STONEWOOD | GROUP

THE STONEWOOD PERSPECTIVE

A STONEWOOD GROUP INC. BULLETIN

StoneWood Interview Series

From Bankruptcy to $205mm Acquisition
A Discussion with PlateSpin CEO Stephen Pollack

Toronto-based PlateSpin Canada was founded in 1999 with ambitions to build world-class management solutions for the telecom data centre market. Though the firm held considerable promise, in 2003 it filed for bankruptcy losing $11mm for its investors. Shortly afterwards, Stephen Pollack bought the assets of the company and with a skeletal team and $1mm in seed financing embarked on the journey to realize what he believed was its significant potential. In March 2008, PlateSpin Ltd was bought by Novell for $205mm in cash.

Bob Hebert sat down with Stephen Pollack to discuss this amazing story.

If I understand correctly, you were and weren't the founder of PlateSpin?

That's correct. The original PlateSpin was founded in 1999 with a focus on developing next generation management solutions for the telecom data centre market. The firm ran into difficulties and eventually folded early in 2003. I had earlier been brought in as a consultant by one of the investors as they explored options for the company. After the firm folded we subsequently bought the name and assets and PlateSpin was reborn. I am the founder of that company.

What did you see in the company?

PlateSpin was one of the first companies to use virtualization in their solution. But it was very early in a market that had yet to come into its own. To compound matters, their telecom data centre market died with the tech burst and as they tried to find alternative opportunities in the enterprise space they ran out of cash. It was all quite unfortunate.

The firm however had very interesting technology and I was convinced that virtualization would be a big winner. The company needed to narrow down its focus and find a place for itself in the market until the inevitable explosion in virtualization took place.

What did you do?

PlateSpin's investors stood to lose $11mm with the bankruptcy of the firm. I went to them and said that I thought we could find a way to recover those funds. All I asked for was $1mm in seed money and one year to find a way to re-vector the strategy.

I promised that we would operate on a scaled down business model and focus all of our energies on finding a way to leverage a subset of the original technology into the market while we built out more appropriate solutions. I had a pretty good track record of taking good technology to market and one of the investors, who had a history with me, championed my proposal. They agreed to fund me and give me and the team one year to see what we could do.

What happened next?

As we talked to customers, it became evident that the biggest impediment any firm had with virtualization technology was the adoption into the data centre. There was no way to do conversion from the legacy technology. It was akin to the problem of migrating from Unix to Linux.

We figured that if we could make it easier to bring new technology into the data centre then we would have a chance so we spent our time developing a conversion tool that would automate the process. Our technology guys have to be commended because this is a complex world with real generalization issues. They did a great job on the technology and we quickly came out with a scaled down first version of a tool leveraging the technology we bought from the first company which allowed us to demonstrate the validity of the market opportunity. This also bought us the time we needed to develop the next generation technology that better fit our longer term vision.

We immediately found a set of customers for this and by the end of the year we had $250,000 in revenues. By the middle of 2004 we released Version 2 which was a re-implemented and scalable version and that also started to sell.

By the way, virtualization was not alone with its compatibility issues. The world of blade servers was also struggling with the same migration issues so we extended our original development effort to automate some of the physical to physical conversion problems that customers were encountering. That product also did very well for us and helped to establish us as an innovative vendor in a fast growing young market.

The short term market traction gave our investors confidence allowing us to raise a $3.5mm 'A' round.

Presumably, others in the market were pursuing this as well?

We were actually fortunate in a few ways. Microsoft and VMware each came out with a competitive offering which they struggled with. They were either embedded in a service offering or impractical to use with any scale while ours was an actual solution that fully automated the task at hand. And more importantly ours worked. Integrators and channel partners took immediate interest and we started to grow.

In addition, because the time gap in time between the old Company and the new PlateSpin was short, the market did not notice any disruption which helped us protect the brand that had been established. We were thus able to leverage the good work which previous management had done in building our brand and positioning it as a leader in virtualization. Customers gave us the benefit of the doubt and we were able to get into the market quickly.

Were you content to remain a tools company?

As we grew and the popularity of virtualization grew, we knew that we had to evolve into broader solutions company. As we thought about this, we saw that we actually had a flexible underlying technology that would be key to the fluid computing strategies companies were beginning to develop. Our tools solved problems that these folks would need to solve in their own solutions and we saw a path forward with much bigger potential.

Though we were approaching breakeven by the end of 2005 as our vision grew, we needed additional funds to make it happen. This lead to our 'B' round of $7.4mm with Insight Venture Partners (now Open View Partners) in late 2005.

As we grew, the potential only became larger and we discussed our growth options on several occasions. The market we saw would require a lot more money and would see us expand tremendously. As we deliberated, Novell came along and valued us in a way that we simply could not say no. We elected to sell the firm earlier this year.

A running theme is that you have been able to correctly identify the market opportunity which could be exploited. Is that fair?

Yes. I have always been pretty intuitive in this area. I am able to look beyond today to see what is coming next in the market and express the set of steps needed to achieve a market goal.

