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Venture Profile: Stu Schuster, Novus Ventures

By Angel Mehta, Managing Director, Sterling-Hoffman Executive Search

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Stu Schuster knows a thing or two about chasing the impossible dream: he led Marketing for a \$5m startup called Sybase in the late eighties and took dead aim at Oracle - which had already become a \$100m market leader. Is it still possible to build a billion dollar software company? Angel Mehta, Managing Director at Sterling-Hoffman, talks with Stu Schuster about the unpredictability of success, why it's so hard to grow a software company these days, and his biggest pet peeve about entrepreneurs.

Angel Mehta: You were at Sybase in the early days when it was battling Oracle. Tell me, if you can, what did you learn from Sybase about battling a bigger company?

Stu Schuster: The real lesson that I learned was that when you're going up against bigger guys, you have to find a hole in the market to fill. At Sybase, the year we did our first \$5 million, which was '87, Oracle was marching to \$100 million. One of the holes we found was on-line relational database management. Nobody else had targeted that hole to fill. We went after applications that none of the competitors did. If we went after a market where Oracle was the leader, say Decision Support applications, we'd change the messaging to address an area of that market that Oracle wasn't filling. Even though we were the seventh database in terms of the size in that marketplace as a company, most people perceived us as the number two player. Part of my strategy was to make it a two horse race in people's minds, between Oracle and us.

Ultimately, good marketing is all about positioning. It's about going where you can win more often than you lose.

Angel Mehta: I think there's still a lot of mystique about what goes on behind-the-scenes at a venture capital firm. You were a Partner at Brentwood and now are at Novus. How significant are the cultural differences between different venture capital firms?

Stu Schuster: There are differences, of course, and it largely has to do with the people involved, as always. Brentwood had very talented people who went through long apprenticeships, but it was like two generations of partners across distributed offices. So I'd summarize Brentwood as being incredibly knowledgeable, dynamic, and effective... but more like a group of independents hooked together in a common mission.

When I came in, I was more of a technology and a marketing guy, not really a finance person. I was only there a week when one of the senior partners asked me out to lunch and asked me point blank what I was working on. You better believe I got the message. I was accountable, even as a new Venture Partner, to get out there and start finding deals. There was zero training - it was just like, ask questions, observe, and good luck. But there was no time to lose. It was quite an experience, you know, the first time I found a company I was interested in and not knowing my way around a term sheet. I had to go find a lawyer who would take a few hours and walk me through the basics of term sheets.

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Novus, on the other hand, has a totally different orientation. Here it's more of a team effort, and in fact was hard to get used to. Periodically the companies that people are working on get shuffled around based on who's got available bandwidth or more suitable experience. Also, with Novus being smaller, we don't see nearly the same volume of deal flow. So when we get a deal that we're interested in, we almost invariably pair up, put three people on it to handle the diligence collectively. When I was at Brentwood there was only one Associate at the time, so basically you ended up doing almost all your own work, which was good discipline. But the approach at Novus is different.

Angel Mehta: Which model works better?

Stu Schuster: I think both models work – there is no right or wrong answer. You could say that Novus has a better training approach, but in terms of get used to making decisions on your own, Brentwood's is better. When you see a deal completely through, all the way through, on your own, you pretty much have a sense that you know all facets of that deal. On the other hand, it's not always the most optimal person working on a project.

Angel Mehta: Do you insist on 'billion dollar potential' before you'll do a deal? Do you think that venture investors who take that approach are being realistic?

Stu Schuster: When I first started in the venture business I didn't realize how hard it was to build a \$100 million company, or in our case, close to \$1 billion, especially if it was a software company. I was involved with Brentwood heavily in the early stages of Vitria and it ended up having a multi-billion dollar valuation. To me, it was totally blown out of proportion. I never expected that company, as an infrastructure company, to have that kind of valuation. I still think that way: building a \$100m software company is just hard to do.

Of course, you need 10% of your portfolio to be major hits in today's market. But still, a billion dollar software company just seems to be a lofty goal.

Angel Mehta: Of the ten most successful entrepreneurs you know, how many were able to predict the level of success they would achieve? How predictable are the hits in venture investing?

Stu Schuster: Great entrepreneurs have great visions of grandeur. They believe their passion is going to change the industry or change the world in some fashion. If you have that vision, then you believe you're going to have to have some impact in terms of market share.

