HARVARD | BUSINESS | SCHOOL
Knowledge & Library Services
BAKER 3.0

HBS Entrepreneurs Oral History Collection
Baker Library Special Collections

Interview with Paul Baier
PurchasingCenter and Excara

June 2002

Interviewer: Amy Blitz, HBS Director of Media Development for Entrepreneurial Management

Research Inquiries & Requests to Cite:
Baker Library Special Collections
Baker Library | Bloomberg Center
Harvard Business School
Boston, MA 02163
617.495.6411
specialcollectionsref@hbs.edu
http://www.library.hbs.edu/sc

Preferred Citation:
Interview with Paul Baier, interviewed by Amy Blitz, June 2002, HBS Entrepreneurs Oral History Collection, Baker Library Special Collections, Harvard Business School.

PAUL BAIER

The Early Years

I grew up in Canton, Ohio. My father had his own real estate business and most of his friends ran their own businesses so it took me a while to realize that most children's parents worked for corporations. I just assumed most parents were like mine, that they ran their own companies and that their families had good years and bad years. Growing up around lots of entrepreneurs was an important influence on me.

Another experience that was important early in my life was that I started a small business when I was a freshman in high school. Someone had pitched my dad on selling vitamins. I heard that the vitamin company gave a company car to anyone who sold 10,000 a month and I thought, "I can do that." So I hustled vitamins and earned a company car when I was fifteen and a half years old. My license plate was "PAUL B." It wasn't long before I got a speeding ticket and lost my license for six months.

Another important influence for me was that I grew up in a town that relied on the steel industry. Steel was going down and there were a lot of strikes. I remember being on a bus going to school riding through a three-mile long picket line. I said to myself, "I'm never ever going to work in a steel mill or be dependent on a steel mill." I knew families that were devastated by the downturns in the industry. Running away from the steel industry was another early influence in my life.

The HBS Experience

Overall, my experience at Harvard Business School was positive. I graduated in 1994, however, and the state of technology at Harvard then was bad. We didn't have a computer center in 1994. We still carried our printers into our classroom to print the exams. No one was focused on technology. When it came to entrepreneurial studies, there might have been two or three courses on entrepreneurship that we could take as electives during the second year.

Going to HBS did help me in a couple of ways, though. For example, the breadth of the business problems we addressed gave us all a lot of confidence. Certainly, the courses on entrepreneurship and the professors were excellent. Bill Sahlman's Entrepreneurial Finance and Howard Stevenson's Entrepreneurial Management were just excellent courses. I still go back to the course materials and leverage both the friendships and the knowledge of my professors.

Still, the Business School needs to do a lot more to prepare students for today's business environment, particularly students going into entrepreneurial careers. I think HBS is making headway through their entrepreneurial studies curriculum. The school is also starting to understand that they need to teach things such as sales and channel management or what a real value proposition is. These are fundamental issues that CEOs deal with in start-up environments. I also think it's wonderful that the Business School finally hosts a business plan contest. MIT has had a business plan contest for decades.

Early Career

When I graduated from HBS in 1994, I went to work for CSC Index. It was a consulting company doing broadband. That was the mania back then. My officemate was a gentleman who had the tenth homepage at MIT. Every time I'd come back from a meeting with AT&T, he would be *putzing* around with version 1.5 of Mozilla. He was showing it to me and I was familiar with a lot of the online services, so I became interested in the Internet. I thought, "There's something here."

I was married but we didn't have children so I decided to leave consulting and bootstrap a start-up called Compare.com. I worked at it for ten months but we were just much too early. We were comparing mortgage rates and laptop values. In the market at that time there was about a 15 to 20 percent price discrepancy for the exact same model laptop. The challenge we faced as a business was that very few people had Internet access. The second challenge was that Compare.com was a business-to-consumer play. I was charging PC distributors $10,000 a month to appear on my price-comparison site. After I was literally kicked out of a third office for suggesting this business model, I figured out that I couldn't ask party A, the PC distributors, to pay for delivering value to party B, the consumers. Eventually, I sold Compare.com to John Dunning, and he actually flipped the business, selling it to Microsoft for $35 million. He made some money off the play and I learned a lot along the way.

I had worked three days a week on Compare.com and then three days a week consulting for AOL. The consulting work was paying for the bootstrapping and the six or eight Compare.com developers I had. It was a fascinating time. AOL was absolutely discredited everywhere and Netscape was going to take over. To their credit, Steve Case and Ted Leonsis had a vision, which is still one of the most compelling visions I've ever heard for a company. From my experience working with them, I learned a lot about listening to the customer and not the technologists.

For example, Ted Leonsis talked a lot about the importance of the whole company to "beat *Seinfeld*." What that that meant was that when a family of four ate dinner on Thursday night and got up from the dinner table, they would walk through the living room with *Seinfeld* on TV and turn instead to AOL. His challenge to everybody in the company was, "What are you doing to beat *Seinfeld*? What service are you providing on AOL that is more compelling than *Seinfeld*?" His challenge to us was a great way to rally the company. Every Thursday we had a certain number of visitors and *Seinfeld* had a certain number of viewers and we kept track and our numbers kept growing. I really learned the value of focusing on the customer and using it as an actionable vision for the employee base.

