Anatomy of a Successful Exit

The GreenButton Story

Written by Dan Khan
On behalf of the Angel Association of NZ

Image: GreenButton's post-acquisition home page

On May 2nd 2014, New Zealand time, the acquisition of Wellington cloud computing company GreenButton, by US software giant Microsoft was announced, thus adding them to a small, but growing list of successful technology exits in New Zealand in recent years. As well as producing a great result for founders, investors, and employees, GreenButton is a great 'NZ Inc' story and a particular success story for Wellington, with founder Scott Houston having started his journey at Weta there building supercomputers to render movies like Lord of the Rings in the early 2000's.

GreenButton's journey from startup idea to successful exit is a dream shared by many Kiwi entrepreneurs and their investors, who similarly wish to pull together a great local team, open offices in California, and choose to enter the US market early. In fact, that early market entry is a decision that many regard as the key reason why the company had such a successful outcome.

Like many high growth companies who by necessity have to shift their focus to offshore markets, a particular part of GreenButton's success has been the persistence of their Kiwi culture and commitment to growing the local ecosystem by them staying in New Zealand after the acquisition - an unusual, but refreshing move on the part of the acquirer.

For many who might see the GreenButton journey as an 'overnight success', the reality is one of relentless determination by the founder and board, and strength of will in the face of adversity. Particularly resonant is founder Scott's emotional journey of financially 'going all-in', being away from friends and family for long periods at a time, and an intense long-run of hard work driving hard towards that exit.

GreenButton is a fantastic role-model for other startups, and in a country with only a handful of similar high-profile technology exits under it's belt, their commitment to give back and share deep insights about their inside journey, key decisions, and the highs and lows of their specific entrepreneurial trajectory so others can learn can only be lauded.

This in-depth write up has been collated through interviews with founders, board members, partners, and other key stakeholders and reviews their trajectory from idea formation all the way through to post-acquisition and ongoing value for the acquirer.

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The journey, summarised by the figure above, is replete with insights for both entrepreneurs and angel investors; whilst specific observations and lessons have been drawn out at the end of each section, there's no doubt readers will draw their own conclusions based on their own experiences and personal journeys. The intention in sharing these insights is for readers to take, learn, and implement them in their own investments and companies and to help grow a stronger startup community in New Zealand.

1. Idea Formation

GreenButton's early story is the story of founder Scott Houston - consolidating a career of knowledge working with a raft of computer servers and seeing a better way to manage how those servers were used.

Scott in many ways was the ideal technical founder for a venture-backed company from day one. He's lived and breathed computing through his early career with Compaq and Silicon Graphics (SGI), in both a business development capacity, as well as more hands on during his subsequent time at Weta Digital. At Weta, Scott was the Chief Technical Officer responsible for a team of 50 engineers - their main task was building the infrastructure necessary to crunch the huge amounts of high definition movie data coming out of Peter Jackson's movies in the early 2000's.

To enable the myriad and epic visual effect sequences seen in movies like The Lord of the Rings, required on-demand processing power not seen in the world at that time so Scott and his team had to innovate in the way they put data centres and computer servers together. When working to movie- budget and release schedules, Scott had to plan ahead - once shooting had completed, all eyes were on him and his team to deliver on enabling the post-processing stages to provide a fast, solid rendering environment for the rest of the team. There was just too much availability and setup risk waiting to buy servers until they were needed - to render the final sequence in the Lord of the Rings, 'The Battle of Pelennor Fields', which comprised almost entirely digital effects, Scott needed to buy one thousand processors to render that sequence alone.

Initial cost outlay being massive for an asset that wasn't used until right at the end of the movie, Scott found that for the most part these servers were turned off until post-processing began - it was so wasteful to have so much processing power languishing without being used - surely other people must have had similar needs to burst usage of processing power, but not want the outlay of physically buying those servers only to be used for short periods of time.

After realising that other customers did indeed share that need through early partnerships with enterprise customers like IBM, Scott left to set up the NZ Supercomputer Centre (NZSC), a joint venture with Weta, to deliver exactly that on-demand service to others. Scott's time at NZSC honed the problem space and opportunity for GreenButton further. Whilst NZSC was working, it was still a very manual process - customers would ship servers, then Scott would have to extract the data and upload for processing for each client.

