

# THE HOMA FILES

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Professor Ken Homa  
Georgetown University



## Developing Winning New Businesses

*Proprietary Material*

© K.E. Homa

# Ken Homa

*Princeton University, A.B. cum laude, Economics*

*University of Chicago, M.B.A.*

<u>EMPLOYER</u>	<u>SECTOR</u>	----- FUNCTIONAL FOCUS -----			
		<u>STRATEGY</u>	<u>MARKETING</u>	<u>LOGISTICS</u>	<u>SYSTEMS</u>
<b>McKinsey</b>	<i>Consulting</i>	X	X	X	
Univ. of Chicago	<i>Education</i>	X	X		
<b>General Electric</b>	<i>Consumer Goods</i>	X	X	X	
<b>Black &amp; Decker</b>	<i>Consumer Goods</i>	X	X	X	X
Georgetown Univ.	<i>Education</i>	X	X	X	

*Plus entrepreneurial ventures...*



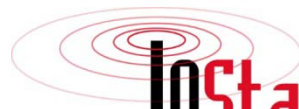
CHECKMATE



SEQUOIA  
SOFTWARE



northAmerican



**IQStat Inc.**  
broadcast performance tracking



CHECKMATE





# Case Histories

# Reps & Warranties

- Involvement: incidental to intimate
- Many people's coat tails ridden
- Mixed record – wins & losses
- Some money, many lessons
- Very personal points-of-view



**CHECKMATE**



## *Genesis*



- Techno-inventor
- MICR check readers
- Banking applications
- Patented technology

- 1975 - 1990 ... great (but very expensive) technology  
serious cash crunch (month-to-month)





## *Early History*



- Techno-inventor
- MICR check readers
- Banking applications
- Patented technology

- 1975 - 1990 ... great (but very expensive) technology  
serious cash crunch (month-to-month)
- 1990 ... new CEO, ex-IBM, hands on operator, marketing focus



*Big Idea*



*"Ported"*



- Point-of-sale check readers
- Value prop: quick and accurate



*'Secret Sauce'*



*"Ported"*



- Point-of-sale check readers
- Value prop: quick and accurate
- Competitive edge: patented technology
- Cost reduced: \$1,000 => \$200



*Breakthrough*



*Walgreens*





## *Expansion*



*Checks*



*Credit & Debit Cards*



*Signature Capture*



Pay-off



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FINANCIAL ADVISORY | PRINCIPAL INVESTING | EXPERIENCE | HYDE PARK IN THE NEWS | PRESS RELEASES | PROFESSIONALS | HOW TO CONTACT | PRINT WEBSITE

HISTORICAL TRANSACTIONS – LISTED BY INDUSTRY SECTOR

TECHNOLOGY / TECHNOLOGY SERVICES

3D Systems Corp.	Equity Offering for \$58.7 million
AnswerThink Consulting Group	Merger with THINK New Ideas, Inc.*
Best Power Technology, Inc.	Equity Offering for \$43.4 million
Checkmate Electronics, Inc.	Equity Offering for \$20.5 million (1993)

*'5-bagger' for early investors*



## *Recognition*

BUSINESSWEEK: MAY 23, 1994

COVER STORY

# CHECKMATE ELECTRONICS: BEATING BAD-CHECK ARTISTS RIGHT AT THE CASH REGISTER

Raymond J. Homa likes to bag a bear every now and then. In early May, Homa journeyed to the backwoods of Saskatchewan, Canada. Perched high in a treetop, he scouted for his prey. Within four hours, he nailed a black bear, now bound for eternal hibernation in Homa's Roswell (Ga.) office.

As CEO of Checkmate Electronics Inc., makers of check-reading gear and No. 17 on BUSINESS WEEK's Hot Growth rankings, Homa stalks his quarry with similar relentlessness. In the past year, he has bagged giant retailers J.C. Penney, Neiman Marcus, and Pier 1 Imports; American Express and Michigan National Bank top the list of financial companies that have purchased the company's electronic equipment.



## NTSB Report

On May 17, 1994, at 1937 eastern daylight time, a Mooney M-20K, N1007A, owned and piloted by Raymond J. Homa, was destroyed when it impacted trees during a forced landing near the Toledo Express Airport, Toledo, Ohio.

The pilot and passenger were fatally injured.

Mr. Homa was the CEO of an electronics firm in Atlanta, Georgia, and the passenger was an employee of the company.





*End Game*





## *TakeAways*

- Big difference between having an idea and building a business
- Creativity & passion aren't enough ... also need experience, relationships, discipline ... for credibility and results
- Products don't sell themselves ... especially over-engineered ones
- Get on the map by landing the 'big dogs' ... easier said than done
- Key management must be syndicated and 'institutionalized'
- Patience is a virtue. Timing is everything!