After I sold Compare.com, I thought to myself, "Before going into my next venture, I might want to learn first from experienced entrepreneurs." Open Market was a hot company then, with Greylock and Goldman backing it. I joined the company when there were maybe fifty or sixty employees and we went public about eight or nine months later.

Lessons from Early Career

What I have enjoyed, and what I'm becoming better and better at, is taking an idea from concept to market. Compare.com was an idea around which we launched a service. It was a poorly constructed business, but we did launch it. Then at AOL I launched and built their small-business content area. When I was at Open Market I launched and built their business-to-business industrial segment and brought it up to about $15 million after three years. The whole process of taking something off the white board and making it real for real customers in a year is what I enjoy; it's a skill I'm honing over the years.

When you're starting up a business, you're always, always selling. What I see, particularly in Harvard Business School students, is naiveté about selling an idea, about persuading a VC to give you money, or about persuading a top customer to bet on your company when they can have a more financially stable and credible company such as IBM. Selling your ideas and recruiting investor and customer support are life and death issues for start-ups. Most HBS students who want the glory of starting up a business and entrepreneurship couldn't sell a cup of coffee to an Eskimo.

A second thing that matters when you're starting up a business is what I call the entrepreneur web…and it took me awhile to realize how important the entrepreneur web is. If you look at most successful start-ups and companies, they are run by groups of people with contacts. You'll often hear that when a company gets started, it happens when a bunch of people from, let's say, Prime Data get together with a bunch of people from, let's say, Open Market or Quicken. You realize that there's actually a lot of benefit to spending the early part of your career earning your stripes for a company that's reasonably successful.

I still keep in contact with dozens and dozens of people from Open Market who have splintered off into hundreds of other companies, and it's a really powerful network for getting stuff done. I had to learn about the power of networks. We never talked about it at Harvard but networks are critical to getting things done. In fact, I have found the HBS network to be only OK. Perhaps I don't use it as well as others, but I have been disappointed that the HBS Alumni Association in Boston is kind of flat. It tends to serve a much older demographic, not the people in their thirties and forties who are in high tech. The HBS network *is* changing, but the community is a lot less vibrant than I had expected it to be, and less vibrant than the network in places such as San Jose or Chicago.

Finding the Opportunity: PurchasingCenter.com

The idea for PurchasingCenter.com came from some work we were doing at Open Market. We had sold a $4 million project to a Fortune 500 company that got started during the very early Internet days selling cutting tools. They took the Amazon model and applied it to selling these cutting tools, but it wasn't working. We at Open Market were figuring out why it wasn't working and we learned that the people who buy cutting tools are called purchasing agents. If you think of a big factory that might buy $4 to $5 million worth of tools and drills and gloves each year, the person who buys all that stuff is called a purchasing agent.

Well, we learned that purchasing agents hate the Internet. They hated it for buying because the online services didn't have the right features for them. For example, online services wanted them to use credit cards, not purchase orders, and there was no way to input an account number, and so on. I realized, "Hmm, the guy who spends $3 million on light bulbs at General Motors is a pretty important person." I also found out that purchasing agents tend to be very battered down in an organization and not respected a lot. They would come into the company working on the shipping dock and get promoted to purchasing and then their careers would go flat. I don't know if there are any CEOs that came up through purchasing to run companies. Anyway, I could see that the purchasing agents held the checkbooks for these noncritical types of items.

So I started interviewing purchasing agents. I found out that if I paid them $4 an hour, they would come to wherever I was and spend three hours letting me interview them. I went to the Boston Association of Purchasing Managers and the next thing I knew, I had hundreds of people enlisted for interviews. It became very obvious to me that purchasing agents hated the Internet because using it wasn't time effective. Purchasing agents are very time starved. If they did try to use the Internet, they would go to Yahoo, type in "incandescent light bulb" and get thousands of hits. All they wanted to do was buy incandescent light bulbs. I created PurchasingCenter.com as a set of information and tools specifically targeted at these purchasing managers in factories who buy anywhere between $2 million and $10 million a year of industrial supplies.

Before leaving Open Market, I saved a little money and told my wife that we were going to go without salary for a year. I then left Open Market in February 1999 to start PurchasingCenter.com. In March of that year, the first business-to-business company called Verticalnet went public. Verticalnet was the first business-to-business play on the Internet and I was still caught up in the business-to-consumer mindset. Verticalnet didn't have any revenue; however, it had a $3 billion market cap. In June of that year, Ariba and Commerce One went public and that's when the B2B mania really hit.

In the meantime, we started PurchasingCenter.com, which was essentially a B2B for purchasing agents, out of my basement and were hoping to hire three people by the end of the year. Fortunately, we had ten venture capitalists throwing us seed money. That's because we had a very credible team. I had been selling into the industrial market for four years at Open Market. My co-founder was a fifteen-year veteran with a top distributor of industrial supplies. In addition, we both had start-up experience. It was a hot market for start-ups and we were a very bankable team with a business idea that had loads of promise.

