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THE STONEWOOD PERSPECTIVE

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StoneWood Interview Series

Anatomy of a Textbook Start-Up

An Interview with Wael Mohamed CEO of Third Brigade

Founded in late 2004 by a group of successful security software entrepreneurs, Third Brigade began with a vision to solve a number of key enterprise intrusion prevention problems. Since that time, the Ottawa-based firm has systematically built and acquired world-class technology, raised $30mm in funding, assembled a world-class team as well as Board of Directors, and secured both major customers and global channel partners. With 70 employees including a Vulnerability Research centre in India, the firm is a model for how to build an early stage technology company.

As Managing Partner of Celtic House, one of Canada's premier venture capital firms, Andrew Waitman has observed, funded and actively assisted many of Canada's most successful start-ups. When asked to comment on Third Brigade's progress he readily offered, "They have done an outstanding job preparing for the arduous battle from diminutive start-up to dominant industry player".

Bob Hebert recently spoke with Wael Mohamed, Third Brigade's President and CEO, on his journey in launching and positioning the firm for success.

Did you start Third Brigade with an idea or market need or with the team that you knew could come up with an idea?

We started with the market need. As we contemplated putting a company together, we looked at how the security space was evolving in the last few years. We saw a certain consolidation of ideas but not the integration of products that the market needed. We predicted that the bigger guys would not be able to deliver on all of their integration promises and that the smaller guys would be more focused on the technology instead of the business issues that they are trying to address, leaving us with an entry to build best-in-class product that is also enterprise grade. We had a considerable advantage in that our founding team brought a lot of experience at the enterprise level and we knew what large customers would expect of us if we were to be taken seriously.

The next steps were straight forward though never easy: attract the team, find or develop the technologies that we can commercialize, validate the whole thing with investors, customers and industry experts and go from there.

Why Ottawa?

First of all, I live here and my family is here. Actually when our founding team first met, one of our driving factors was how nice it would be if we could find a way to all work together for a company based here in Ottawa where we would not have to commute to head offices somewhere in the US. My most recent employer was based in Texas and I figured I would be 25% more productive just being based where I live. My family certainly didn't disagree.

More pragmatically perhaps, Ottawa is a security software hub with all of the resources needed to build a world-class security software company. By that I do not just mean start-ups or huge companies like Nortel but rather a collection of companies and people with experience cutting across the whole spectrum which could help us in the early stages and scale with us as we grew. This was important not only to us but to our investors.

What steps did you take to get off the ground?

We came up with a vision for a company and a suite of offerings to address specific markets and issues. Start-ups can build, buy or partner to access technology. Our founding team included superb technology leadership with a proven track record in the enterprise security space. To be frank, I would not have embarked on this journey without total confidence in the caliber of our technical leaders.

We knew what needed to be developed and we started right away. This was 2004 and Linux was hot but there were a lot of Windows problems and issues which could not be ignored. So as we started to build, we also came upon a Quebec-based company with interesting and complementary Windows-based technology that would give us an important advantage in the marketplace. So we built a case to this company and its investors that they should merge with us even though we were just getting off the ground. They agreed and the transaction took all of 60 days. We were off to the races.

We spent a lot of time speaking with customers and analysts. This latter group turned out to be important. These are the kingmakers. They know the sector, the players and the holes in the market. We wanted them to know what we planned to do and where we fit and why we were important. You should know that two large partner deals which we eventually secured were a result of analyst recommendations.

At the same time we were getting ready to reach out to the investment community. We knew they wanted to see us committed and we were willing to invest our own money to show that. We also needed to demonstrate that we could get a prototype together and get some customer feedback. Everything had to fall into place.

This is likely the most challenging period for a firm such as ours as there are so many variables to manage and so many questions that cannot yet be fully answered.

Can you speak a little more about your success in raising funds for Third Brigade? How have you done it and what advice do you have for others?

In a way, startups are all about selling. You have to sell employees on the dream. You have to sell investors on the viability and potential of your dream, and of course, you have to sell customers. We were selling to customers before we even had a product to sell.

