

FLUSH

TO FRUGAL

Money once 'flowed like water' in the tech sector. When it stopped, self-described serial entrepreneur Gary Anderson had to tighten up Netbriefings Inc. so the company would survive. In the process he learned a whole new way of doing business, and morphed his tech consulting company into the promising niche of webcasting.

BY LIZ WOLF

PHOTOGRAPHS BY JOHN NOLTNER

"We sold as much as we could and managed expenses frugally. We didn't turn positive right away, but it gave us the slush fund we needed to ride out the storm and get the cash flow going," says Gary Anderson, CEO of Netbriefings Inc.



S

elf-described serial entrepreneur Gary Anderson has pretty much seen it all when it comes to raising funds for startups.

When Anderson led SPS Commerce Inc., a high-profile, venture capital-backed Internet company, the firm went through multiple rounds of funding in the 1990s, raising more than \$30 million. “During the Internet bubble, money flowed freely,” Anderson, 56, says. “Ventures were coming to us,” he marvels, referring to venture capital investors.

Anderson admits that like other high-tech companies at the time, his company spent freely, too. “Too many people were taking first-class rather than coach.” In the long run, he says, “We weren’t creating much value for shareholders in those spending times.”

When Anderson moved to chairman of the board at SPS, he missed the day-to-day activities of running the company. He stepped down in summer 2000 to join St. Paul-based Netbriefings Inc. as its CEO and chairman. Netbriefings was a consulting company, which Anderson morphed into an Internet webcasting services company.

Netbriefings secured its first round of capital in January 2000, two months before the bubble burst. “I certainly have lived the times of raising capital during and after the flush times,” Anderson says.

The tech correction, he says, lasted longer than anyone predicted, and then on the heels of that was Sept. 11, 2001. While webcasting went up because business people cut back on travel, Netbriefings was so young that it had no client base.

Anderson tightened his belt, laid off staff, cut expenses and sold as much as he could. During the past few years, the company slowly turned profitable. Anderson plans to raise another round of capital, hoping to take his company to the next level.

The first startup Anderson worked on was Open Systems Inc., an accounting software company, when he was in his 20s. High-profile venture capitalist

Ann Winblad co-founded Open Systems with a \$500 investment. She operated it profitably for six years and sold it for more than \$15 million. Anderson served as a technology consultant.

“Open Systems was a big success in town,” Anderson says. “That’s where I got the bug. I was just a techie, but I got to see a startup in action. I tended to think that if they could build technology and be that successful, why can’t I build technology and be that successful?”

He also worked for Northern Numbers, a startup software development company, and did some contracting. In 1981, he founded SPS Commerce, which builds Web-based supply-chain management networks.

The capital market was fairly tight when Anderson first began raising money for SPS — a job that doesn’t thrill him.

“I hate raising capital,” Anderson says. “It’s a thankless job. It’s a little bit like sales, but at least with sales you’re selling something tangible. Here you’re raising capital to grow a company. It’s a complete drain of valuable resources that you could be putting somewhere else. If you could just go out and get the money, you’d do a much better job of running the company, but unfortunately, it doesn’t work that way.”

During his tenure at SPS, Anderson grew the company on a \$2 million equity investment to approximately \$9 million in revenue and 75 employees.

“In the beginning, it was a fairly frugal time. We did well, but we were frugal,” he says. “Then we went through the bubble, and money flowed like water. There were times when the ventures were coming to us offering to buy stock. We had one venture come to us when we didn’t need money. We had \$20- or \$40 million in the bank. They wanted to get involved in our first great valuation just to get in and came in at \$11 a share. They solicited us and offered us a deal, so it was just flowing.”

Anderson admits his company also spent wildly. “That’s driven by the ventures,” he says. “They want you to spend because they want to capture market share. But companies tend to get carried away.”