One of the key things we were offering at PurchasingCenter.com—and which purchasing agents still send e-mails inquiring about—was the ability to have a cockpit that really simplified a purchasing agent's life. Most re-engineering projects took out half of a company's purchasing staff even though the percent of a Fortune 500 company's revenue that is spent in purchasing continues to grow. So purchasing agents are terribly overworked, they have poor systems, and they are incredibly time starved. A purchasing agent might have 80-100 orders a day for which he has to find vendors, submit requests, and check status. Purchasing agents are like hamsters running on a treadmill. The fact that PurchasingCenter.com allowed them to track orders and RFQs online all in one place with a single user interface on a Web site that was specifically tailored for them was high value and unique in the marketplace.

We were the first to create a site that worked for purchasing agents, and a lot of followers came along within four or five months, including Equal Footing and Purchase Out. After six months, other businesses figured out that purchasing agents control a lot of spending. They started to figure out that no one at General Motors but the purchasing agent cares about where the company buys its light bulbs. If the purchasing agent gets burned, he simply shuts General Motors' doors to the vendor who made the mistake. The purchasing agent is in a power position in relation to the vendors. People began to think that maybe they should be listening to these purchasing agents. As a result, there were a lot of new market entrants, there was a lot of innovation, and there was a lot of money thrown into this particular category.

Obstacles to Success

One of the keys to success was that purchasing agents needed to be able to search and find products. None of the products they bought existed together anywhere, so one of the major tools a business needed to build was an online database of products. We figured we needed to build a database with about 500,000 items in it and that it would cost us about $6 million to $8 million. The truth was that we probably needed about two million items in the database and it would probably cost about $100 million to build. Creating the database was a much bigger barrier than we ever imagined.

One of the challenges we found in implementation was that there were a lot of traditional tools that acted as substitutes for our service, such as the fax machine and the phone. This made building our database difficult because a key factor in our success was "searchability." Purchasing agents are time starved and don't have time to hunt. Even among the Internet enthusiasts, one of our real challenges was that if our customer didn't find what he was looking for right away, he'd pick up the phone, call his buddy down the street and say, "I need F5 fluorescent light bulbs delivered to dock six and two tickets to the Bulls game." The customer would hang up and his order would show up.

Building a database that the customers found useful wasn't easy. For example, what do you do when the purchasing agent can't spell incandescent light bulb? You use a drop- down box. Then, what do you do with industry slang? What do you do when they call hammers "wife beaters"? We had a problem when we put in a manufacturer called Thomas & Betts because the purchasing agents call the company T&B. We had all these things to consider to be sure that our customers could find something in three clicks and feel that our product was useful. If they didn't find something in three clicks, they simply picked up the phone and went with the highest-priced vendor who, by the way, would also give them Bulls tickets. That's how purchasing works and so that's what we were up against.

Building the Business

Financing PurchasingCenter.com went well, though. In one week, I visited five VCs and I ended up with five offers of seed money. I think we took about $500,000 in seed. Then, in our first round, we raised $5 million and I received eight offers. In our second round, we raised $26 million. For the second round, I was running around trying to raise money during the holiday season, so nobody talked to me. I went back to calling on VCs after the first week in January and received six term sheets ranging from $45 million valuation to $80 million valuation within a week and a half.

For due diligence, the VCs would call three customers and that was it. At the time, there was tremendous pressure among VCs who were jockeying for deals. At that point in history, it was clearly a buyer's market for people raising money and we harvested a lot. We were counting on the fact that among VCs and investment bankers there would be a flight to quality as the IPO market was being flooded. As a result, we decided that first, we needed to go just with top-tier VCs and second, we needed to go with very experienced people on our board. In fact, we actually turned down the highest valuation we had in the first round, and in the second round we took the lowest valuation just so that I could get Bob DaVoli on my board, because he was a very experienced entrepreneur and VC. Bob had six companies in registration when we accepted his offer and he and my management team had good chemistry.

Also during this time, in the early days of the Internet market, it was a seller's market for hiring people. Hiring and keeping people was tremendously difficult. In some cases, we paid $20,000 to $30,000 signing bonuses for executives or certain engineers. We would have people accept an offer and renege on their first day at work. We had people who would start and a week later leave for a 30 percent salary increase. In the meantime, in nine months we went from working out of my basement to managing 130 employees. At one time, we had six full-time recruiters sorting through people. Even then it was so difficult to attract and keep the right employees that the VCs began to play a really good role in helping us differentiate ourselves.

We would often send candidates to the VC office, where they would sit in the lobby for five minutes and see all the IPO plaques and get excited, like they were on a sugar high. Allowing them to converse with the VC was an important part of building allure in this battle for talent. It was a tremendous battle. In fact, my board measured my performance based on how many people I hired every six weeks. They were also very concerned with the caliber of people I hired. At times, the board might say, "If this isn't the management team that knows how to grow a company quickly, we'll get a management team that does. This company is going public in eighteen months and you and your team can either do that or find new jobs." Building PurchasingCenter.com was a very direct, high octane, explicit financial gamble. Everyone involved knew the game. We all knew exactly what was going on. There was a lot of pressure.

The elegant philosophy driving us all—albeit a greatly flawed philosophy—was that the "first mover advantage" to being in the market was worth three-to-five times market cap. So the thinking was that if PurchasingCenter.com were first to market, chances were it could become the *de facto* standard for industrial purchasing agents who buy, on average, $400 billion worth of stuff a year. Obviously, it was a corner of the market worth getting. The result was that we had "free" or "easy-to-get" money. The company had six or seven competitors and our backers were thinking, "We'll pour as much money into this as we need to so that we can get the corner lot." There is only one corner lot, and we were going to get it.