When it comes to investors, a lot of people start companies without asking the simple question: Can this idea be funded in this market, under the current conditions and if so, what do I need to do to be able to accomplish this? I was fortunate to have access to great advisors early on in the cycle where I asked a lot of questions and learned a lot about what potential investors would be looking for. Investors are organizations with their own philosophies and dynamics which need to be understood. You need to know who you are dealing with, their expertise, their track record and work load. You need to understand if there is what I call a good 'mathematical fit'. What stage of firm do they invest in, what is their average investment, what kind of returns do they look for, where are they in their fund's stage etc etc etc? If there is no mathematical fit it will take an exception for them to invest in you. You need to know this before wasting their time and yours.

Investors want to know if you have the right team and the right technology. They want to understand the barriers to entry and whether the market is right. By that I mean market conditions, size, competitive landscape etc. They want to know if the deal is affordable. You need to get your ducks in order and do your homework.

Raising funds is a rather frustrating ordeal because often you don't get straight answers or a clear process on how to get to where you want to go. What I learned is that every funding market and geography is different and you have to adjust to the environment instead of you trying to get investors to adjust to you. Also, at the end of the day, investors invest in people. I would go so far as to say that if you are talking to investors who tell you they invest in technology then you are either talking to the wrong investors or you have the wrong people. It is people who generate wealth not technology and so you better spend a lot of time making sure you have a team that is going to resonate and work.

We are very lucky to have investors that believed in the team and we worked together to ensure our business plan was aligned to them, their shareholders and all of our needs. As soon as we demonstrated strong prospects, they did not hesitate to invest.

What have you found to be the secret to managing shareholders expectations?

It is a process rather than a single event or action. The most important thing is building trust and mutual respect amongst the management team and the shareholders and ensuring that we all share the same goals and objectives. This requires open communications and transparency to make sure that not only do the investors understand the issues and complexity of the business but also the opportunity and potential.

The challenge with a start-up and early stage investors is that you cannot play by big company rules. You are on a short leash until you prove yourself. You really have to under-promise and over-deliver. You need to explain why the board has to be patient, focus on the prize, and explain issues along the way.

Unfortunately start-ups are rarely straight-lines between a start and a finish and there will always be lots of maneuvering and dodging and good days and even more bad days.

Investors are more interested in how than why. I have found there are a couple simple rules: don't ever blind side your investors; don't take them for granted (it is a privilege to get funding not a given, even if you have done it before); and third, always explain the potential and how you can get there. Focusing your dialogue on why initiatives did not work will not help. Learning from mistakes is important but it is the management team's job to figure out why and show the investors how. As soon as the investor starts to focus on the why and tells the management team how, then either you have the wrong investor or the wrong management team.

You have reached out to put together a pretty powerful group of independents on your board including the president of Hewlett-Packard Canada, the CEO of Cognos, and a senior VP at Oracle in California. Can you speak to how and why?

I believe that strong organizations require a strong foundation to allow them to scale, and after reading the book BluePrint to a Billion by David Thompson, I realized that building a strong board should be sooner rather than later in the life of a start-up. The board is an extremely important component to a company whether it is private or public and it takes a lot of work to optimize that part of the business. Boards can add a lot of value, and while I had exceptional investors on the board, we agreed that strong independents could make a big difference. We wanted someone from a billion dollar company who could make it clear what such firms expect in doing business with small companies. We wanted someone who had built and exited companies such as ours and could bring perspective and scars to the table. We wanted specific market knowledge in our world which could we be leveraged by our company and we wanted relationships in the markets we coveted.

Also, I understood that the board is responsible for assessing my performance and helping me scale my business beyond what is perceived possible. By surrounding myself and the company with strong, successful people it would force us all to be better and provide me with mentoring resources on which to lean on when needed.

How do you attract a board of that caliber?

It was different for each member. For some it was a matter of giving back to the community while for others it took convincing that we were worthy of their time. For yet others it just made good business sense. Whatever it is there has to be a 'win-win' for all parties concerned.

