afford to experiment with new technologies even with the understanding that they may have to write it off. Smaller companies cannot afford to fail in adapting new technologies and value the viability, stability and market leadership of larger companies. As one executive told me sometimes ago “You can never be fired for buying from IBM.”

7. Change behavior solutions are hard to implement
   Background:
   The View22 value proposition was to empower frontline sales professional to configure complex products in space sensitive environments on the web interactively engaging directly with the buyer to review and confirm the integrity of the proposed configuration (e.g., GE Healthcare sales representative configuring a new MRI system to be installed in an operating room) . The status quo was one where the sales representative will collect the requirements and the constraints offer a pro forma solution and send the information to a central CAD center to create the engineering and configuration diagrams. Turnaround for this was approximately 3 weeks and the average number of iterations to arrive at a compliant solution was an average of 6. The elapsed time to conclude a sale was measured in months and sometime in years. With View22 this could be shortened by 10X and the CAD center may not have to be involved until a 3D configuration was tentatively agreed upon. The “business case” was a “no brainer” cost, time, competitive advantages abound. The CEOs were salivating however as the program launched and as typical in large companies success required change behavior and rattled a number of constituents within the organization. As a technology companies like View22 are not capable to affect change behavior and new workflow models thus delivering on the business case.
   Lessons Learned:
   Once such a “changed behavior” solution is sold, the technology company must alert the top management of the buying company of the potential organizational, procedural and human factors that are key success factors. It must also secure the management’s commitment to address resistance to change and offer an implementation strategy that takes these factors into consideration, engages the technology company preferably through an outside consultant (priced into the solution) to work with the management of the buying company during the implementation period.
8. Enterprise decisions are always political
   How many times did I hear salespeople say: “We had the better solution, more robust functionality, better cost of ownership and faster response time and yet we lost to our nearest competitor – by a hair. This was a POLITICAL decision. I got news for you: Enterprise buying decisions of strategic solutions are always POLITICAL. Most win/loss reports aimed at digging into the real reasons (rather than the ones officially stated by the buyer) for the loss invariably come up with one or more of the following and unfortunately common mistakes:
   ¬ Failure to identify all of the key Issues and concerns of the entire decision making team;

¬ Neglecting to accurately and objectively assess your positioning relative to other competitors;
¬ Reluctance to influence the buying criteria so as to value strengths and neutralize weaknesses;
¬ Over reliance on an inside “champions”’ ability to influence the buying decision in your favor;
¬ Failure to garner wide organizational support for the solution outside the decision making team;
¬ Failure to integrate the solution with the organization’s workflow so as to minimize disruption;

“Winning the Big Deal” is a consulting product I created to empower sales professionals to eliminate these common errors as early as possible in the sales cycle and focus on sales activities that would result in influencing the decision making process in their favour. The methodology utilized involves a series of facilitated analysis sessions with the entire sales team led by a Sales Effectiveness expert resulting in an accurate mapping, in graphic representation, of the decision making process, the competitive positioning and the ultimate win scenario.

9. First mover is good for a while

Being first to market with innovative, disruptive technology that offers 10X value to customer compared to similar or “status quo” solutions is a blessing but could quickly turn into a curse. The blessing is that it is easy to sell the solution to the largest companies in the world. In fact at View22 we had a strategy to introduce the “first-to-market” Web 3D Visualization technology to different domains (Healthcare, Landscaping, Home improvement and construction, Kitchen design etc.) by targeting the Market leader in that industry/domain or at worse the number 2 or number 3 in the ranking. That’s how we sold to GE Healthcare, John Deere, Masco, Kohler, Philips etc. all at their headquarters in the U.S or Europe. So how would it become a curse? Once the technology solution is validated and embraced by the market leader and while as a small company you are immersed in the implementation, enhancement and maintenance process, you tend to slow down your R&D efforts nor do you really know what should go into your 2.0 solution as you are waiting for guidelines from your market leader customer. At the same time your competitors leverage the validation of your solution by the market leader and begin to develop their own solution but with a greater vision, more features and functionality. Before too long they are out in the market with a solution that is as good or better that your own. By this time your market leader customer completed the pilot project and is ready to deploy the solution in production across the enterprise. Guess what? So what is the lesson learned?

Lessons Learned:

First when developing your solution create a greater vision than your 1.0 solution and sell that vision to your market leader customer before proceeding with the 1.0

implementation as “phase 1”. Do not disclose your greater vision to the public (competitors) until you launch your 2.0. Second, attempt to integrate your 1.0 solution with the existing infrastructure and workflow so that it becomes intractable by the end of Phase 1. This way you and your customer are travelling down a road map that makes it difficult if not impossible to switch to a competitive solution.

9. Beware of Pilots
   When selling innovative, disruptive solutions, especially in a “first-to-market”, or early adoption phase, large enterprises will insist and rightly so, on a Pilot Project implementation. By the time you have proven the solution with your first customer in any one domain, your next customer may also insist on a Pilot Project. Furthermore the larger the buying the company the more they will try to have you fund the Pilot Project waving the revenue opportunities of the production phase as well as the marketing cache of having them as a customer. It is ill advised albeit tempting to engage in Pilot Projects for “in kind” rewards. You would be better off defining upfront the success criteria for a pilot project, cost it competitively (at the bare minimum on a cost recovery basis) and offer a “money back guarantee” if the success criteria are not met. In reality your customer and specifically the champion of your solution will work with you to ensure success and will be forgiving of minor shortfalls so as not to admit that they made a mistake in entering the Pilot Project in the first place. Remember all enterprise decision making is political.

10. Champions are good for a while

Most technology solutions are sold to larger enterprises under the “championship” of a key decision maker in the organization. He or she is your champion. Once sold your champion has staked their professional reputation and/or career mobility on the success of the implementation. That is the good news. As a rule, never betray your champion by courting others within the organization who may be rival competitors to your champion. Have the champion introduce you to other parts of the organization and as such increase your footprint and give your champion the credit for doing so. However organizations are dynamic organisms. Your champion may be promoted, may be fired, an organizational restructuring may take place, a CEO with a “new vision” may come on board. If by then you did not expand your network of contacts within your customer organization you run the risk of losing your champion but wait, worse yet, your champion’s successor is sure to promote a solution of their own which in all likelihood will not be yours.