So the thinking was that two to three sales reps would not be enough; we would need thirty. At every meeting we'd go through the barriers we encountered and we'd discuss how to make the barrier go away. If we had only six customers, we'd talk about how to get thirty customers in thirty days. If we needed office space, we'd talk about how far we could pack a space without breaking fire code laws and how we could quickly get new space. Everything we did stemmed from this "get the corner lot at all costs" mentality.

The Market Drops

The market correction in March 2000 was the first major crack in the Internet boom and it affected the IPO race. PurchasingCenter.com was clearly in the pull position. We were recognized as the competitors to beat in all the analyst reports. We were the top dogs in the Wall Street mindset. If the mania for our market category had arrived just six months earlier and we had gone public, everyone would have made a lot of money. The fact is we were probably going to go public in summer 2000 but the crack on March 1 was a major decline.

Back then, we were all NASDAQ driven. In fact, I could tell if I was going to have a good or bad board meeting based on what NASDAQ did the day before. That March or April, we had a two-hour board meeting on a day when the NASDAQ dropped 300 to 400 points. The board members' cell phones were ringing and they were leaving. So everything was tied to this NASDAQ mania. We had seen mild corrections in the market before, but when the March correction occurred, a real debate arose both on my board and in the industry about whether or not this game we were in was over. I'd say the vast majority of people thought that the market was going to come back.

But what really started me thinking that we were in trouble was when I heard someone say, "You know, I think CMGI is going to have the first dot-com bankruptcy." CMGI was one of the most highly successful and highly regarded VC firms and everyone was shocked. Sure enough, in the next week one of CMGI's companies went bankrupt.

Changing Course

At PurchasingCenter.com, we were realizing that the pyramid might be coming down on the public markets. At the same time, we were starting to learn some of the dirty realities of implementation.

For example, we saw that we had become a threat to the physical distributors with whom we were partnering. You see, before we came along, the manufacturers made the light bulbs and shipped them to physical distributors in, let's say, Chicago. The distributors in Chicago would then physically take the light bulbs over to the Sears Tower, which had bought the bulbs from the manufacturers. In our model, Sears Tower bought the bulbs from us and the local distributor fulfilled the order for us. What we figured out was that the local distributor was deathly afraid of us because he began to assume that eventually light bulbs could be shipped by UPS direct to customers from the manufacturer, cutting the local distributor right out of the loop.

In other words, the local distributors feared that we would eventually displace them, with PurchasingCenter.com and the manufacturer splitting the 40 percent margins between us. So the distributors began to see us as a threat and in response they began to undermine us. One of our implementation challenges was that we relied on the local distributor to receive an order from us and ship it to the customer, but they might deliver the wrong order or break the light bulbs on purpose and then tell the customer, "You placed the order with PurchasingCenter.com so if you don't like what you've got, you should call them." The customers would call us back and be highly irritated and then they would go back to the incumbent who was the local distributor.

In April 2000, we went to our board and said that given what we believed to be an impending decline in the public markets and the overwhelming challenges of implementation, we had decided that we were operating on assumptions based on an absolutely flawed model. We told the board that we needed to change the business. To their credit, the board gave us three weeks to figure out something new, even though they were, understandably, shocked by what we said.

We took two sales reps and sent them out to test some other value propositions and, as a result, we decided in May 2000 to cut the company in half, fire the founders, and become a software company. Instead of providing a service for underutilized purchasing agents, we became a company that sold software to manufacturers to help them deal with this huge problem of product information.

New Opportunity

Looking back, we realized that the flaw in our original business model came out of implementation challenges. First, the purchasing agents, who were time starved, needed to find what they were looking for in three clicks or they picked up the phone to call their local distributor. Second, there's high value in physical distribution and since we didn't do that, we couldn't attend to details such as delivering a shipment to dock five with a note for Sally telling her, "This is for the law firm." Third, we faced challenges around product information. The database we built had to hold information about product SKUs, which could include between 100 and 300 fields of information per product. It was tremendously expensive to employ all the people with skill in taxonomy and hierarchy who would collect and organize all this information *and* account for the common misspellings of product names such as incandescent light bulbs. We realized that it would probably require at least a $100 million capital expenditure to create a product that was right for the industry.

The new idea for our business moved us away from dealing with the slow-adopting purchasing agents to dealing with the manufacturers who had repeatedly approached us to ask if we would build something for them. Until we decided to change the business, we kept saying no to the manufacturers, explaining that we were very focused on serving the purchasing agents. So when we decided to switch models, we sent two sales reps to talk with 100 of the manufacturers who had been calling us. What the manufacturers taught us was that they had a really big problem building and managing databases for their own products. Stanley, for instance, makes hammers and other tools. Stanley was receiving twenty requests per week for product information from Home Depot for their Web site and Sears for their Web site, etc. Stanley wanted us to build a database that allowed them to create and manage their product information so that they could send it to their top customers. The new idea for our business was to switch from being a service business to a standard software business where we would sell a $400,000 piece of enterprise-class software to manufacturers so they could manage their product information.