“In hindsight, we weren’t creating much value for shareholders in those spending times, because you’re throwing money here and there and everybody’s having a great time. As I look back, running it a little more frugally is

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actually better long term for all shareholders, and I can be accused of probably pushing the envelope, too.”

When Anderson became chairman of SPS he joined other boards, “because as chairman you don’t need to be around as much, and I don’t like golfing,” he says. “Being on boards allows me to look at other companies and problems, and I think my experience is valuable.”

Netbriefings was one of the boards Anderson joined. The company was founded as a consultancy in November 1998. “I learned quite a bit about the evolution of Netbriefings, and I didn’t plan on investing in this company. I didn’t plan on being active, but I got carried away.” He saw an opportunity and was ready to step down at SPS.

“I became a little disenchanted with SPS,” he says. “When you have eight to 10 venture capitalists on your board, and they’re starting to own way more of the company than you, there’s a problem.

“And I’m not wired to work for somebody else. Once you move to chairman, you’re not as engaged and I was bored. I had to be involved day-to-day. That wasn’t my job anymore. That was hard for me. I went to some of the ventures and sold some stock. I told them. ‘I’m not living here.’ ”

He resigned as chairman of SPS’s board in 2000 to become CEO and chairman of Netbriefings. He rewrote Netbriefings’ business plan, changing the company into a webcasting and streaming media company and brought in a new team, including several former SPS employees.

“I was already writing a business plan, and then I found this consulting company and it had some tools,” Anderson says. “I never did like their consulting company model. I

had a belief that streaming video/video communications was going to be something that was going to happen.

“I used the consulting company as a starter company because the toughest thing about starting a company is you need a team to raise money. You’re starting from ground zero. So what this gave me was some cash flow, some tools. We took the consulting company, raised a couple of million dollars, and did a turnaround as opposed to a startup, and it’s just a whole lot easier.”

SPS was a one-person startup, and “that’s really, really slow,” he adds. “That’s what you gain the second time around. You know where you want to go.”

Netbriefings became a provider of large, broadcast-style webcast services specifically suited for secure company meetings, outbound marketing events and online training. It offers full streaming video to audio with slides.

“Large, high-profile streaming events is our niche,” Anderson says. “When you get into high-touch, elaborate meetings there can be a lot of components, and that’s where we excel. The simple little conference calls with a few people are one thing — 12,000 or 15,000 people is a whole different thing.”

Under Anderson’s leadership, Netbriefings completed its first round of capital in January 2000 raising \$1.3 million. This was right before the April 2000 tech correction, so although the company had some money, it was over-staffed.

“We cut our staff in half and went through some very trying times, which are never fun, but necessary,” Anderson says. “Everybody else took salary cuts. At one point, it was 30 to 50 percent. We cut expenses everywhere we could. We cut down to one data center. We looked at every expense and asked, ‘Is this something we can live without?’ We cut enough to get to the break-even point. Everything was under the knife.”

[Lessons I learned]

Gary Anderson, CEO, Netbriefings

“During the day-to-day business, you just get totally overwhelmed with all of the details and things you’re dealing with. The only way you can really see how things are going is to look back and see how far you’ve come.”

“Execution in a smaller company is your biggest competitive differentiator. A good team that can really click and execute is really very important.”

“Be a technology innovator on the leading edge, but not the bleeding edge.”

“Too many entrepreneurs their first time around think that raising the money is the real goal; the lifesaver. They think it’s the panacea. I think they put too much emphasis on it and not enough on simple value creation.”

“If you have salespeople who have to be motivated, they mostly likely are not right for an emerging company.”

“Look at a huge marketplace and find a niche that you can dominate. We’re in a niche, which is a smaller segment of the overall webcasting industry, but to be a good niche player is just fine with us.”

“At the end of the day, equity is really a lot more expensive to an entrepreneur than debt. Because you put all of this work into something and if you give away your return early, you’re going to get lot less of a return in the future. “

“Now you have to balance that with capturing market share. You can’t be too frugal on the other hand either. You want to be able to stay in the marketplace and compete.”