**SEQUOIA**  
SOFTWARE



- Malpractice defense litigator frustrated by availability and access to medical documents
- Teamed with tech-savvy brother-in-law to begin developing medical document info systems
- Won small systems projects with hospitals & HMOs ... staffed up to provide contract services
- Recruited a road-tested CEO ... for ops & credibility



## *Big Idea*

- ‘Turnkey’ software package that “productized” the systems
- Concept: medical records’ images (scanned documents, legacy systems) stored digitally, web delivered
- Benefit: real time info at point-of-treatment
- Target: multi-doctor, multi-office groups and hospitals



*'Secret Sauce'*

- Proprietary archival and retrieval structure
- Painless integration with legacy systems
- Relatively low cost ~ \$5,000 per license



*Fatal Flaws?*

- Issue #1: Very expensive to sell to doctors' offices, one-at-a-time
- Issue #2: MDs' offices PCs underpowered for Sequoia Software

**What to do?**



*Redirection*

“We’re going to be an XML portal company” *Anil Sethi, CTO*

“Huh ???” *Board of Directors*





## *Selling Prop*

- Sequoia Software's Portal Server is based on the eXtensible Markup Language (XML).
- So, companies can deploy interactive enterprise portals and create interactive information environments.
- Employees, customers, suppliers and strategic partners can share and update information in real-time ...
- ... without the need to re-key data used by multiple applications.

*Leverage the technology ... reposition the product*



*Big Dog*

## **Business News**

**February 16, 1998**

### **Sequoia and Microsoft To Introduce XML Server For Health Care**

[Sequoia Software](#) in conjunction with Microsoft will introduce an Extensible Mark-up Language (XML) transaction server for health care.

Being introduced at the Health Information Management Systems Society (HIMSS) conference in Orlando on February 25, it will be the first use of XML in a major application for the health care industry.

Anil Sethi, Sequoia's chief technology officer, commented: "This is not just an XML application. It works behind virtually all applications so that very different, widely distributed systems can actually work together to do business. In health care that means often vital patient records can be at a doctor's fingertips in seconds. And that means lives saved and lower costs."



SEQUOIA  
SOFTWARE

## *Big Wave*





*Window closing?*

February 9, 2000

## **Sequoia Software files for IPO**

Sequoia Software, a Columbia, Md.-based company that specializes in business-to-business software, filed a registration statement with the Securities and Exchange Commission for an initial public offering. Sequoia plans to sell up to \$60 million in common stock from the offering. The proposed Nasdaq symbol is "SQSW." No IPO date or initial share price was specified.

~ \$18 / share



*Big Bet*

## IPO Market Continues To Crawl

Nicole Koffey, Forbes.com, 05.05.00 4:05 PM ET

As the IPO market continues to crawl along next week, only one deal, **Sequoia Software**, will most likely have the courage to debut. Aside from that, the IPO market remains a relatively lonely place.



*Bang*

May 12, 2000

## Sequoia Software up 26 percent in IPO

Sequoia Software, a Columbia, Md.-based company that specializes in the XML language, saw a 26 percent leap in its initial public offering price on Wall Street. The first day gain was not nearly what technology IPOs were doing last year, but 26 percent was better than Sequoia executives expected. The stock opened at \$8 a share and closed just above \$10.

Note:  $\$8 < \$10 < \$18$

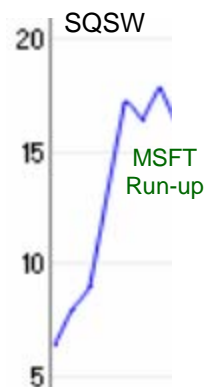


## Big Dog - Sequel

June 23, 2000

### Sequoia-Microsoft deal sends stock soaring

Columbia, Md.-based [Sequoia Software](#) shares were up 26 percent today, a day after news of an expanded partnership with [Microsoft](#). Sequoia stock closed at an all-time high of **\$17.13**. Microsoft's expansion into software for handheld devices, PCs and cell phones is expected to increase demand for Sequoia's products.





SEQUOIA  
SOFTWARE

## Big Wave - Sequel







- Citrix Systems, a leader in application server software, announced that - as part of its strategy to maintain its symbiotic relationship with Microsoft - it would acquire Sequoia Software, the leading provider of XML-based portal software.
- The cash tender offer of \$5 per share is valued at approximately \$185 million.



SEQUOIA  
SOFTWARE

## Perspective





## *TakeAways*

- Again, founders needed ‘adult supervision’ ... for operating discipline and street cred
- Winning idea morphed from fatally flawed original
- Landing the big dog (MSFT) was ‘defining moment’
- Oh, so close to a 10-bagger ... timing is everything!
- Keep things in perspective ...