We already had a development team. I gutted the sales organization and hired new reps who knew how to sell software. I gutted half the marketing department and brought in people who knew software marketing. The new business challenge was helping manufacturers who had always lived in the physical world, with physical hammers in physical inventory, to completely separate physical flows from information flows. In the physical world, the hammer and information about it were always connected: you looked on the box to figure out what kind of hammer was in there and you sent the box to the distributor who sent it to the end customer. With the Internet, Stanley, as a manufacturer, needed a way to capture and manage just the information about its products. They needed long product descriptions that were customer ready and the accompanying .gif images for 500,000 items. They needed to figure out what to do when Home Depot wanted the information in XML format but Grainger wanted it in EDI format.

What we set out to do was unique, and our company had an advantage because we had already been building a database to manage a 500,000-item catalog. All we had to do was take the tools we had built for ourselves, package it as standard software, and sell it to the manufacturers.

Managing the Transition

To build PurchasingCenter.com, we hired people with the story of a dream that people were really excited about. Building PurchasingCenter.com was probably one of the most exciting and fun environments I’ve ever been in and the employees will tell you the same. In fact, they still send e-mails to me saying, “What an experience!”

Recruiting those employees was hard and I personally helped close about 99 percent of the 130 hires. We had convinced them to come join our movement. It was like convincing them to come join our church where we were going to be great Catholics. Then, when the market stumbled, it was like this huge lightning bolt coming out of the sky. I’d say employees really understood only 5 percent of how we were affected by capital markets. It was really hard to have to tell them at a company meeting one day that 50 percent of the company was going away and we were becoming a software company. The announcement was hugely traumatic for the employees. Then we had to try to convince them that among the 50 percent remaining, we weren't going to be Catholics anymore; we were going to be Muslims, which is even more exciting than what we originally told you about. Then they heard that we were going to have fewer people and I needed them to work even harder.

So the transition was very, very difficult. It was extremely hard for me to let go of my number two founder, Fritz Troller. He was very much suited for the purchasing model and had put his heart and soul into the business. Making the transition really fractured morale and took luster off the company. The management team spent a lot of time learning how to manage these events correctly. We did a lot of planning up front to help keep what we call "the torture zone" to a minimum. The torture zone is the time between letting the employee base know there's going to be a layoff and the time when employees find out whether or not they are affected. Then, for a whole bunch of security and liability reasons, you ask people who are affected to leave on the same day as you notify them.

During the week in which we made the announcement, PurchasingCenter.com had the best day ever for number of orders placed. That was on a Monday. On Tuesday, we topped Monday's performance. There was tremendous excitement in the organization. Then on Wednesday, there was a mandatory, all-hands company meeting at 10:00 a.m. People were thinking we would talk about our success. They had no idea what was coming. One hundred and thirty people came into a room and in two hours, half of them were gone, out of the building. On the management team, three VPs and a founder were gone. It was just a devastating blow to the organization and incredibly hard to do.

Afterwards, we went back and surveyed the employees who stayed with us about what they thought of management and how we handled the transition. I was surprised to learn that we received really good marks. I was shocked to hear how well we had done. One of the things that experience taught me is the importance of honesty and the importance of always helping the company live in reality. For example, during the meeting when we announced the layoffs and then in a subsequent meeting when we talked with all of the remaining employees, we explained to them how $2 trillion was lost in the marketplace in a week. We explained to them that dozens of other companies were going through the same process we were going through. We explained to them that this wasn't their fault. We explained to them that building up the company was a bet that hadn't worked out and that for the viability of the company and the welfare of the remaining employees, we needed to make a change.

We also explained to them that the colleagues who had to leave were still our friends and that we were trying to get them jobs; we treated them with respect and dignity because it was the right thing to do. I will never forget those elements of a major restructuring: honesty, overt communication, listening, making sure that people always know what their roles are, and making the management team, including the CEO, visible, walking around the company. If you can, even the board members should be visible. On being honest, you had to admit if you didn't know the answer to a question. For example, if an employee asked, "Are we going to make it?" the best answer was, “I don’t know.” On listening, you had to solicit their feedback and ideas for how to build a new ship. And you had to give them the information they could use to help build the ship.

In our case, we went through a “white-boarding” exercise and formed teams who came up with ideas for the new business plan. The remaining employees literally wrote the new business plan, which, I learned, is a good way to get their buy-in for the new business model.

Selling the Business

We called the new company Excara and we continued to face a number of external challenges. We made the transition in May 2000. We shipped our first product in August, which was an incredibly fast time-to-market. In Q4 2000, as Excara, we sold $1 million worth of software and services, which is just mind-boggling when you think that nine months earlier we were PurchasingCenter.com. You couldn’t find PurchasingCenter.com anywhere because people knew us in the marketplace now as Excara. Then during Q4 of 2000, General Motors got scared about the economy and enacted a 20 percent drop in their car production, just in case the economy slowed down. General Motors’ action was a leading indicator to all of the traditional manufacturers with whom we were dealing. The senior executives at these manufacturing companies, who’d been waiting for nine years for the recession to hit said, “Oh my gosh, this is it.”