People tend to think that product management and marketing starts with assessing what customers want. I tend to disagree. I tell people that if you identify current needs, by the time you come up with a solution to address them, the chances are they won't be needed anymore to the same degree as hoped. To me the more important skill is figuring out what's around the corner, what the market will need and how do we get there. I enjoy those types of problems and a company challenge like PlateSpin played very well to my strengths.

At the same time though I am not just some pie in the sky thinker. I have a pretty broad background and a lot of experience executing. In fact I would define myself as first and foremost pragmatic. This quality was essential as we had to accomplish a lot without a lot.

Is there a risk of a company becoming overly dependent on the intuition of a CEO who is skillful at it?

Actually that is an issue. I have spent a lot of time trying to help others think through problems the way that I see them. Everyone in a company has to be involved in its ongoing change and it is dangerous to shape a company around the problem solving methods of one person.

What was your background before you came here?

I spent 10 years at Fulcrum Technologies in Ottawa where I had a variety of roles in engineering, product management, product marketing and professional services. I then worked for a company called ASI which was bought by NCR. I ran that business as a P&L. I consulted, worked at a company called Baker Street Technologies for a while and then was VP Product Management at FloNetworks. When that firm was sold to Doubleclick, there was really no interesting role for me so I left and consulted for awhile. One of my assignments was to take a peek at the first PlateSpin.

I think my background has helped me. I am solid technically and cannot be fooled on what is going on in the product development part of the house. I am pragmatic and yet very comfortable with uncertainty. My product management background grounds me on issues of lifecycles and roadmaps and I know what will sell and how to get it into the market.

You went from a few employees to over 200 in a relatively short period of time. Can you talk about the leadership challenges in that kind of growth?

It has been quite a ride. The demands of managing the business have changed dramatically as the business has grown and I and the team have had to work hard to grow with it.

I have always known however that at some time I might not be the best qualified person to take the company to the next stage and I told the board that I want to do what's best for the business. The last thing I ever wanted to do here was mess things up by being the wrong guy at the helm and so I have been aware that I need to evolve as the business evolves.

I would say this developmental part has been the most challenging. There really are precious few resources available to someone in my position from which to get help. It was a real scramble to secure mentoring and counsel while running 100 miles per hour managing the business.

I think that overall the Toronto business community could do a much better job of supporting CEOs in that respect.

What do you think the lessons are from PlateSpin?

I am a big believer in timing and luck and to some degree the first PlateSpin suffered from a lack of both aside from some execution challenges. But in their ashes there had been a lot of money invested in some interesting technology and ideas which needed to surface as the market emerged.

Finding a way to realize its potential with limited resources required a lot of pragmatism nimbleness and focus. I think we are a good example of a company that abandoned grand visions to find bite sized opportunities which would generate revenue now. We needed to find emerging pain points that could be alleviated with our solutions. Too many companies get too ambitious and kill themselves in the process.

I would also say we are a good example of the importance of chasing global markets early. In some instances foreign customers were easier for us to sell to than those in our own backyard. Too many Canadian companies are reticent of venturing boldly onto the international stage. I went to a Silicon Valley event which compared a whole bunch of startups on a wide number of criteria. I was surprised to see that many of the well-funded silicon-Valley startups scored considerably lower than our little firm from Toronto.

Finally, we are a good example of what can be done with a frugal mindset. We only spent $5mm of the $11 we raised. We were careful and frugal and we needed our engineers to be clever and multitalented in solving complex problems without a lot of resources. It is amazing what you can do in those instances.

What are you proudest of?

I am proud of a number of things. Among them is the fact that we were able to develop not only a successful first product but also a second and a third product as well. This is not insignificant. So many companies are founded on a technology idea that came from a specific set of problems recognized by the founder. Product number 2 is a lot harder because this requires intuition and business sense. This is where a lot of founders really struggle.

Any final observations?

Had we gone on, we could see that access to talent was going to be an issue. I think we would have had to reach increasingly into the US to get the talent we would have needed. That in turn would have pulled us increasingly into the US as a company.

I would also make the observation that there are funding challenges in Canada. We had more funding choices in the US and more understanding of what the business opportunity was about. Lots of Canadian investors turned us down largely on the lack of understanding of where the market would go. The US market is large enough that VC firms can specialize in certain areas of technology or even stages of growth. That allows them to better understand the businesses they invest in and in the process mitigate their risk and add value to the businesses themselves. In Canada VC deals are spread out among many technologies and it is uncommon for them to be able to specialize. This is a significant handicap in a lot of ways.

Will you do another PlateSpin?

Right now I am fully committed to Novell and seeing the transition through so the team has a solid future in a Company that is also looking for exciting growth and also supports the vision we have for our business unit. But you never know.

STONEWOOD | GROUP

StoneWood Group Inc.

Consultants in Executive Search & Selection

Toronto: 330 Bay Street, 6th Floor, Toronto, ON M5H 2S8 • Tel: 416.365.9494
Ottawa: 100 Schneider Road, Suite 3, Ottawa, ON K2K 1Y2 • Tel: 613.592.4145
www.stonewoodgroup.com