

W A S A T C H
DIGITAL



Connecting Utah's Business and Technology Community

September 2002
Volume 2
Issue 9
u.s. \$4.95
Kroner 415.60



Finding Funding
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TWISTS AND TURNS OF A START UP

INFOPIA FEATURE

The CEO folds his lanky frame into a tight cubicle in a warren of scrunched little Dilbert cubes. The chair is vintage Office Depot, the cubicle walls, desks, and filing cabinets are refurbished, dun colored. Yet Infopia CEO Bjorn Espenes evinces no sign of hardship, no trace of I-should-have-a-corner-office misery.

Welcome to the world of the successful startup.

"This is no place for fancy offices or deals done behind closed doors," says Espenes. "You've got to be hungry. The start-up CEO should be right out here in the middle of it with the people who have as much riding on this thing as he does."

Young men and women in the adjacent cubicles nod in earnest affirmation; this is not just a spiel. In the time I spend with Espenes it becomes clear that this isn't just a guy who happens to be running a startup; he's a serial entrepreneur who has learned his lessons the hard way and keeps coming back for more.

Getting Hooked on Startup

In 1991 Espenes graduated from the University of Utah and then in 1995 earned his MBA from Westminster College. He went to work in the international product development division at WordPerfect.

In 1994 he went to work for his first startup. When that one failed, he started his own in 1995. That company, Xanthon, built the first voice portal to the Internet.

"We had an awesome technology," he said. "But we were ahead of our time in terms of making it a viable product in the market. That taught me that even great technology has to map to the market's needs."

Espenes merged Xanthon with Talk2 Technology in 1999 and then set about looking for another startup. His search led him to a lunch with Utah Technology Finance Corporation's director, Steve Grizzel, who knew about a Website development company that was looking for funding and experience.

Espenes looked at what was working on the Internet and saw the trend toward third-party, multi-vendor auctions and marketplaces. Though auction sites were working fairly well on their own, he wondered how powerful it would be if you could list the same products

By Bill Kerig

on all those sites and effectively manage and make changes in real time to prices and other factors that contribute to sales. What if a company could list a product on an integrated network of online auctions and marketplaces including eBay, Amazon, Yahoo!, AOL Shopping, Catalog City, uBid, CNET, MSN and others?

It was a good idea, but it had a lot of hitches. Every online marketplace and auction site had different sets of criteria, different fee structures, and different guidelines for product inclusion. The problem was figuring out which products to put on which sites and which fees to pay. If you were able to do that, how would you track how the products were selling and know when you were running out?

“We created a solution that gets a customer’s products out there, manages their marketing costs, their sales, and collects all the information to help the company make informed decisions on how to better turn their goods into revenues,” said Espenes.

He went right to a patent attorney to make sure they could protect their “secret sauce.” It took eight months to get.

Infopia (www.marketplacemanager.com) was incorporated as a Utah C Corporation in November 1999. Espenes then sat down to write the business plan himself.

“The entrepreneur has to write the initial business plan,” he said. “You can get input and have it rewritten later, but the first version has to come from you. If you can’t articulate your business, you don’t have a business.”

He also created his other tools: The one-pager (relating the opportunity in the market, the way the product will meet them, and how big the market is), the email formatted one-pager, the executive summary, the short business plan, and the elevator pitch.

“An elevator pitch should be less than 10 seconds,” he said. “I’ve had 50 different ones for this company.”

His current pitch?

“Infopia has a combination of software and professional services that helps any seller of consumer products succeed in a multi-channel online environment,” he says. It takes six seconds.

With his tools in hand, Espenes kicked off operations at Infopia in February 2000. He raised the first \$300,000 from investors who’d backed Xanthon.

Then, one month after the Infopia had begun operations, the dot com bubble burst.

“Suddenly we were in absolutely the worst sector of the economy for raising money,” said Espenes. “I was getting hostile reactions to anything that sounded like e-commerce.”

So, he turned to Utah’s network for help.

“I’d been through the Wayne Brown Institute with my first company,” he said, “and I found it a very valuable resource.”

So he went through the process again with Infopia. It was no easier the second time around.

“They’re pretty hard on you,” he said, “but you just have to realize that the company is not about you; you are there to help

the company. If that means you get a couple of black eyes and kicks in the butt along the way, that’s just part of the game.”

“We’re always hard on our companies,” said WBI president Brad Bertoch. “Bjorn in particular was going into a very hard business sector. It’s tough enough that he’s in the Internet space, but e-commerce too? He’d better be able to articulate his vision and to battle against the criticism.”

And he was.