You have to have confidence in yourself and your business and go after what you want and you cannot be afraid to set the bar high. You will be surprised with what you are able to attract.

I believe you said one time that to be a start-up you have to be twice as good as the incumbents. Can you explain?

Being an immigrant myself, I learned that when you are new you have to be significantly better at what you do in order to be considered. Start-ups are the same thing. It is very risky for organizations to do business with unknown, unproven entities and thus you either have to be the only one in your space or significantly better than the others to earn the business. Although it is a great honor for a start-up to be invited to the table, second place is a very expensive consolation prize and unlike the Olympics there is no silver medal to be won.

You also need to be better in Canada because it is difficult here to get customers to buy from early stage companies. I am not sure if it is conservativeness or what but compared to the US, it is tougher in Canada. I would even go so far as to say that organizations, which should by their very nature, buy from firms such as ours, simply do not.

Now to be very fair, all of our first customers were local and we were blessed to work with some wonderful organizations. However, if we were not as seasoned a group, with the credibility and relationships we had, I am not sure we could have pulled it off. We need to improve the culture of working with startups in Canada.

How would you characterize the culture you have tried to create and what have you learned that is important in building a high performance culture?

It is an environment with a clear direction but very open to challenge the norm, a flat hierarchy but one with respect for structure and order. It is a challenging balance, in the end corporations cannot be run democratically the same way as governments. But at the same time, no one person holds all of the answers.

Trust is important and that comes from consistency of message and alignment of interests. For example, we put our own money into this company and we took our equity in common shares rather than preferred shares. We wanted everyone to understand that we are equal to them and their interests are our interests.

It is important to identify and nip issues in the bud as soon as possible. Lingering issues, even small ones, can cause disturbances or create unhealthy rumors or tensions. We tell all of the employees everything from how much cash we have to how we are planning to win our next customer. They are part of the plan. A lot of startups underestimate the importance of this (at least while they are at the early development stage). Our employees are our most important stakeholders, they made the decision to put their career, job and family into our company and they need to understand where we are heading and how…

What attributes do you look for in recruiting high performers and how do you evaluate these attributes in candidates?

The most important thing is their desire to learn and take risks; people who work for startups are different than people who are comfortable in safe corporate settings. The second most important thing is their ability to scale. The challenge for startups is they change, they change their shape and size quickly, and you want to make sure that the people you are hiring can adapt and scale accordingly.

Presumably unbridled speed bears some costs to an organization. How have you tried to balance that growth with sustainability?

This is the most delicate equation. How do you make sure that you do not under-invest or get ahead of the market? I always remind myself that brakes were invented to make cars go faster not slower, so I make sure I have good brakes so that I can take the company as fast as I can. My best one was the addition of my CFO but in addition to that our overall executive team is quite diverse in their styles which allows me to get balanced feedback for major decisions. This is another reason why a strong board is helpful, one that can challenge our plans and assist us with complex issues. We have people on our board who have seen companies scale to hundreds of millions of dollars per year and know what to be careful of and what not to do. They also understand the challenges of breaking the sales inertia and creating velocity in the market.

What advice do you have for leaders who have aspirations of building a firm such as yours?

The first thing is affordability… you have to be able to afford to start a company, not just financially but also the demands that it will place on you and your family. In many ways it is easiest for a young person to start such a company. This has to be a family decision, and they need to understand the impact not only on your time but the entire financial change until the company gets off the ground. Startups are a calling not a profession and you need people who understand this.

The second thing relates to the ability to deal with rejection... plainly stated, if you are not resilient, if you cannot handle setbacks, the life of a startup is not for you. Also, much like the marines you have to be adaptable and able to improvise. And you have to believe…

Finally, surround yourself with the right people both as partners and advisors. Every day you will be faced with something you never planned for and having the ability to call someone or bounce ideas by someone that you trust is truly invaluable.

What is next?

Trite as it may sound, it is all about the people. We believe we have attracted the right people who can scale and can do their jobs better than I can. I need to make sure that I furnish them with the right conditions for success and treat them with respect. Everything should fall into place after that. These are exciting times…

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