- Telecom product manager – stuck in rush hour traffic – wonders “how do radio stations and advertisers know what I’m listening to?”
- Concludes: “The \$20 billion spent annually on radio advertising lacks the accurate and timely reporting that Nielsen provides television advertisers (\$48 billion).”
- Conceives a ‘Nielsen box’ for cars to collect listening & geospatial data
- Engages a product design firm with idle capacity to engineer a working prototype of an in-car data recorder “on the come”
- Partners with an accounting-oriented friend and begins shopping the idea to family, friends, “angels”, and VCs to fund a start-up operation

- Patented car radio “plug in” – unobtrusively mounted in the trunk or under the dash – automatically collects and reports radio and GPS data.
- Continuously monitors and time stamps key in-vehicle parameters:
  - *Radio Status (On/Off/CD/Cassette)*
  - *Frequency Settings (AM/FM/Sat/ Station ID)*
  - *Radio Volume (Signal Strength, Listener Control)*
  - *Vehicle Location (GPS)*
- Automatically batches, compresses, and transmits digital data wirelessly to a central database
- Provides real time web access to the data and analytics.

<b>Advertisers</b>	<b>Agencies</b>	<b>Broadcasters</b>
<ul style="list-style-type: none"> <li>• <b>National</b> <i>(e.g. Coke, McDonalds)</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Full Service</b> <i>Research, strategy, creative</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Local AM / FM</b> <i>WBS-AM, WVEE-FM</i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Local</b> <i>(e.g. Malls, The AJC)</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Media Buyers</b> <i>Agency service or independent</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Nat'l Syndicates</b> <i>Clear Channel</i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>Regional</b> <i>(e.g. GA Lottery, local Chevy Dealers)</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Consolidators</b> <i>Broker</i></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Satellite</b> <i>XM, Sirius</i></li> </ul>

- Radio ad 'rate cards' based on Arbitron ratings.
- Data commonly viewed as highly problematic:
  - ✓ *Diary-based, error-prone (recall & recording errors)*
  - ✓ *Infrequent (2 or 4 times per year)*
  - ✓ *Long after-the-fact (weeks after "sweeps")*
  - ✓ *Tends to understate radio listening in general (especially versus other media)*
  - ✓ *Tends to overstate ratings for high share stations (easier to recall, peer effect)*
- High prices (\$8,000 to \$10,000 per month) ... beyond the reasonable reach for smaller stations ... customer base highly concentrated concentrated (*Clear Channel, Infiniti*)
- **Much dis-satisfaction among customers ...**



## **Clear Channel holds a knife to Arbitron: Better terms or we scoot, says huge radio player**

Radio giant Clear Channel and ratings service Arbitron are in a contract standoff that has all the appearances of getting quite nasty. Two weeks ago, Clear Channel announced that it would not renew some of its existing contracts with radio's longtime official scorekeeper.

Now Clear Channel, owner of some 1,170 radio stations in the U.S.--about a tenth of the total--is threatening to pull all of its stations in 99 markets and some of its stations in another 31 out of Arbitron. The companies are currently negotiating new contracts for those markets, which represent 14 percent of Arbitron's total sales. Clear Channel, which accounts for 20 percent of radio's total revenue, is asking for reduced rates and additional market data from Arbitron as conditions of a new contract. Losing its single biggest client, one that represents 22 percent of its total sales, would not please investors. Arbitron had revenues of \$207 million last year.

"It could put Arbitron in a big hole. If Clear Channel leaves, who's to stop some of the other companies from doing the same thing?"

Clear Channel's Palmer says the company would "look for alternative methods in terms of measuring the data" if the company does not renew the Arbitron contracts.

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**Marketing ROI**

**Rate Card Arbitrage**

**Listener Dynamics**

- “Bootstrapped” concept development and prototype design.
- Enlisted an advisory board with expertise & marquee value
- Made initial contacts with target clients ... strong support
- Raised over \$5 million from family, friends, angels and VCs
- Planned a sequential roll-out: proving concept in Atlanta, then quickly expanding to other major markets
- Just needed to “fine-tune” monitor design for production and follow-up to “bag” customers ...

- Product development took 18 months longer than planned
- Continual cash crunch required multiple “down rounds” of additional financing ... founders & early investors “diluted”
- Target customer interest not converted to orders  
*Downturn in radio ad spending    Arbitron pressure*
- Operations discontinued ... doors closed.