For many technical entrepreneurs, such manually repetitive tasks, creates a great optimisation challenge, especially through software. As demand increased, Scott saw the opportunity to create a portal for customers to upload their data themselves and reduce the manual steps involved. Whilst this worked to reduce the workflow on NZSC's end, Scott still found that they had to build a time-consuming unique platform for every customer, limiting the growth and scale of the idea.

Scott needed to think bigger and find a way of turning these problems into a better, more scalable solution. He remarked about the various challenges and problems to good friend and early customer, Mark Thomas of Right Hemisphere, who was rendering 3D models in the cloud for manufacturing applications. They mused that what they really needed was one big red button in the cloud that they could press and just get as much on demand processing power as they needed for whatever application they were working on.

As they mused further on this idea, Scott realised he was onto a vision for a remarkable product that could work; there was only one thing in the way. Scott remembers Mark saying to him that night, "If this is going to work Scott, you can't have the thing being a red button, that's used for stop, if it's going to work, it's got to be green!"

And thus in 2006, the vision for GreenButton was born.

Observations and Lessons From Idea Formation

The story of the GreenButton idea is an interesting one to review from an entrepreneurial and investment standpoint. From an early investor's view, Scott really was an ideal founder - here was a technical entrepreneur with huge domain experience working with supercomputers and on-demand processing power for many years; he's credible and worked with some of the largest names in computing in the world (including New Zealand), in senior positions; and the product vision solved a clear pain point that Scott himself had suffered and had to manage for others. From this Scott had identified a clear business opportunity in an emerging market - whilst services like Amazon Web Services, Microsoft Azure, and terms like Infrastructure-as-a-service are commonplace today, in 2006 people were only just thinking about on-demand computing, and GreenButton was sitting squarely at the forefront of that emerging market.

Another interesting factor here is that Scott was a solo founder and whilst many early investors eschew the virtues of team, it's easy to forget that every team usually starts with a passionate, often, technical founder who brings that team together and leads the vision. More so than this, as investors, even with a team, it's usually the one visionary founder that investors back and support through that journey.

Having this clarity of vision tied into a solid story of how you arrived there through your own understanding of the market is a key lesson that other entrepreneurs should take away from Scott's - having that perfect blend of domain- and technical experience is one of the key reasons that Scott started such a successful entrepreneurial journey.

2. Financing Early Iterations

Given the potential size of the vision, Scott realized that building a more scaleable product would require more capital, and so started his first flurry of fundraising from friends and family and from partners he'd already worked with. He already had good relationships in New Zealand with Spark (then Telecom) and their venture arm was very interested in what Scott was building.

After putting together his initial business plan, Scott pitched Telecom for 500K, enough to get to first product, a bunch of sales, and hire a team. This was Scott's first real foray into venture funding so, like many entrepreneurs entering that arena for the first time, wasn't clear on what to expect. What he didn't factor in though is that Telecom Ventures were used to dealing with much bigger propositions and larger amounts of money. After pitching, Scott was told he was not thinking big enough which made him head back and rework the business plan. This semi-rejection was a good validator for Scott who heard that the proposition was good, and maybe this could be something bigger than he'd hoped. After returning to pitch with renewed vigour for $3MM (on a bigger valuation), he was told he's still not thinking big enough and that he'd need more cash to realize the vision. He came back again stronger, subsequently pitching even higher at $5MM, but found he was chasing his tail in circles receiving positive sentiment, rather than money.

By the time Scott went back to Telecom Ventures for a final time months later, they came back with a crushing 'no' after so much perceived promise early on. Unfortunately for Scott, Telecom, who were also to be an early customer, realised they could build their own data centre and didn't need the partnership any more. Compounding this issue for Telecom was that the global financial crisis of 2007/2008 was in full swing with many larger businesses uncertain about the immediate future and being forced to curtail spending.