After going through the WBI process, he then took his company through a similar process at a T2M Deal Forum.



“When I met Bjorn I wanted to make sure he understood that our process was for early-stage companies,” said Dick Clayton, founder of T2M. He said, ‘Even if I end up with only one contact coming out of the deal forum, it will be time well spent.’ He made three.”

Business After Dot Bomb

In June 2000 Espenes formed his board of directors. Shortly thereafter, a lunch with UTC’s Grizzell led him to Alan Larsen of JapanWorks, a Provo-based catalyst for companies that would like to take their products to Japan. They found Espenes a million-dollar investment and have since raised a total of \$2 million through a private placement memorandum.

“When it comes to this type of structure, you’ve got to spend the dollars on the attorneys to get it done right,” said Espenes. Your choice of law firm is very important at this point.”

With the structure of the company and the investment vehicle nailed down, Espenes then looked at who would handle the books.

“When you first start out you really don’t need a CFO. All you need is a good accounting firm or a dynamite comptroller who can keep track of everything and keep clean books. When you score a big VC round, that’s when you need a CFO.”

Espenes also took the time to serve on committees within the Utah Information Technology Association.

“The key is to network when you can, not when you have to.” A lot of people will say, ‘Oh I need money, I need to start networking.’ That’s not how it works. The more people you know, the more tools you have to get your job done.”

But it’s not just about knowing people.

“You depend on so many people to make this work and you’re starting off as a nobody and a nothing company,” said Espenes. “People need to be able to trust you and respect what you’re out to do, so you need a very high level of integrity. If you screw someone, the word gets around fast and you will lose all the tools that you need to succeed.”

Despite having all the tools, Espenes was fighting an uphill battle; in the summer of 2001 the e-commerce market could not have been colder.

“The market was really, really, really unfavorable,” he said. “Even though we had a great product and revenues right from day one, people had lost a lot of money in the e-commerce space. It was the last thing in the world that anyone wanted to touch.”

Instead of throwing in the towel, he created a different tool and kept right on working.

“We had to construct an instrument that fit the market conditions,” said Espenes, “so we sold a convertible bridge loan instrument. We got the money in, and they got the security of being in first position in case something went terribly wrong.”

Firing The First Volleys: Selling

In the dot com heyday it was all about developing the technology, or secret sauce, as Espenes calls it, but in today’s environment it’s not about the most whammy technology, it’s about sales.

“If you can’t sell your product, it’s not worth anything,” said Espenes.

“One of the most difficult things for a startup is to take your product and map it to the market’s need.” You have to get all the terms and conditions just right, and that process is very painful; there are so many missteps.”

“One of the areas where Bjorn excels is in his understanding of sales,” said Bertoch. “Not only is he a good salesman, but he has a deep appreciation for the importance of sales in building your company. You can have the best dog food in the world but if the dog won’t eat it, you haven’t got anything.”

“In the beginning of every startup I’ve been involved in there’s no sales collateral,” said Espenes. “There are no leads, and the product is usually not fully functional. There’s a lot of nasty rejection and that’s very painful. Sales people by nature are winners. They’re type A people and if they get a lot of rejection, it really hits them. Turnover of sales people in a start-up is high.”

And often the sales that startups do make are to the wrong people. They target the wrong customers and record the revenue, but end up supporting the customer to such a degree that the costs outweigh the revenues.

We’ve spent less than \$50,000 marketing our company, and we have 700 customers.

“The first VP of sales job is really tough because there are so many unknowns to face,” said Espenes. “You don’t know if you’re not making sales because your product doesn’t work, or your salespeople don’t work, or because your marketing is nonexistent, or all of the above. Getting sales going is one of the nastiest parts of growing a business.”

Yet its through sales that you really figure out who your customer is. So how you do get customers in the early stages? Trade shows are one way, but they’re expensive. Another way is to look at who’s serving the people who are going to be your customers.

“We figured out that anyone working in the e-commerce space had to have a payment gateway,” said Espenes. “So we went out and formed partnerships with all the payment gateways. They, in turn, sent endorsed emails to all their customers. In return for that we gave them a percentage of all the revenues generated.”

Combat Marketing

As for marketing, well, let’s just say Infopia has been a typical startup.

“We would love to spend lots of money on marketing and PR,” said Espenes. “Heck yeah, but it’s just not in the budget. We’ve spent less than \$50,000 marketing our company, and we have 700 customers.’

How did that happen?

“Combat marketing,” he said. “We used spam, screen scraping data, buying lists — all the things that are not so popular, but we’ve made them work.”

