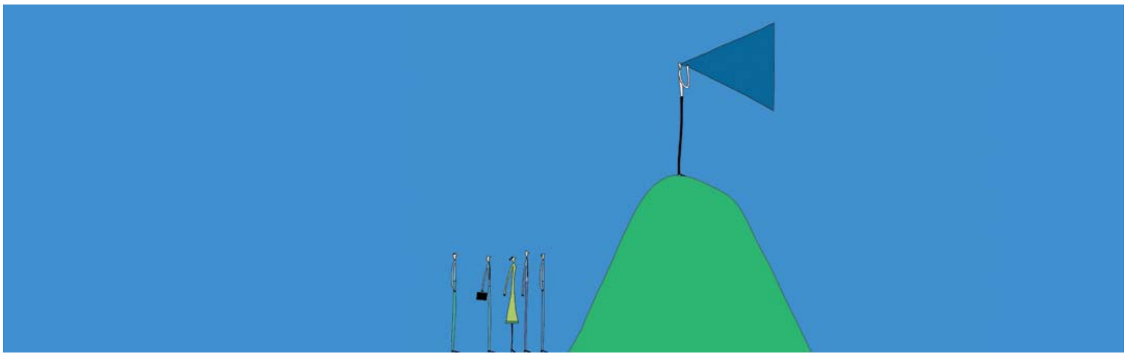
John O'Connell



Staffware

Introducing John O'Connell

It is a surprising fact that some of the leading companies arrived at the top without taking early venture capital funding. Today's market will cause companies to be more prudent in how they apply capital to generate returns. In a series of discussions with entrepreneurs whose capital-efficient businesses are recognized "return leaders," David Carratt, Managing Director at Kennet in London, sat down with John O'Connell, Founder of Staffware, to learn how he created a £123 million company from a bootstrapped/ startup venture.

Having exited from Staffware in 2004, John is now the Chairman of Portrait Software, InforSense, Columba Systems and Mtivity. At the time of this interview, he was also Chairman and co-owner of London Wasps Rugby Club. In December 2008 he sold his shareholding in Wasps and resigned as Chairman. His view was this was necessary in order to focus his efforts on the four companies and sustain their performance through the current challenging times.

Apart from his entrepreneurial and investment activities, John is also a member of the Company of Information Technologists' Entrepreneurship Panel and Co-Founder and Patron of the Technology Leadership Group (TLG) of the Prince's Trust. TLG is the UK's leading industry group from the TMT sector which has raised over £5 million in the last 4 years and created nearly 2,000 entrepreneurs.

In this frank interview he talks us through some of the ups and downs of the Staffware journey. It is a story of survival through a downturn, dogged determination and more than a little humour.

In the Beginning

Staffware was a pioneer in workflow/BPM software. The product enabled the rapid development of workflow solutions that abstract and automate business rules and processes, to improve customer service, competitive advantage, and organizational productivity. The solution also ensured adherence to regulatory requirements.

Staffware evolved from some blue sky thinking when John and his two cofounders, both technical, were getting bored with a successful financial modelling software business. They thought then that the next 'big thing' would be intelligent, rules based e-mail, and resolved to be part of the success story.

On being asked to say a little about how he spotted the opportunity:

> ***"We were arrogant enough to believe we had identified something completely unique… a few pioneering thinkers endorsed our ideas. We touted the idea to prospective distributors and OEMs… we were seen as being a differentiator for them".***

Q&A

Name: John O'Connell

Title: Founder

Company: Staffware Limited.

Headquarters: Maidenhead, United Kingdom.

Date Founded: 1984

Employees: 400

Venture Capital Raised/Used:

£1.2 million in two rounds (1984 and 1988) and debt.

Sale: Acquired by TIBCO in 2004 for $220 million – then about £123 million.

How did you fund the company initially?

"We hired a few 'techies' and two of us took on the role of sales – with salary being highly subjective to cash availability. We invested what I (and Kennet) call 'sweat equity'.

We charged distributors a fee and our customers paid for development of an application that was specified during the sale.

When the cash ran out, we raised funds from a city institution. When that cash ran out we secured an overdraft from a naive but friendly bank manager, until he was replaced by one who was neither. After that, we got £200k of angel funding for 20% of the business until we went onto AIM.