Whilst this was a huge setback for GreenButton and personally for Scott; business-as-usual still had to be taken care of so he had been hiring developers, building early product, and generating little bits of income in the meantime, but nowhere near enough to realize the bigger vision and to keep the venture alive. On the back of Telecom psychologically validating that Scott was sitting on a $1MM to $5MM idea, he decided to continue financing the company himself, selling his boat, his mooring, and his rental properties to keep things going.

Having enough to keep the venture afloat from that, Scott went back onto the fundraising circuit, this time shifting focus to Sparkbox Ventures. Scott knew CEO Greg Sitters prior to this and they showed positive interest so he pursued that route. After pitching, and time passing without much progress, Scott had to consider what to do next as money was fast running out.

This uncertainty led to a number of questions for Scott around what was wrong: was it the pitch? Was it the vision? Or was the cloud market just too emerging and risky at that time?

Observations and Lessons From Financing Early Iterations

This period of a startup's existence are arguably the most exciting, but simultaneously the most fraught with risk and self-questioning and many of these early pre-angel funding stories aren't often told. Scott's story is a clearly a lesson in fortitude and sets an extremely realistic baseline of what it takes to believe in your vision and committing to it even in the face of repeated setbacks - how many entrepreneurs would have given up before reaching that same point?

Whilst Scott could see the clear opportunity, not everyone could - as entrepreneurs it's easy to get buried in the detail of what you're building that you don't bring people on that same journey - how can you pitch that vision of where the market is going to help investors gain the same level of excitement and optimism that you share?

For investors in New Zealand, many of whom have made their money outside the technology sector, how can you stay on top of emerging trends outside your sector, so you can see and understand real opportunities when they come along? Is this a role that angel clubs and other national bodies could provide - market intelligence and shared education for both future founders and their own members?

Scott's story also shows that timing is always the one uncontrollable factor when building businesses and raising money. The world post-GFC was risk-averse, the term 'cloud' didn't exist, so Scott's vision was hard for many to see.

Understanding how much cash you need and why, then taking small steps to get there rather than letting others' less engaged plans conflate your vision is a key takeaway from Scott's early financing journey.

Similarly, understanding who the right funding partner is and their expectations before putting energy into finding that partner is another key insight. Whilst Telecom would have made a great customer and partner for Scott, they were more likely a later stage investor given their investing profile.

Another observation from this early stage is the importance for investors to come back quickly and decisively with responses to entrepreneurs and realize that the critical path for most early entrepreneurs is time (of which investors are less bounded by). Corporate venture funds generally don't operate on the same timescales that a small startup needs to operate on, so anticipating this beforehand and having a plan B can really help the entrepreneur.

The road to finding the right funding is always a lengthy process, especially when the entrepreneur hasn't raised funds before and doesn't have the immediate network. Many investors by their nature don't publicise themselves well, and in New Zealand, there's little outward thought leadership to the startup community to show clear funding routes for early entrepreneurs. Back when Scott was raising in 2007, angel clubs were still relatively early and less organised, but still don't have much profile within the entrepreneurial community today. With the right motivation, opportunity exists to raise both the visibility and engagement of earlier stage investors within these startup communities to help feed the funnel on both sides.

3. Finding The Right Funding

After self-financing those early iterations, Scott came across the radar of Wellington investment club AngelHQ and was invited to pitch at one of their investment evenings. For early entrepreneurs, the club environment is a good opportunity to get face time and hear feedback from real investors, and gives investors a prepackaged way to sample potential deals that they might wish to get involved in.

Timing was better for Scott by the time he pitched AngelHQ - the market had moved on and matured a little, people were talking about cloud now and others could see the trends more clearly, so timing was starting to look good for investment into on-demand computing.

AngelHQ member David Akers was the first to spot the deal at the club night when Scott pitched, and from there pulled in other angels in his network to close GreenButton's first round of angel funding. In the process, Scott had to come down from the heights that Telecom had built him up to, to a more realistic and risk-tolerant set of milestones that investors felt comfortable with. Whilst he only raised $120K in that angel round, with a rapidly dwindling cashflow and assets all sold, Scott felt this was the most sensible move to get to the next stage and see his idea realized.

