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TEXAS SOFTWARE SYMPOSIUM FOCUSES ON HYPER GROWTH

by Emily Sopensky

Even if you're not employed by a high tech company in Austin, it's hard to miss the effects of hyper growth. Try wending your way north on IH-35 or MoPac at 5 PM. While gridlock in Austin is relatively minor so far, this evening ritual illustrates the fact that the infrastructure has not kept pace with Austin's growth.

The 1997 job growth in Austin (4.5%), which surpassed that in Texas overall (4.2%), is fueled primarily by local job startups. Nearly $1760 million was invested in 38 local companies in 1997, more than double that of 1996. Austin is a hotbed for software development, communication, medical and healthcare services, and electronics and instrumentation.

For good reason then, the organizers of the 2nd Annual Texas Software Symposium (TSS) chose the theme of "Managing Hyper Growth Companies." When a company goes from $0 to $8 million in revenues in two years and then is bought for $125 million, the growth is so phenomenally fast that there is little time to prepare for changes. According to Planning Committee Chair Alex Broeker of Ernst & Young, "Our expectations for the Symposium were to provide a meaningful forum for very early stage companies to learn to cope with looming hurdles."

On May 28, 1998, Austin Software Council hosted an exceedingly successful gathering of software developers, venture capitalists, lawyers, accountants, and other interested parties. Underwriters included The Austin Business Journal; Austin Ventures; Brobeck, Phleger & Harrison; Civic Pride, Inc.; Don Cox Company; Ernst & Young; Growth Capital Partners; Robertson Stephens; Merrill Corporation and Silicon Valley Bank.

The legendary Mike Maples, Microsoft ambassador and former VP of marketing, kicked off the symposium by delivering the keynote luncheon address at the Renaissance Austin Hotel.

Next in the lineup was a well-qualified panel—Alexa Lange of HireTECH, Ed Taylor of Collective Technologies, and Susan Walker, Ernst & Young—presenting on the questions of recruiting, retention, and the college pipeline.

Toney Jennings, Wheel Group; Pat Motola, Motive Communications; and Steve Papermaster, Powershift Group, talked from personal experience about when to cash out.

Management in transition was the topic for the next panel. Bill Bock and Bob Fabbio discussed how Bob handed the reins to Bill. Likewise, Nancy Woodward and Ron Harris talked about Ron transitioning into Nancy's CEO position at Pervasive Software.

Hailing from San Francisco's Robertson Stephens, Mark Sherman visited Austin once again—this time as the last speaker of the evening. His topic: The changing rules of software industry finance and partnering.

IT'S PEOPLE, PEOPLE, PEOPLE

by Emily Sopensky

Ed Taylor, president, Collective Technologies, a nationwide recruiting firm, listed the four elements of success for all technology related companies. Taylor said, "Most people focus on finding money. You've got to have good ideas and a good infrastructure. But what makes things different is people, people, people. If you find the people, you have the ideas."

To find people, he suggests a number of ways—but not one to the exclusion of others. Referrals, print advertising, recruiters (internal and external), unsolicited resumes, and job fairs are all sources of potential hires. "By the way," he added modestly, "A great recruiting firm is worth its weight in gold." In Taylor's experience, a company's own staffing is an underutilized resource for referrals. Finally, web-based recruiting is emerging as a powerful source of recruitment.

"To sum it up, I don't think most companies are doing a very strategic job of recruitment. Instead, they are using a tactical approach."

Another form of recruiting focuses on those straight out of college. Alexa Lange founded HireTECH in 1997 after successfully establishing and managing Trilogy Development Group's notable and controversial college recruitment program. By aggressively recruiting the brightest from the best colleges, regardless of undergraduate background, Lange's college recruitment program stands alone. It includes the notorious bootcamp-like, 3-month training program that all

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PULLING THE RIP CORD: AT WHAT POINT DO I CASH OUT?

by Karen Jonson

High-tech companies interested in cashing out need to consider three things in advance, according to three industry high-tech leaders with IPO experience: how you go into the deal, where you want to exit, and how you play the game. The presenters of "Pulling the Rip Cord: At What Point Do I Cash Out?," were Steve Papermaster, chairman of PowerShift Group, an Austin-based technology venture development company; Pat Motola, vice president of product development for Motive Communication; and Toney Jennings, former president, CEO, and chairman of the board of WheelGroup Corporation, which was recently acquired by Cisco Systems.