I have never had a sales funnel just drop off the way ours did in Q1 of 2001. We had a $300,000 order and contract cancelled. In another customer account, IT went into lockdown for the entire year. We just watched a marketplace completely dry up in Q1 2001. Unfortunately, Q1 was when we were raising money, so it was very difficult to sell our story even if we had successfully turned the company around and achieved a good quarter. Telling them that we were down in the current quarter worked against us. At the time, VCs were very cautious and were not betting on a re-start. So in May 2001, we decided to sell Excara.

We found four or five companies interested in buying us; two were strong possibilities. One was a very large company and the other was small. One of them put a term sheet on the table and we signed on September 1, 2001. By then, we had gone through two more layoffs and slimmed the company down to conserve our cash. Still, we saw that the company was going to go on. After all, there was a very real problem the company was able to solve. We were very pleased with that. I was going to do an earn-out for a while and the VCs would save face. No one would make a lot of money but we could say that we truly added value for the customer.

Unfortunately, we were never able to sell the company. September 11 happened and that blew up the sales funnel for the company buying us. On September 30, the buyer reneged on our deal and actually let go of 35 percent of the people in their own company. We had our third major external curveball and it was clear to us that Excara wasn’t meant to be. Eventually, we closed up and gave some of the cash back to the creditors.

I'm an optimist. I'm a fighter. I'm tenacious. At some point, though, you have to ask yourself when enough is enough. After September 11, it was so hard to know what the new environment would be. We weren't sure if we were going to end up in a massive war, etc. So I went back to the board and told them that all of the potential acquirers had gone away. I also explained that we still had significant interest from other potential acquirers and that I could argue for putting another $1 million into the business to let us float but that I honestly didn't know if it would be one or three years before we could sell it. I told them I didn't feel confident enough to make a case for a Plan C. I said I believed at that point that we had a fiduciary responsibility to do what would be best for our creditors and to pay them back and close up shop.

Some Lessons Learned

In hindsight, I see that one of my mistakes was having a board made up entirely of VCs. When you have all VCs on your board, your board meetings aren't really board meetings, they're finance meetings. You talk about your current finances and whether or not you have aligned the business to allow VCs to exit with their money. I had two outside seats on my board that I could have filled, but at the time that wasn't my priority. In hindsight, I would have filled those with people who were operating types. They would have leveled the board meeting conversations, tilting them away from discussions about exit money for the VCs.

Having VCs dominate the board meant that we were directly tied to the NASDAQ, which is why the company got swung around so much. Even if I had filled those two outside seats on the board, I might not have done anything differently, but I think the dialogue at the board meetings would have been more balanced, addressing operational issues such as sales and HR issues. We might not have been so concerned with questions of whether or not we could sell the business or go for an IPO. Take, for example what happened in Q1 of that last year. We did a million dollars in Q4 2000 and, with six weeks to go before the end of Q1 2001, I was trying to close $2 million of business. I felt pretty good but one of our board members said, "No, cash is more important." I said, "If we do layoffs with six weeks to go in the quarter, I'm going to spook all the customers and they're never going to come back." There was significant disagreement between the board and me on that. We ended up doing the layoffs with six weeks to go in the quarter and we *did* spook the customers. Still, even with the benefit of hindsight, I don't know if what we did was right or wrong.

One way that the board pushed us that didn't feel good at the time but, in hindsight, I can see was right, was in renaming the company. When we were re-launching the company in August 2000, we were simply going to drop the dot-com and call ourselves Purchasing Center. During a board meeting two weeks before our re-launch, Bob DaVoli, to his credit, stood up in the middle of the meeting and said, "If we're going to rename the company, we should do it right now because no one knows Purchasing Center. Let's rename the company now." So, we pushed the launch out one week, which gave us three weeks to find a new name for the company, trademark it, create a URL, and re-label all the marketing stuff. Just finding a URL was incredibly difficult at that time. We probably looked at 500 to 600 different URLs.

Overall, I learned a lot about driving the strategy of a company, recruiting, motivating people, and steering an organization through very, very turbulent times. Here's one analogy: We've left Spain, we're in a boat, and we're coming up against huge waves. We're constantly trying to figure out, "Are we going to Canada, New York, Florida, South America?" Then, "Oh, here's another hailstorm. Oh, no more Norwegian arctic winters, now we need Caribbean-type attire." That was my job and that is what I focused on: "Where are we going? Why are we going there?" At any moment I might think, "Here's 5,000 decisions I've made this week and we all can't agree, so what's the decision-making process in this firm? Who's going to make the tough call about whether or not to shut the portal down?"

The Aftermath

After we shut down Excara, I took about a month off. Currently, I'm working for Charles River Ventures—one of my VC investors—as an individual contributor, reaching out to and developing relationships with CIOs. One of the things I wanted to do after I shut the company down was spend time in what I call the jungle of customer pain. Particularly in Boston, you can get lost in the jungle of technical capability. All you have to do is go to MIT to see a new widget or learn that we can make a wireless coffee cup or make a cell phone speak. Something that has become very clear to me over the last five or ten years is that the world doesn't need any more new technology. The world's flooded with new technology. What we need are solutions to problems. Spending time in the jungle of customer pain has given me fabulous experience in getting out and listening to customers.