One of the key investors at that angel round, and someone who was to play a larger part in the GreenButton story was Marcel Van Den Assum. David Akers knew GreenButton needed a managing director, but he was time-bound on other things, and he thought Marcel would add more gravitas to the company so introduced him into the deal.

Marcel was an experienced operator, having been early CIO at Fonterra, and with a solid technical background at Unisys. Having invested and worked with numerous early stage companies on their boards, Marcel found it easy to engage with Scott and the GreenButton concept because of this technology background and could immediately see how to make the business work with execution and strategy.

Scott presented really well to the investment club, coming across as passionate, dedicated and with lots of fortitude. Marcel describes Scott as a 'street fighter' able to navigate those early challenges with grace and keep his head up and continue the fight. That's one of the clear signs that Scott had the tenacity and resiliency to have what it takes for the entrepreneurial journey. It's a good lesson therefore to listen out for these cues and where a deal resonates at an angel event like GreenButton's, follow up and help get that deal over the line, especially if you've been through a similar journey yourself.

Post-investment, Marcel took the position as initial investor director on the board. As the wider advisory and investor team started forming around him, solo-founder Scott started to realise he wasn't on his own after all. For Scott, after a few years of self-financing, and reaching almost the end of his own personal cash reserves, this was more than a much needed boost - the newly formed experienced team around him re-energized Scott with his vision, giving him enormous revalidation of the concept - it was a key positive step in the history of the company, and one that Scott now felt able to execute on.

It's important to note that Scott really was all-in on the business at this point, and the usual advice is that it's worst for the entrepreneur to raise money at this point as it's hard to negotiate deal parameters when they have all to lose. But really this should be seen as a positive signal on both sides and handled more gracefully than it traditionally is showing just how much a founder believes in an idea, rather than pushing down valuations which is usually seen in more ruthless environments.

After raising that first round, Scott's personal financial situation became clearer to investors of just how much he'd committed to the venture. Rather than getting skittish, the investors and board really got on Scott's side, putting a company loan in place to help Scott resolve some of his personal background to get to this point.

The attitude from the board, driven a lot by Marcel's personal values, was how best do we set up the entrepreneur for success. As investors we want the company to succeed, but how can the entrepreneur be operating at peak performance if they have so much personal baggage to navigate that it takes mindshare away from the business? Early-stage therefore, it's incredibly important how that history and accompanying baggage is dealt with by investors to really set up the founder and the whole company for success.

Observations and Lessons From Finding The Right Funding

The lessons and observations at this stage are manifold. Not only from the investors side looking for the right person who can champion and lead the deal within the club, but the same things goes for entrepreneurs too - how can you find that one investor that gets what you're doing from their background and push them to be active in helping closing the deal and bringing in their other investor friends. As we'll see, the most valuable investors are those who have an operational network of people who can help you execute and as well as other potential investors.

As investors, especially those who haven't been entrepreneurs, having the right understanding of the emotional journey the entrepreneur is on and dealing with the founder's glorious past constructively so the entrepreneur can step up to the opportunity is a key lesson. Whilst we all would like our investees to be working all hours in the day, how can we give them the right work-life balance to keep them performing at peak condition over the next five to seven years required to see a return.

Helping founders with this self-care, through loans in this example is a great way to build trust and alignment, setting the right expectations for the marriage that investors and the entrepreneurs are entering into. If you are going to help in this way, ensure that these deals are formalized early and documented to avoid any potential issues down the road when an exit event occurs.

Marcel taking the lead on the deal ensured that at all times there was very clear communications to all shareholders showing clear thinking and his heavy engagement in strategy. This communication is often an unfortunate critical element that falls by the wayside in many early deals and subsequent company building - having a strong commitment to execution level details like this can really make a difference in raising the positivity, momentum, and effectiveness of future fundraising and traction.

4. Building the Early Team

Once Scott had more than him working on the venture, the new team really started to bring scale of thinking - allowing Scott to build the early- team, product, and customers.

With Marcel and David Akers on the board early on, GreenButton now had a formidable support team helping Scott ask the right questions and think through what was important to build a globally scalable product business. They both helped Scott with capability gaps around a supporting CTO, go-to-market experience, and with governance.