Papermaster stressed the importance of how you play the game. He stated that "this is a very rapidly changing set of markets that we're involved in and you have to be very entrepreneurial to cash out successfully." He drove this point home by enlisting the "entrepreneurial" members of the audience to join him in singing the chorus of the 'The Gambler.' "You got to know when to hold 'em, know when to fold 'em, know when to walk away, know when to run. You never count your money when you're sitting at the table; there'll be time enough for counting when the dealing's done."

"You've got to understand what game you're playing, because an IPO is a gamble. Are you playing a high stakes or low stakes game? It's a lot easier to play a high-stakes game, so if you're going to play, play high," he added. "And it's easier to play high, if you've got a technology solution that solves a big problem."

Papermaster concluded his discussion by saying, "Know your game. Know who's sitting at the table with you. Play your cards and remember that winning is okay and high-class problems are okay."

Motola explored the nitty-gritty of IPO terms, company valuation, setting up the wealth equation to maximize your return in the cash-out stage, and cash-out timing. "In this game, timing is ultimately the most precious commodity," he said. "Don't waste four to five years working in a low-leverage, low-opportunity situation."

Motola addressed the key question he and his partners considered in their IPO strategy: What is our exit strategy? "You have to be smart up front, because if you have flaws in your planning you'll never get the value at the end. As a strategic process, an IPO can take years. So, your mental attitude has to be that an IPO is not the wealth-making event; it's the follow-through in the subsequent years that count. The goal should be to execute a strategy to maximize wealth with no surprises."

Jennings presented his personal experience in the IPO of WheelGroup Corporation, a high-tech security company. "One of the things our ten founders did that was smart was thinking up front about what we wanted to get out of the IPO. Our strategy was to enter the process at the exit. The IPO process is not black and white, so it helps to have a specific exit plan ahead of time; just like you don't get on the freeway unless you know where you want to get off. Our exit strategy was to set our sights at a three-year window and $100 million or more, and make sure we had the details covered, such as [having] good legal help."

Part of WheelGroup's exit strategy was to create an acquisition criteria list, which included a reasonable valuation of the company, immediate liquidity, a proven acquisition track record, cultural synergy, and operational independence.

The bottom line, said Jennings is, "It's difficult in the heat of battle to establish your plan of action and criteria, so it's worthwhile to spend the time up front deciding where you want to exit. It will influence how you enter the game and how you play the game."

IT'S PEOPLE, PEOPLE, PEOPLE

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new college hires go through together. With the idea that no one succeeds all the time, the program encourages risk-taking.

Still in her twenties, Lange has taken what she has learned about recruiting college hires and staked her fortune on it. HireTECH specializes in hiring top grads straight out of college. Admitting that going for the best and the brightest is not an easy job for any recruiter, Lange noted that hiring for a startup firm on the Third Coast is even more difficult. These college grads are savvy and smart.

She describes the recruits that will give you more than you asked for as the "A-Players." These are the ones that 1) will catch a fast ball; 2) have the enthusiasm to openly embrace change and make things happen; and 3) have energy—enormous personal energy and the ability to energize other people. The A-players are the ones you want to recruit and to do the recruiting for you. "A-players hire A-players. B-players hire B-players."

Competition is stiff. Lange explains, "The process of recruiting new college grads takes a full year with a good recruiting plan. This year, so far we've hired 215 A-players and we're expecting 40 more to hire on."

Retention recruitment and retention go hand in hand. The programs that a company offers to attract good talent must also have longevity to keep the employee interested in staying with the firm. Susan Walker is an Ernst & Young specialist in compensation programs for retaining key employees. She noted that changes in employee attitudes (declining loyalty, more willingness to trade security for potentials, wariness of the future) are being offset by employer needs (ability to quickly respond to changing work environment, changing technology, team-based structure). "They want ownership and they want responsibility. They are willing to take risk, but they also want potential." Consequently, compensation programs gaining in favor and success include those that shift to equity and performance-based investing versus those that provide cash compensation.

She had a long list of reasons why compensation programs fail including a lack of formal strategy, emphasis on cash and short-term compensation, no linkage to performance objectives, a one-size-fits-all approach, and lack of communication and education about programs that do exist. Walker concluded that having an adequate and strategic compensation program can mean the life or death of a startup.

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