Greg Gianforte

RightNow Technologies
Introducing RightNow Technologies

It is a well kept secret that some of the leading companies arrived at the top without taking early venture capital funding. Today’s market may call on companies to be more prudent in how they apply capital to generate returns. Leading off a series of discussions with entrepreneurs whose capital-efficient businesses are recognized “return leaders,” Kennet Partners Managing Director Javier Rojas sat down with Greg Gianforte of RightNow Technologies to learn how he created a $200 million IPO from a bootstrapped venture.

RightNow (NASDAQ: RNOW) delivers the high-impact technology solutions and services organizations need to cost-efficiently deliver a consistently superior customer experience across their frontline service, sales and marketing touchpoints. Approximately 1,800 corporations and government agencies worldwide depend on RightNow to achieve their strategic objectives and better meet the needs of those they serve.

In the beginning

For Greg Gianforte, talking to potential customers – market research – was the foundation for an entrepreneurial business venture that was cash-flow positive from day one. In 1997, Greg noticed that the Internet was effectively changing the way that companies and their customers communicate. Companies were being inundated with e-mails from Internet users who needed help or wanted to find information online, and they had no good way to respond to all inquiries quickly and effectively. He thought there had to be a better way to use the internet for customer support.

After spending a few months calling on 400 potential customers to better understand their challenges, Greg – a programmer by trade – focused on developing a self-service web application that businesses could integrate with their web sites to better respond to customers. In just two months, Greg had the first product, which sorted FAQs by user ratings on their effectiveness – that’s it! It was simple, but ahead of other market offerings, and enough to start working with customers.

In January 1998, Greg focused on selling his application and brought in more than $10,000 in revenues by himself. “That was my proof point,” said Greg, who was the only employee at the time and was not drawing a salary. He then only hired 100-percent commission-based sales people and the business was on its way. “Many entrepreneurs think they need to raise a lot of money because that is how they will develop a great business plan. But that’s usually an excuse for not having thought through their business plan well enough.”

Greg – who also is the author of the book *Bootstrapping Your Business: Start and Grow a Successful Company with Almost No Money* – explains how he built RightNow Technologies, Inc. into a company worth approximately $500 million and shares his views on raising capital to grow entrepreneurial ventures.
Q&A

Why was your business model successful?
The beauty is that I didn’t build something at first, I only did market research.

In 1997 vendors in the market only focused on helping companies answer their e-mails faster. I didn’t think that was the best solution because customers don’t want to have to send an email request and wait for a response. They want immediate access to information 24 hours a day, 7 days a week.

My idea was a “self-learning knowledge foundation” — or smart FAQ — that initially was nothing more than a question at the bottom of an FAQ page that asked if the answer was helpful. It solved the problem — letting customers help themselves and reducing e-mail.

By working with my customers I was able to evolve the RightNow offerings into the most sophisticated Software as a Service Customer Relationship Management application.

What was the key to being cash flow positive from day one?
I needed to sell the product to bring in cash. I hadn’t taken a salary, so the revenue just accumulated. After about three months of selling the product myself, I had 40 customers and decided to hire three sales people, who worked exclusively on commission. From that point, the business took off, and we were doubling revenue and employees every 90 days.

When did you raise venture money?
We didn’t raise money until we were over 150 people, so we were already successful as an independent business. In 1999, we decided to raise money because the valuation was very attractive. We did our second round in 2000, and in total raised $32 million.

What challenges did you face with regard to raising outside funds?
When we got our second round of venture capital, there was a lot of pressure to spend the money. At that point we went cash-flow negative, which I believe we may have been better off not doing. When you go cash-flow negative, you lose the discipline of running a cash-flow positive business and then it is much more difficult to get back into the right mindset.

When you’re boot-strapping a business, all investments tend to be incremental. But when you raise the money, you tend to make bigger bets that have higher risks. We’ve now gone back to our roots and are approaching our investments incrementally. That doesn’t imply that we’re growing slower, it is just that we are making wiser decisions about our investments.

What were the positive outcomes of spending the venture money?
We were able to establish a strong presence in Europe, the Middle East and Asia. Doing that early has served us well. If we hadn’t had the venture money, we would not have made those investments as early, or as significantly. Entering each country is like starting a new business, and it takes time and investment.
I believe you raise the money when you need to grow the business – that is, if there is a very specific business opportunity that can’t be executed without the capital. Also, investment in sales and marketing can make sense if the sales team is cost-effective – say they are delivering at least 3x return on their costs. However, you must be careful that you’re are not just throwing money at sales and marketing challenges that could be resolved by working smarter. For example some CEOs complain that it takes time to ramp up their sales force, requiring investment. While true, some of these challenges might be resolved by targeting smaller transactions, using telesales and/or leveraging partner relationships.

What new projects are you working on?

On the bootstrapping front, I recently set up a fund called Bootstrap Montana (www.bootstrapmontana.org) to support rural Montana businesses. We offer zero-interest micro-loans for projects that will provide a fast ROI. Our goal is to increase the level of employment in the state, bring in new sales revenue and increase the competitiveness of companies in Montana.

Any last words of advice for Founders starting a business?

Yes, if you are starting a business, don’t spend your time calling VCs; spend your time calling customers, figure out how to solve their problem and get them to pay for it.
About the interviewer.

Javier Rojas.

Javier Rojas is a managing director at Kennet Partners and leads its US investment activities. He is currently on the board of Daptiv,Adviva,IntelePeer,NetPro Computing,MedeFinance,and Kapow Technologies.

Prior to joining Kennet, he was a managing director of Broadview International and led their West Coast Software and Services practice. Javier specialized in advising high growth, early-stage companies on how to capitalize on emerging technology markets and partnering opportunities.

He invested and/or advised on a number of successful companies and high value exits including Etek,Webex,Looksmart,Blue Mountain Arts,When.com and Rightworks.

Previously, Javier was with Morgan Stanley. Earlier, he founded a software firm that developed products for capital markets interest rate and currency swap traders.

He holds an MBA degree from The Harvard Business School and a BAS degree from Georgetown University.
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 over $270 million in 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.

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