So in total we raised £700k net before AIM."

Why do you think this worked?

"We were passionate to the point of manic obsession about what we were doing; believing we had breakthrough technology. Of necessity, I personally was obsessed about cash management, meaning we had to convince customers and partners to pay for everything we did for them, even though they were early adopters who we desperately needed. Later on, that focus on cash was part of the impetus to drive the business to profitability.

We learned very early to add value to a sale by building applications rather than simply selling a toolkit, and that the more you could get the customer to pay for development costs for an application specified during the sale, the better."

What were the biggest issues you had to overcome to make this work?

John (almost happily) admits to making "almost every mistake possible in business, even while we were growing" Amongst the mistakes he includes: hiring the wrong people; expanding too fast; having a dysfunctional board; buying the wrong hardware and/or software; and spreading themselves too thinly so that the quality of customer service suffered.

It took you a long time, almost six years, to get to £1 million revenues. Did the business plan change in this time?

"One of the biggest changes in growth to the company happened when it was taken to the international market. The company was 'noticed' and we were approached by distributors across the globe. We continued to charge distributors and had access to far greater markets."

How big was the company when you listed it on AIM? How did the business grow after that?

"When it was floated in 1996, we had revenues of £4 million. Following the AIM flotation, Staffware became one of the UK's fastest-growing IT companies, achieving sales growth of almost 40 percent CAGR in the ten years up to 2004, and running profitably throughout almost these entire ten years, and investing a consistent 18% of revenues back into R&D."

What issues did you run into when you were AIM listed?

"We listed on the inaugural year of AIM in 1996 - only because we had been turned down by all the VCs we approached as well as prospective acquirers. AIM was immature as we were - which was convenient for both! After missing our forecasted numbers, we tightened up our sales processes, as well as spreading our risks through overseas expansion. We franchised the business and then bought back the franchises once the local market had been developed. The strategy paid off and we were able to make our forecast numbers consistently for most subsequent years, despite having a sales model which relied upon bigger and bigger deals. Like many technology businesses we hit the wall early in 2001, resulting in a profits miss in the first half of the year. Our shares, which at one time had a peak market cap of £650 million, plummeted to approximately £15 million. A significant cost reduction programme involved a loss of 100 staff out of 450 in the first half of 2001, but meant we returned to profitability in the 2nd half. The subsequent two years were records one after the other in terms of both profits and cash."

What were the most important lessons learned at this stage?

"A publicly traded company needs to be able to forecast its figures accurately. In the early days, we didn't know what we were going to be able to do the next month, let alone year! That problem was exacerbated by our reliance on channels."

What about the decision to pursue the trade sale to Tibco, did you consider any other alternatives?

"In June 2004 Staffware was acquired by Tibco for $220 million. At that time we had about 400 employees in 22 countries and had enjoyed a second successive year of record profits with £25 million in cash in the bank and no debts.

I consulted with the team, major institutional shareholders and advisors throughout the process. Philosophically, I felt that it was a shame that one of the few successful UK software companies, globally, would effectively 'disappear' after the acquisition, but our stake(share)holders, myself included, felt the 'price was right'."

You stayed on as part of the terms of the acquisition; can you shed any light on what the biggest changes were after it?

"The biggest change was the realisation that we no longer called the shots in terms of policy; that lawyers and accountants hold sway far more than a European software company and that the US model is very much silos of organisation, by function - sales; marketing; HR; legal; support; etc, not horizontal within countries, as Staffware used to be. This meant that the whole company view only comes together at the board level, with limited business management responsibility further down the line.

I was asked and able to stay right through a transitional period, which allowed me to come up with recommendations for the new management structure based on how the two companies might be best integrated. The new structure did not include me and I was happy to leave, clear in the opinion (which I still hold) that founders typically do not make good employees."

What advice do you have for founders of bootstrapped businesses debating whether to take capital?

