

EXECUTIVE INTERVIEW

By Emily Sopensky

JAY VALENTINE, CEO, INFOGLIDE



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Jay Valentine is CEO and a major investor in InfoGlide Corporation, an Austin Technology Incubator firm that recently received the National Business Incubator Association 1999 Award for the Best New Technology. Similarity Search Engine, the company's stellar product, is used primarily in fraud investigations, but the product is clearly destined to be a powerhouse in the Internet market.

Featured on *60 Minutes*, in *Texas Monthly*, and in other high profile media, InfoGlide has received its fair share of publicity. Yet, until recently, it has struggled during its 10-year existence. Founded by David Wheeler to solve the brutal murder of his father, the first prototype of the Similarity Search Engine was not finished until 1997.

Enter Jay Valentine. When the company was headed to a sure demise, Valentine invested first his money, then his sweat equity. Passionate about InfoGlide—its products and its people—and savvy about marketing, Valentine talked about the company and the tactics of confrontational marketing.

Q: How did you get to Austin and InfoGlide?

A: My background is in the database business. I've also been in the Internet business. I took a

company in New York to IPO that had been \$11 million in debt, had no product, had built an e-commerce encryption engine. When I took over, the product was a year behind. They brought me on specifically to do the roadshow and to get the IPO done. I left about 6 months later after [the company received] more than a heart resuscitation and the [original] investors got out whole.

A friend asked me to come out here [to Texas] to do a turnaround of a software company that is doing advanced logistics for a major retail chain. While we were getting third parties to market it, Cerise [Blair] and Margaret [Dahl] asked me to advise some software companies in the Austin Technology Incubator on telemarketing. I worked with three or four companies—InfoGlide was one of them—on what I call “confrontational marketing.”

Q: And what is that?

A: It's a set of techniques you use in a very crowded market so that you can differentiate your product. Value is directly attributable to product differentiation. All the white noise in the technology industry is only going to get worse. When you watch TV talk shows, notice that when they begin to lose an argument, they begin to raise their voices. That's what's happening in software and technology marketing today because you cannot make your point. In the software market, everybody uses exactly the same words—“relational, fastest, quicker, best, revolutionary”—mix and match, and it can be anybody's brochure. That's a sure way to die.

Q: What do you see as the mission of the CEO, especially in regards to marketing?

A. The number one job of the CEO is to articulate the vision that the technology can achieve, what it can do. One of the real problems we

have in this industry—it just makes me crazy—is that even VC firms don't always understand the difference between hype and what a product can really do. It's also very hard to explain what we do because we have a discontinuous technology—our technology grew from something that never existed before. It has no ancestor. The second most important job of the CEO is to bring out the real importance of the product. And the third is to find the right business partners.

A small company doesn't have a lot of resources, so we do confrontational marketing. It's very much like martial arts, where you use your opponent's power against you in such a way that you're transferring their power to you. If you have a very powerful, physically large opponent, you get him to, in the course of fighting with you, make the mistake that will force him to use his physical weight to hurt himself. So you find the biggest competitor in the industry that you don't have a prayer of taking on.

We asked ourselves, “Who owns the market we're in?” The answer: neural nets. We talked to customers about neural nets. We were bowled over. They said, “We hate 'em. They're hard to use and they cost a lot to support.”

So we don't go after XYZ company, but after a constant called “neural nets.” Neural nets are a type of technology that are like a jet engine because they take in huge amounts of data, like a jet engine takes in huge amounts of air. A jet engine is great except when flying into an area that has a lot of pigeons. If anything gets into that engine, the results can be catastrophic. Neural nets need perfectly clean data. But the nature of data is that it is dirty.

We did a study for an insurance company. Out of 1000 claims with “Los Angeles” in each, there were keypunch errors that produced

16 ways of spelling Los Angeles—and that was with good data. This happens all the time. We did a major study for Allstate Insurance of people who were changing every single attribute—their name, address, previous address, Social Security number, their VIN number—to avoid detection. And yet we found fraud again and again. If we can do that with fraud, we can do that with direct marketing. How many different ways, for example, can you misspell your name and get direct mail pieces for each spelling? Of course, the real power of our search engine is on the Internet.

Q: So you've got some great markets to pursue. How do you get the word out if you're not spending money on advertising?

A: Instead of hiring advertisers and marketing guys, we put our scarce money into going to customer sites; customers with their hair on fire being victimized by big fraud rings. We went to Allstate who had already found a large fraud ring in the Eastern U.S. But they couldn't find the edges of it. We put our product in and did a free test for them. A few weeks later we came back and showed them not only fraud that they couldn't detect any other way—up to \$50 million worth—but many cases that were not fraudulent but looked fraudulent. By pouring our resources into that one customer we got 1) a user; 2) we got a neural net story; and 3) we got a great reference.

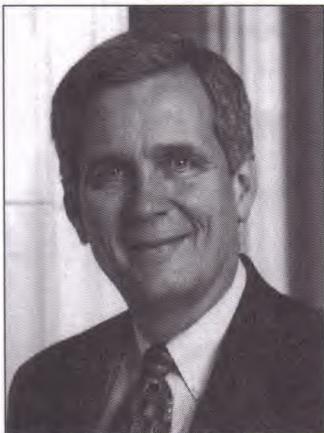
The number one VC in the world for the P&C [property & casualty] insurance industry called us because they heard about us from their customers. They have \$26 billion in assets. They invested \$2.5 million and then came back and invested another \$2.5. And they are a wonderful strategic partner.