In the early days of Sybase, I saw how we could get to \$100 million but I didn't know how we would get to a billion. Larry Ellison was hoping to build a profitable, successful \$50 million software company in those days. He had no idea that this thing would become a \$15 billion a year company. When I was negotiating and working with Microsoft, they were between \$100 million and \$300 million... they probably saw themselves maybe getting to a billion by then but I don't know if anybody saw how big and how pervasive Microsoft would be. When I was at Intel they were a \$300 million company. They were worrying about how they would get to a billion. Getting to \$30 billion or \$50 billion or wherever they are now was probably way beyond their wildest dreams.

All these people know they're doing something significant, but seldom if ever do they believe it's going to get as big as it does. Maybe Steve Ballmer is an exception, but certainly I always kept more modest goals. For me, it was about focusing on killing the competition. I had no idea how big Sybase was - all I wanted to do was to try to crush Oracle.

So in answer to your question, the hits are predictable in that the winners seem to have some basic things in common, but how big those hits are going to be, you never know.

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Angel Mehta: Why do you think the climate is so difficult for enterprise software companies, even with the economy having recovered?

Stu Schuster: For as long as I can remember, the process of growing a company has been the Geoffrey Moore, 'Crossing the Chasm' approach. When taking technology to market, find the innovators first who buy the technology, and then you go through the early adopters and late adopters, etc. This process, I think, all good high-tech marketers understood.

Throughout my entire career, there were always people who wanted to do something for their organizations that they believed would be a leap forward and would make a name for themselves. Call these the entrepreneurial Chief Information Officer... they were at companies like FedEx or Wal-Mart. They would try to do something with technology that would give the entire company a competitive edge.

After the technology crash, the focus became so oriented around cost-cutting that the entrepreneurial CIO was replaced with a financial CIO. There are so few entrepreneurial CIO's out there that today everything has to be easy to implement, available by the drink, with very short time to ROI. The innovative buyer, the entrepreneurial CIO has been terminated out of the industry.

Eventually, it'll cycle again because people will eventually feel that they'll need a competitive advantage and will look to technology to do that. But today, it's brutal. It's amazing how hard it is to find people who are willing to take a chance on a new company or new technology. Fear dominates every IT department. As a result, growing an early stage software company is just harder than ever.

That's why I place so much more emphasis on the people-side of the equation these days. It doesn't matter how great the technology is – if the right people aren't in place, you'll never convince customers to take a chance.

Angel Mehta: Let's talk about evaluating executive talent. When evaluating a CEO candidate or a VP Sales or whatever, how do you separate a candidate's personal achievements from market momentum? How do you know what they created, and what they just took credit for?

Stu Schuster: Very good question. Of course as an Executive Recruiter you know that it's via a combination of thorough interviewing, by multiple people on your team, and then deep reference checking. I remember interviewing Oracle people, when I was hiring at Sybase, and it was amazing how many people came in and took credit for some aspect of Oracle's success when you knew they were just being swept along. Without fail, when you start to probe deeply, you could tell that they maybe had five years of experience at Oracle but it was one year five times as opposed to five really rich, deep contributing years. That's the only way I know how to do it – probe forever.

One pet peeve I have when hiring or evaluating an entrepreneur is when they don't know the competition. I figure they don't know what the hell they're talking about. I'm not going to put my analysts or expend my time trying to figure out who their competition is – they'd better know before they come to me. The bogus answer is, 'We have no competition' and entrepreneurs think that venture guys like to hear that, but they don't. It's BS – there is ALWAYS competition. So if you can't tell us where the threat is coming from, I'm probably not interested.

Angel Mehta: Do you find a correlation between entrepreneurs or executives that have done time with large, market leading companies and the ability to succeed?

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Stu Schuster: I think a young person who has spent some time in a quality organization can learn a lot and make a mark. I think they learn something about process, learn something about depth, because the bigger companies tend to do things with a fair degree of depth. Then again, everybody always talks about the first time someone leaves IBM to become an entrepreneur – they're almost guaranteed to fail. They don't have the army, navy, and the marines behind them to help take out the garbage – they're not used to it.

Stu Schuster is a general partner at Novus Ventures. ,He served as both a Venture Partner at Brentwood Venture Capital and an independent investor since 1995, specializing in enterprise software. Stu's extensive investing experience spans more than 15 companies, many of whom went public or were successfully acquired. Prior to his venture experience, Stu served as executive vice president of marketing at Sybase, Inc. For article feedback you can contact Stu at: sschuster@novusventures.com

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