Infopia’s co-founder Jalali Hartman also writes Marketplace Snapshots Serious Stats For Serious Sellers (<http://www.marketplacesnapshot.com>), a free bi-weekly newsletter that reports on auctions, online retailing, and drop-shipping. Although

Hartman is sharing his hard-won expertise for free, the idea is that this will also drive customers to Infopia.

“You want to build expertise and credibility in a non-sales environment,” said Espenes. “Permission-based marketing is what it’s all about. Then you can start a dialogue. You touch the customer four or five times before you hit them with any sales pitch.”

He does, nonetheless, see the limitations of such an approach.

“We have an unbelievably cool product and a story that needs to be told, but without a good PR agency it’s difficult to get the traction you want. A story in USA Today or Fortune or *Business Week* would be worth a lot for us, but the probability of landing there without a good PR firm is nil.”

He said it might cost Infopia as much as \$35,000 a month for the kind of firm that could land them in major national and international publications. Would it be worth it?

“If you can do it, yes, certainly,” he said. “It’s money well spent, but you have to have the money. If you want to grow you have to get the word out, and getting the word out costs money.”

Which is, of course, what every line of questioning leads to. It’s when you start to hear the fatigue come into in Espenes’ voice.

“The whole time we’ve been in existence I’ve been raising money,” he said. “It just never ends.”

When asked whether that hampered the development of other parts of the company, he said, “Of course it does.”

“If you can raise all your money in the beginning, then focus all your attention on your product, Hallelujah!” he said. “But unless you’ve done three successful start-ups in a row, you’re going to be scrambling for money for quite a while.”

Though Espenes said Infopia revenues are running at \$100,000 a month and he expects the company to be profitable in November, he’s currently in another fundraising round — this one targeted at \$3 million.

“Achieving profitability is a huge, huge milestone for a company,” he said. “It gets you a lot of bargaining power to hire employees, get financing, and all those things; but at the end of the day, our investors want a return, and that return comes from high growth. We can become profitable and have a very slow growth and the investors will not lose their money. But if we can grow earlier in that curve and put a few million dollars to work, we become a lot more attractive for acquisition or an IPO scenario.”

Preventing Mutiny

Although he’s somehow performed miracles in the fundraising department, Espenes said his biggest mistakes have come in the hiring process. He said those mistakes can be critical in a start-up environment.

“If you have the right team you can do incredible things, but the wrong team can make it impossible,” he said.

Although Infopia has raised enough money to stay in business, it has come in batches while payroll expenses have run at a constant rate. Espenes said they’ve had times where they’ve had to defer payroll, which is when a team’s true devotion is tested.

“The first key is making sure that everyone in your company has a burning desire to make things fly,” he said.

Which means stock options for everyone who comes to work. This is standard practice, however, and in these days when almost everyone in the industry owns some non-vested, worthless options, you’ve got to find more.

“The next key is full information. You need to share the expenses, the revenues, the news from the funding pipeline. You need to share everything so that they know where they stand.

“The usual tendency is to share less and less information as things go wrong,” said Espenes. “You have to go against this. People will appreciate it.”

It will also put you in a better place to handle the really tough times.

“When you stare the payroll monster in the eye on Thursday night, and then Friday comes around and there’s no money to pay the staff, what are you going to do? Do you close the doors? Or do you find a way to work with everyone?”

Espenes said Infopia has been through several such horrific episodes, and he’s only lost one employee through them.

“We refer to it as balance sheet financing of payroll,” he said. “We tell the team that as soon as the company is in a position to pay it, it will.”

Which, in essence, means the employees are then financing the company. So in order to give them something in return for their financing, Espenes said they not only get a promise to pay their salaries later, they also get more options. He said this is the kind of information that you need to share with potential employees.

“I tell everyone I interview that we have had times when we couldn’t meet payroll,” he said. “This is a high-risk environment and they need to be able to deal with it, and their families need to be able to deal with it. Not everybody can work in this situation.”

Which brings us back to Espenes, who, as we said before is as comfortable in his Dilbert cube as anyone you’ll ever see.

“Bjorn is the profile of a start-up entrepreneur,” said Bertoch. “He’s a survivor who does it with a certain amount of humor, dignity, and grace. He’s raised serious money and got real revenue in spite of all the crap that’s gone on in the dot com crash. If he can do what he says he can do, he’ll build a company that can be acquired handsomely down the road.”

“In the end the achievement outweighs everything,” said Espenes. “The excitement of building something that will make a difference and of working with people who are growing is incredible. Even if it’s 90 percent rejection, it’s a process that’s extremely addictive. Even with all the challenges and all the risk, there’s nothing else I’d rather do.”