When raising capital, “It’s all about being calm and confident, no matter how many questions potential investors throw at you.”

“Maintain a candid, open corporate culture and keep everybody informed with as much information as possible.”

“To me success is a combination of creating value and having fun. At this stage in my life, I don’t want to work 80 hours a week. There’s got to be a little bit of fun.”

As a marathon runner and a father of four, “a marathon is much easier than raising kids and/or building a business...at least there’s an end to it! You at least know that when you get to 26.2, you’re done. With a business you never know, and with kids you never know.”

“The right injection of capital at the right time can springboard a company to new levels. However, too much capital isn’t always good, because anyone can be prone to getting carried away.”

"If we had to raise money to survive, I think it would be tough. But we're not doing that. We're raising money to capture a larger market segment," says Gary Anderson.



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Anderson assumed the tech correction would turn around in a reasonable amount of time, but it didn't, he says, adding that the Sept. 11. attacks exasperated the problem. “It created interest in the webcasting industry because business people didn't want to travel, however, people weren't buying,” he says. “They were leery and budgets were cut, and we didn't have a large existing base of customers.” Netbriefings ran out of money in summer 2002.

What saved the company,

Anderson says, was raising \$750,000 from the Luverne Economic Development Authority in November 2002, which provided some needed bridge financing.

Anderson says Luverne's rationale behind the deal was that he grew up in southwestern Minnesota. “My folks live there. Plus, I think they thought it was a good model,” he says. As part of the deal, Netbriefings promised to establish an office in Luverne, although that hasn't yet happened. “Nothing turned around as quickly as we thought. We still need to do some things for Luverne, but they know we're here for the long run and we're paying the debt back,” Anderson says.

“Gary has done a good job updating us, and he's up-to-date on payments,” says Jill Wolf, director of the Authority. “Luverne is an aggressive community that looks to attract business. This was an opportunity in which Luverne took a risk and became involved in the company to bring jobs to the area, and we're hoping they'll follow through. We felt that Netbriefings had a very strong business model.”

Following the Luverne deal, Netbriefings was brought

to positive cash flow by growing sales and operating in a pragmatic manner. “We sold as much as we could and managed expenses frugally. We didn't turn positive right away, but it gave us the slush fund we needed to ride out the storm and get the cash flow going,” Anderson says.

The company hit cash flow positive in mid-summer 2003 and has been profitable since 2004. “In 2003, revenues started to rise,” Anderson says. “We started to experience less burn every month. Today, we're growing at about 150 percent per year.”

Revenue was \$1.47 million in 2003 and \$1.99 million in 2004. Anderson projects 2005 revenue of \$2.4 million. Most of the growth is occurring in web conferencing. “We still do some consulting, but we're not focusing on that,” Anderson says. “It's still cash flowing, but the shareholder return, the value proposition, the creation of value is all based on web conferencing. It's a repetitive business based on existing customer relationships.” Netbriefings is back up to 25 employees.

Streaming media is a method of making audio, video and other multimedia available in real-time with no download wait, over the Internet or an intranet. Using streaming media technology, companies can make live events viewable almost anywhere, Anderson explains. To tune in all the audience needs is a standard Web browser and Windows Media Player or Real Player.

Netbriefings has worked with AOL/Time Warner, Navigation Technologies, Ecolab, Graco and Lawson Software to deliver large streaming video/audio webcasts.

Netbriefings handles AOL/Time Warner's employee meetings. “They have 12,000 people all over the world and can't bring them all together,” Anderson says. “They started out doing 300- to 500-person, smaller webcasts. In December 2004, they had a layoff that coincided with a Time Warner global webcast. We worked with them and

put servers behind the firewalls and it ended up being about 15,000 people. We pulled it off and now have an annual contract.”

Anderson says benefits to his clients include saving travel time and costs and extending an event to a wider audience.