"Raising capital is no job for amateurs; the wrong financial structure can blight your future wealth creation. Customers are the cheapest form of finance but if you have to go for capital outside your customers, to fund growth for example, don't be naive about the way you approach it. The usual steps are Angels, then VCs. Angels are great at the beginning, but can become an obstacle later on. They sometimes resist change and any dilution of their shares, and can become over-involved in operational matters. Most VCs have superficial expertise in many areas, including technology. Seek good advice. You can find people who will help you. In the UK, for example, the ITC has launched a mentoring programme for precisely this reason. http://www.itcmentoring.com/

You have to realize that accepting other peoples' money changes your role, wherever that money comes from. An external investor may be first to spot when a founder needs to be replaced and founders often do fail, especially if they cannot scale the business. You have to be prepared for the change in role, and inevitable loss of control.

So you have to decide whether you want to be rich, or you want to be king. Frequently, the owner of the company is richer than the person or people running it, and your role may – probably should - change over time."

And finally…

Above all, enjoy the success when it comes, you've worked hard for it.

About the Interviewer

David Carratt

David is a managing director at Kennet Partners in London. He led Kennet's successful investment in market-leading telecoms OSS vendor Cramer Systems (acquired by Amdocs) and is a board member of Clearswift, Exony and FRSGlobal.

David has worked with top-flight executive teams across multiple technology industry segments. He applies his experience of software, electronics and IT services business models to driving operational excellence in Kennet's portfolio.

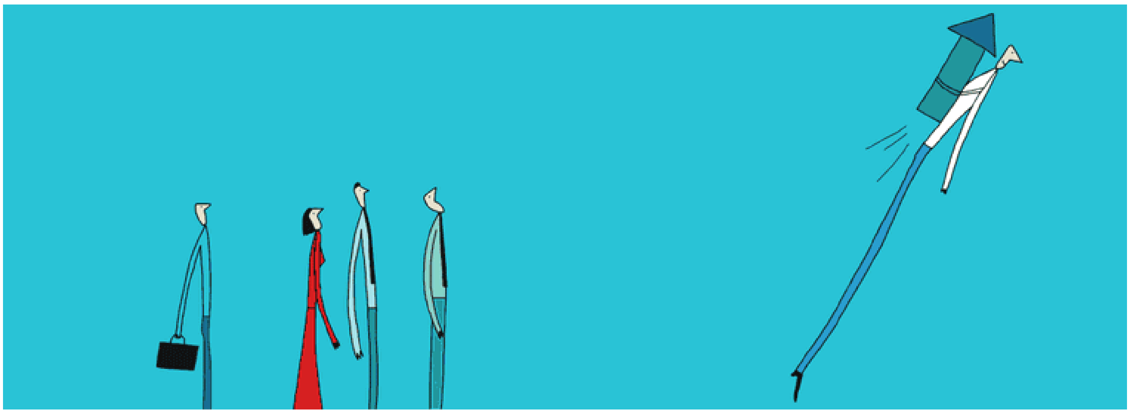
David has been involved in building Kennet since he joined as a partner in March 1998. Prior to that, he was Director of Professional Services at Sybase.

Before joining Sybase, David started, developed and sold two high-technology divisions at Mars Inc, having established subsidiaries in the US, France and the UK, as well as an international distribution network. In David's early career, he was a divisional manager at Scicon, a leading systems integrator which was subsequently acquired by EDS.

He has a Bachelor of Science degree with Honours in Mathematics with Physics from the University of Sussex.

About us

Kennet invests in entrepreneurial technology businesses to help them take the next big jump in growth



We're an experienced growth equity investor with a long track record of building global market leaders and achieving high-value exits.

Since 1997 we have invested in over 40 companies in Europe and the US.

As a growth equity investor, Kennet focuses on companies that have proven commercial success and are now ready for the next phase of growth.

The companies we invest in often do not need money to survive.

They have options. But the right investment from the right partner can help them keep ahead of their markets, expand internationally, ramp up their sales forces and lead to greater value for shareholders.

Visit us at www.kennet.com to learn more.

Silicon Valley

Kennet Partners LLC
950 Tower Lane, Suite 1710
Foster City, CA 94404

tel: +1 (650) 573-8700
fax: +1 (650) 573-8712

London

Kennet Partners Ltd
Nuffield House
41-46 Piccadilly
London, W1J 0DS

tel +44 (0)20 7839 8020
fax +44 (0)20 7434 2973