But when you are running out of money you have to put that flag

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EDUCATION MEANS EQUITY

By Lloyd Doggett



U.S. Representative Lloyd Doggett

Amidst the cedar and limestone of the rough Texas hill country, we have seen a once rural economy transformed; we have traded cow chips for computer chips. As you are well aware, our success is reflected in a recent double hitter—a cover story on Austin in *Newsweek* and an announcement by *Fortune* magazine naming Austin as “The Best Place To Do Business in North America.” And we will be working together to keep it that way.

But ensuring that all of our citizens have an opportunity to share in this success represents a challenge every bit as great as that involved in obtaining the recognition Austin has received.

What irony that some of our most successful technology companies are literally searching the world for qualified employees to work in Central Texas at the same time that double digit unemployment among minorities persists. None of us enjoys a monopoly of truth about how to solve these problems, but there is no doubt that education is the path to success.

I believe there is ample evidence locally of the commitment of the Austin business community to play an active role in upgrading the quality of public education and increasing the supply of talented employees. Whether it's Partners in Education, support of school bonds to wire every local school

classroom, expanded technology programs at Austin Community College, or the Capitol Area Training Foundation, we have an evolving community strategy here for meeting the workforce needs of our technology sector.

Just last month the Austin Independent School District's Partners in Education program organizers held their annual awards dinner to honor the more than 350 corporate “partners” in Austin that share business and community resources to improve our schools. Austin boasts the first school district in the area to start a partnership program. Since its inception in 1983, the Partners in Education program has provided more than \$52 million in volunteer time, equipment, and cash to AISD.

Partners in Education has recognized that we must close the computer literacy gap, that we can apply technology to unite rather than to further divide our citizenry. If we can launch rockets and send astronauts into space to explore our universe, if we can pioneer Internet technology that allows us to connect with each other across the globe in an instant, we can extend a helping hand to ensure that every Central Texan has a meaningful opportunity to share in the American dream. I congratulate all those who participate in Partners in Education and other programs geared to help students and our schools—and encourage you to recruit others. I look forward to our future together as participating members in this great community.

Rep. Lloyd Doggett, former state Senator and Texas Supreme Court Justice, is the founder and co-chair of the bipartisan House Information Technology Working Group and serves on the House Ways and Means Committee. He can be reached at 300 8th Street, #763; Austin, TX 78701. Or visit his website at www.house.gov/doggett.

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out there to get a lot of attention to yourself fast. People immediately understand everything that you do because they understand the one Achilles' heel of neural nets. That got us through phase one—that's what I mean by confrontational marketing.

On our website we benchmark head-to-head with neural nets. We went into insurance companies and took data where we found fraud rings that you couldn't find with any other technology.

The next thing that we did was go to the largest crime bureau in the U.S.—National Insurance Crime Bureau. You have 200 investigators who do nothing but investigate insurance crime—a non-profit organization like the Interpol. We worked with them with our product and other leading products on the market. We knew what was going to happen, but we wanted to force the benchmark to prove our product. They told us about a fraud ring that they broke the year before, a Russian organized crime ring that had moved to the U.S. and created workers comp in an auto fraud ring. The ring did about \$25 million in damages and victimized 16 insurance companies over a period of 18 months. It was the hardest one they ever broke. So we said to them, “Salt the data and send it to all of us vendors.” So they did. None of the vendors could even find the fraud ring. We found it in one day.

Part of confrontational marketing is that you must be memorable. The goal of marketing is to bring value. With so much white noise in the industry, you can't use traditional techniques. I couldn't write a check for advertising because it would be a waste of money.

Q: But it seems as if you have a product that sells itself.

A: No we don't. We have a product that sells because I'm telling you a story that's memorable. InfoGlide was a 7-year-old company, 90 days away from running out of money. The concept of

confrontational marketing is kind of like that guy Jesse Ventura. People are tired of pabulum marketing. They want this refreshing approach. Why do you think we get so much press? It's because we're good and we're interesting. This is one of the most exciting technologies out there. Because it is something that when you understand what it does, you can use it anywhere.

Q: If your technology is so hot and your marketing is so great, how come you haven't been snapped up?

A: We've had many offers, but the reason we don't want to sell yet is we're announcing several major patents for power technology on the Internet. We believe that we will have a \$100 million market cap in 18 months. And a billion-dollar market cap in 36 months. Because of what we can do for the Internet, everything will change. For example, an Internet company in town said it had 250,000 customers but didn't think all were customers. They wanted to give them frequent flyer points, reward customer loyalty for purchases, but thought some of the people were the same. Our search engine showed them that instead of 250,000 customers, they had 250,000 logons and a little over 35,000 customers. And they were happy about that!

Q: Where are you headed next?

A: We only started building this product in the last 12 months. We couldn't handle more than 700 records last year. We handle 50 million today. Right now it runs on NT, UNIX, Java. A very sophisticated product. We have 25 employees and that number will change upwards. We're a year away from putting our technology on a chip. But we'll always do confrontational marketing!

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