I believe very strongly in "voice-of-the-customer" type exercises. Personally, I find that listening to the customer gives me time to move out of an operations role and avoid the incredible stress that comes with the excitement of operating a company twenty-four hours a day, seven days a week. I've had time to put my health back in line and spend some more time with my family, especially my daughter. Working with Charles River Ventures has been a great win for them and me since I've already brought them six or eight start-up ideas. All I have to do is talk with CIOs about their problems and hear what they're all talking about and it becomes a great way to see opportunities for providing solutions.

Summary Reflections

I've gained tons of lessons from the dot-com experience. I've learned that businesses exist to profitably serve customers first, *not* to make money for the VCs. If you profitably serve customers then you'll make monies for capital markets, *not* the other way around. I've learned that whatever the customer wants, you need to give it to them. If they want blue pens, you give them blue pens.

The second thing I learned was about homing in on the importance of differentiation. For a business to succeed, you have to provide something unique that customers highly value. That's easily said but hard to implement. At the end of the day, customers could place their orders online through PurchasingCenter.com, but was the service highly differentiated and highly valued enough to succeed? The truth is that it probably wasn't highly differentiated and highly valued.

The third major thing I learned, which really came out of my experience with Compare.com, is that if you create value for a customer, they will pay you. In other words, if a customer isn't willing to pay, then your business isn't creating value. A lot of these Internet companies were based on convoluted business models, relying, for example, on advertising money. The business models were too complicated and they needed to be simple. Does a customer want this widget, yes or no? If the answer is no, then the business isn't providing enough value. I don't care what the technology is or what analyst report you bring in. I only care whether or not the customer wants what you're selling.

Creating a successful business is all about solving problems in the marketplace. I think many of us lost sight of this basic principle in the sprint for the IPO gold. Many of us lost sight of this basic principle when trying to understand what really is a good business model, a good market, and a good company. We used NASDAQ as an indicator rather than value creation for customers and value extraction for the company.

Another big lesson I learned was how to think about the role of the CEO. The importance of a CEO when running the company on a day-to-day basis is first and foremost to profitably serve customers. By doing that, profits will flow that the CEO can use to pay shareholders and employees. I think many CEOs got it backwards during the Internet heyday. Instead of making the customer our primary focus, we focused on the capital markets and satisfying shareholders. We thought, "If we make the shareholders happy then the customers will be happy." This is an absolutely flawed way of thinking about how business works. Profits and successful exits come from true value creation in the marketplace. In the face of a board of VCs who are always grabbing the CEO and saying, "Pay attention to me and do whatever I want to first," I think it's in everyone's best interest if the CEO focuses on where he can earn margin in the marketplace. If the CEO makes that his responsibility, it will take care of the investors as well.

For small companies, there's only one real issue and that's sales. Period. Sales are the company. In a small company, everyone needs to be selling. Earlier in this conversation I said that one of the things Harvard Business School can do to help improve a student's chances of success as an entrepreneur is to help them understand the importance of selling and how to sell. I thought about sales 95 percent of the time when I was CEO. If you talk with any CEO at any publicly traded software company, they're always thinking about sales. In fact, a CEO is probably spending at least 30 percent of his time helping the sales force close deals.

Creating a corporate culture that is both sales driven and customer driven is very important. You create a very different company than the one in which someone says, "Hey, I have five patents and have I mentioned how many of my engineering staff went to MIT? And, oh, excuse me, but before I hear your needs, I want you to know how smart I am and where I went to school." I've been at companies that handle sales this way and they always failed. I've competed against companies that have competed this way and they always failed. I was involved in the AOL-

Netscape online battle. Steve Case focused on the customer while Netscape focused on the browser and plug-in widgets, and Steve Case blew Netscape away.

I believe Harvard Business School needs to do a much better job teaching about sales. What I'm talking about here is how to persuade somebody to do something such as buy a product, close a deal, raise money, join your company. How do you speak in a language of benefits and make sure that you're emphasizing things that benefit your audience and not yourself? What does it really mean to close somebody? How do you think about the sales funnel? How do you handle rejection? These are questions that arise all the time when I'm competing for talent to hire people or I'm competing to raise money or I'm competing for customers.

Selling is a basic skill that super smart, highly intelligent individual contributors such as those who enter Harvard Business School probably don't have a lot of experience doing. HBS can do its part, but the rest has to come from actual experience. There were times when I'd be called in for a fifteen-minute meeting after a sales rep had been working an account for six months. I'd shake the customer-CEO's hand or the VP's hand. Would I tell them I was from Harvard or would I think about how to connect with them so that I could close a $400,000 sale? You have to learn about these things by actually selling.

Sales are the lifeblood of a company. The only thing a market reacts to is sales. If there are no sales, then the company is a bad idea. It's real simple. The market doesn't care what school you went to, how many patents you have, or how sophisticated your technology architecture is. If the market doesn't buy what you have to sell, then your product stinks and you and your company should go away. The market is truth. If there are no sales, then there is something wrong with your value proposition. The value proposition is critical to start-ups.

We talk about value proposition every day in a start-up. It's critical to understand what a unique value proposition is and to be sure that every employee understands what it is, particularly at start-ups. I think every HBS graduate should literally go out and sell something, anything, and come back to say what they learned. It doesn't matter if they're selling a box of Girl Scout cookies. At a very high level, selling General Motors to Honda involves the exact same things—skills and mindsets—as selling the Girl Scout cookies. How do you handle objections? How do you land-mine your competitors? How do you speak in terms of benefits to the customer rather than benefits to yourself?