“The return on investment is not flying 12,000 people into Bethesda, Maryland, for AOL,” he says. “And some of it’s hard to put a return on, because you wouldn’t be able to do it. How would Lawson touch 3,500 employees with its merger?” (Lawson is merging with Stockholm, Sweden-based Intentia International AB). “When people are in a merger, they want to see the CEO. They want to know ‘Do I still have my job? Is this guy nervous? Are we going to make it?’ That’s an important timeframe.”

Dale Kurschner, Lawson’s corporate communications writer, says Lawson uses Netbriefings when it has executives wanting to address employees in all of its offices. “Roughly half of our employees are in St. Paul and the others are in different offices or on the road,” he says. “It’s a nice tool for them to participate in employee meetings.”

Netbriefings also uses WebEx, which Kurschner says is a good tool for smaller meetings. “But webcasting is more like a presentation,” he says. “With the merger announcement, we wanted to reach out to all employees and make them feel part of the event.” When the merger is complete, Lawson will have 3,500 employees in 75 locations in 40 countries. “Webcasting,” he says, “becomes a very effective means to reach people globally.”

Kurschner says what he likes about Netbriefings is they quickly assess the situation. “Netbriefings has the knowledge to size up what we need to do to make it happen,” he says. “They have a great tool, but they also have the ability to help us come up with solutions.”

Industry analyst Ira Weinstein of Morganville, New Jersey-based Wainhouse Research LLC, says Netbriefings’ basic technology is similar to competitors. “But they do have one capability that’s interesting,” he says. “They have the ability to deploy their solution in a hybrid webcasting model, so it’s a more effective use of bandwidth. Netbriefings has responded to a need and demonstrated flexibility.”

Anderson explains how it works. “We install streaming and/or content servers on a client’s premises behind the firewall. That cuts down on the cost of bandwidth and it’s less taxing on their firewall. That’s the hybrid. We send one signal and one set of power points behind the firewall.”

Weinstein says the webcasting/streaming media industry is experiencing significant growth, although “we’re still early in the curve. Many companies are still not using webcasting and streaming solutions. Also, many that are using them are using them only a few times a year.”

Anderson says

he’ll likely go back to the capital market to raise another \$2 million. “When we went into the belt-tightening mode, we decided to sell rather than raise capital to save ourselves. We brought it to where we could,” he says. “If we didn’t want to raise more money, we could probably get by. However, we would miss a huge opportunity to gain market share.”

David Gardy, president of the International Webcasting Association and chairman/CEO of TV Worldwide in Virginia, also is out in the capital markets. “Most venture capitalists look for a quick return,” he says. “They’ll call the webcasting and streaming media industry itself and most of the companies ‘revenue early,’ meaning they don’t generate enough capital nor is the industry big enough for them to invest.”

Anderson says the long-term goal for Netbriefings is to be acquired, but he’s not focusing on that. “We’re focusing on growing the company and I think that’ll happen. My guess is I wouldn’t stay on. I can’t work for anybody. I would go back to boards with a little less involvement and risk, and I want to train for a triathlon.”

Anderson says he quit smoking and drinking and lost 40 pounds a few years ago. He runs marathons to stay in shape and keep up with his kids. He and wife Josephine have four children, ages 2, 5, 14 and 17. His goal is to complete an Ironman triathlon before age 60.

He says running a marathon is much easier than raising kids or building a business. “At least there’s an end to it,” he says. “When you get to 26.2, you’re done. With a business you never know, and with kids you never know.”

Richard Daly, president of Burnsville-based Consatech Inc., is impressed with Anderson. He sits on Netbriefings’ board. “He’s a survivor. He’s able to manage cash and get by until he can make his way in the marketplace,” Daly says.

“He also has great foresight. With Netbriefings, he got into the webcasting business very early on. With the combination of the bubble bursting and waiting for the market to accept webcasting as a tool took time. Gary has a real edge today in a competitive business.”

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