- Compelling business concept
- Admirable early “bootstrapping”
- Arduous but successful fund-raising  
*(post-bust VCs meet pre-revenue pariahs)*
- Right “first steps” to position business  
*(industry relationships, customer contacts)*

- **Unproven management team**  
... more enthusiasm than discipline
- **Unfinished product design**  
... more than fine-tuning req'd
- **Underestimated competition**  
... Arbitron fierce & formidable
- **Misread customer interest**  
... didn't really want to know (or pay)
- **Too cavalier re: ops, cash flow**  
... inadequate cash "runway"





# *Mega-TakeAways*





## TakeAways

### Catch a wave ...



- Social or technological  
*e.g. Sequoia and XML*
- Imitation vs. invention  
*porting, re-localizing*
- Peripheral products  
*e.g. iPod accessories*

Corollary: Don't swim upstream



## *TakeAways*

Have a secret sauce ...



- Great ideas will be quickly imitated unless ...
- Proprietary designs, patents
- Key for fund-raising and survival



## *TakeAways*

Establish a beachhead ...



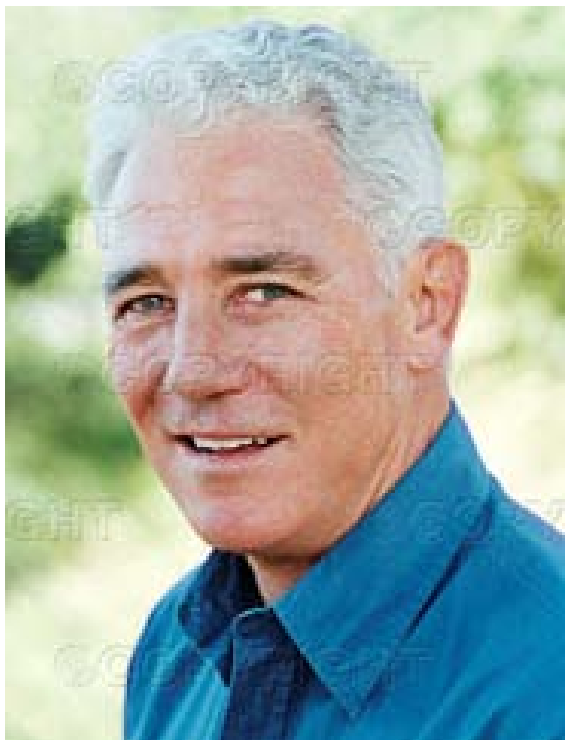
- CMEL: checks, banks
- SQSW: healthcare
- IQStat: ???????

Corollary: Claim a niche



## TakeAways

Find some gray hairs ...



- Credibility ... *with investors*
- Relationships ... *with customers*
- Expertise ... *in operations*
- Perspective ... *for organization*

Corollary: Somebody has to know what they're doing  
(or at least appear that they do to outsiders)



## TakeAways

### Don't be Roy ...



*Siegfried*

*Venture  
Capitalist*

*Roy*

- To 'them', building businesses is incidental to making money ...
- Operating expertise not core: a benefit and liability
- Focus on terms and conditions ... especially follow-on rounds
- **Stumble and get eaten !**



## *TakeAways*

### Respect cash ...

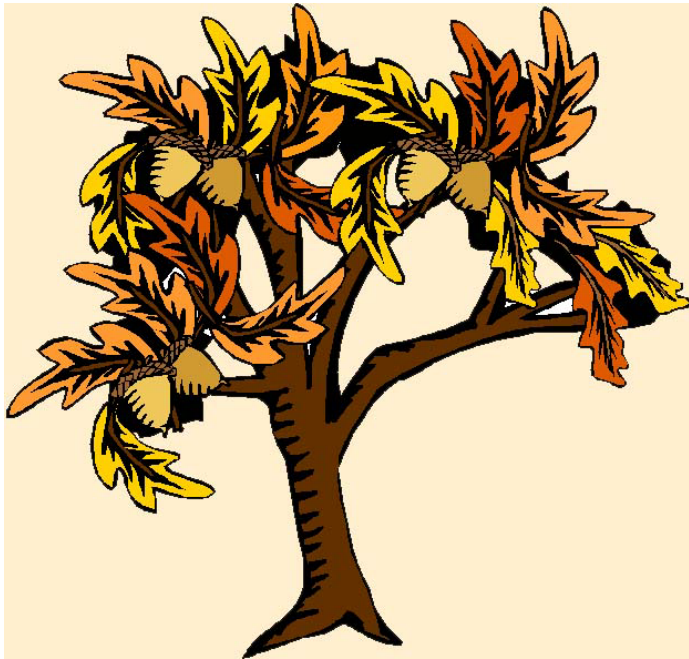


- Obsess over cash flow
- Bootstrap the start
- Revenues ASAP
- Delay VCs ALAP
- Watch “runway”



## TakeAways

From tiny acorns ...



- Start small ... *prove the concept*
- Stay flexible ... *morph as req'd*
- Go like hell ... *capitalize !*
- Know the exits ... *just in case*



*Whew !*