Standing for a Cause

Beyond business, I've become very involved in dealing with the leadership issues facing the Catholic Church.

I have a four year-old daughter and after I shut down Excara, I started going back to Catholic Mass for the first time in eighteen years. I wanted my daughter to have some faith in her life. She might reject the religion later but I at least want her to be aware of it. In January 2002, the Catholic Church in Boston was hit with a crisis about the priests molesting children. I was upset about it and I attended a meeting with a wonderful group of very dedicated people trying to understand what was happening. I suggested that we should do something to make sure we were heard.

We decided to write a letter to Cardinal Law, but then people were afraid to sign their names on it because the press might call. I said, "I'm used to press, so put my name on it." So we put my name on the letter and we put up a Web site. By the next week's meeting we had 100 people. We had 200 people the week after that. We took a lot of stuff I had learned from PurchasingCenter.com about rapid market adoption using e-mail and Web browsers, and we simply applied it to this movement—Voice of the Faithful. In four months, we went from thirty registered users on our Web site to 15,000, with 250,000
Web page views a month. That's more page views and registered users than I got at PurchasingCenter.com after spending $6 million for six months on a targeted marketplace.

The Web has been an incredible tool for our cause. As we know from Yahoo!, the Internet connects somebody looking for information to the information. And as we know from eBay, if there is someone who wants to sell a Pez dispenser, there is someone who wants to buy it. What our Web site is doing is connecting the 2 percent of outraged Catholics in every parish who simply will not tolerate the lack of moral character among our U.S. bishops. We're united, and we've got a true national movement. We'll have over 5,000 people at our first convention next month in Boston.

We have three goals. Our first goal is to support victims. The second goal is to support priests of integrity, since there are a lot of good priests out there. The third goal is to shape structural reform in the Church. We believe one of the problems at the core of this situation is abuse of power. We believe that if power had been shared for any of the administrative functions and that if one parent had been involved in any of these decisions to spend $1 billion of hush money to quiet victim lawsuits, then the church wouldn't be in this mess. We think there is an abuse of power because the church doesn't involve the laity or the common folk in the administrative or non-theological elements of the Church.

Some of my fellow churchgoers think I walk on water because we got a Web site up in a week and within three weeks we registered it in all the search engines and we do the list serve. Doing this stuff is second nature to me. By doing this, I think I found the true late adopters of technologies. A lot of the people who go to church might be fifty or sixty years old and they tend not to use technology a lot. Now they're e-mailing their kids, their grandkids in college, and each other…all because of this movement.

Summary Thoughts on Entrepreneurship

The risk you take when starting a business is to think that you're an entrepreneur when you're not. You put your family at risk if you try this when what you really need is a Fortune 500 job. Entrepreneurs don't look for risk; they're always looking at how to remove risk. No one wants to have risk. Entrepreneurs, however, tend to be a bit rebellious and a bit opportunistic. We like to try/test, try/test, try/test. Then, if something doesn't work, we adjust and try/test, try/test again.

If you're not the type of person who does this then I don't think you'll succeed as an entrepreneur. I think you have to really understand yourself and be true to yourself if you're going to do this. You also have to put a fortress around your family's finances to minimize how your family life is impacted. In my case, it took me three years to save up the equivalent of a year's worth of salary, which was the comfort level my wife needed when I started PurchasingCenter.com. We said that no matter what, we needed a year of cash and that we would re-evaluate after a year. That was the win-win deal I struck in my personal situation. An entrepreneur going through high stress at home is not a good entrepreneur, so you have to be honest with your partner.

Beyond that, to me success in business is really creating value for customers and investors. The second element of success is in developing people. Developing people is one of the things I strongly believe in and something we did at PurchasingCenter.com. Developing people can be one of the true wonders of a start-up. We had one employee, Rachel Jacobson, who came to us as a temp receptionist. When she left, she was a director of HR. She just blossomed into a fantastic professional. We had other people who started mid-level and just blossomed. We couldn't give them enough responsibility. They still come back to me and thank me for the opportunity and for challenging them and helping them to develop their careers. It's very rewarding and satisfying when you're creating economic value for the customer and for the shareholder. It's also very rewarding when you're actually creating human value for the employees. That's success for me.

I'm very proud of the way we turned the company around and restarted it. We did exceedingly well. A lot of people have come to see how we did it. We gave the company the best chance we could to survive. I think that if September 11 hadn't happened, we'd be a prosperous division at one of the acquiring companies. I am proud of the fact that we did turn PurchasingCenter.com around into Excara and that both the people who were let go and the people who stayed all send me e-mails to say that they would work for me again. What I take away is that while we didn't make a lot of money for investors, it was a fair bet and we did do some things right.

As a closing thought, for the last five years I've been a judge at the HBS Business Plan Contest. My piece of advice for entrepreneurs: If you want to start a business, stay away from the library. I don't want to hear what you learned at the library. I want to know about the four or five customers you talked with about real problems. When you're looking for opportunities, you have to go to the marketplace to hear what the pains are. You cannot be clever and simply analyze your way to success. You can only go to the marketplace, listen, and normalize the responses. That's how you find opportunity.