Scott was a great rainmaker and could talk to customers and captivate people with his vision for GreenButton, but the board helped Scott identify the requirement for solid operational and execution experience around him to make that a reality. The board really helped build the structure to allow Scott to have the brilliance and vision around that.

Sometimes early investors forget the term 'angel' attached to their money and often sit out- or are mostly passive- in the deals they get involved in. It's important to see the difference Marcel (and David) had on the early progress of GreenButton by being much more active than most investors, continually adding value past the investment stage.

The board's role from day one should be active governance and helping the founder build the right team and for some part this could extend to all the early investors too. Hiring the right team early on is critical in the life of a company and the investors can help the founder navigate these challenges (in general making a mistake hiring employee number one hundred has less impact than hiring the wrong employee at number five, impacting twenty percent of your entire business versus one percent).

Dave Fellows was the first employee brought on as CTO which freed up Scott to focus on developing the business. The position was a step up for Dave and he recounts a hard journey in the early days being both CTO and the engineering lead as they're two very demanding and different roles.

Whilst the board could help Scott strategize, and even offer some execution support, it was clear from the AngelHQ pitch that Scott needed more operational support so the board brought Chris Teeling in as COO who Marcel had worked with at Fonterra.

Darryl Lundy, an early investor who helped Scott set up the AngelHQ deal, transitioned to full time CFO after the angel round, bringing with him great experience in mergers and acquisitions at Telecom - a useful skill that would play a vital role later on in the GreenButton story. With Darryl, came a rounding out of the senior management team, turning a solo Scott into an experienced and capable execution machine with an active supporting board of directors.
It's so important to turn those strategies discussed at board level into an execution plan and as time went on and Marcel realised the team just weren't learning fast enough he found himself getting more involved, "You don't just have to be the mentor sitting up on high on the board, you can push and do things in the company too, going to meetings and helping things move faster." Marcel really transitioned from investor director to much more hands on as the business required, shifting focus to a more executive board chair in many respects.

Scott could articulate the value proposition to customers well, especially in the digital media sector, but Marcel complemented that by adding extra dimensions for investors and partners too. Whilst getting hands-on is sometimes necessary to support the team, Marcel comments that there's a fine line in helping someone run the company (mentoring and upskilling them through that journey) versus running the business for them, and that's a tension that he was aware of and clear to avoid whilst still delivering return outcomes for investors.

With the management team now in place, Scott was good at bringing in seniors and juniors to build the team - helping construct those early remuneration packages with a good balance of salary, incentives and sweat equity. Younger employees brought a breath of fresh energy into the team and turned out to be a good approach to hiring in New Zealand where even with money you can't go out next day and hire five 'A'-class employees. Making sure you've got good senior skills to 'grow' juniors may take a little longer but paid off well for the engineering team under Dave Fellows. The additional challenge that brings is turning around the often nine-to-five mindset those junior employees bring within them, by inspiring them with the scale and vision of what you're building.

Dave Fellows recounted that the team felt under intense pressure from investors to hire quickly, but he kept pushing back to get the right people rather than compromising speed over execution. It's a good reminder for entrepreneurs around setting some expectations around length of time it may take to find the right employees and balancing investor push with cultural and skills fit for your hires, even if that means having to train your own team.

As the journey continued, the team realised that they couldn't grow capability or raise money to compete with other US-based cloud-agnostic platform leaders over time as it meant Scott would have to be replaced with a more 'Silicon Valley' style CEO, and that wouldn't have been in Scott's heart - understanding that at a board level and being able to adjust the strategy accordingly was a key decision point.

Appreciating what the parameters of your operating environment are and optimising what you are doing accordingly really feeds into everything you are doing. Marcel summarises it as "having the aspiration to be a billion dollar business, but not execute on it - it's about having aspiration beyond your capability, but executing within it - it's about the gap".

One of the key insights from that early journey was the board looking after Scott's interests from the start, and Marcel remarked that maybe Scott didn't realize just how much this was. Whilst there was a resolve from the board that if the company or strategy wasn't performing, there would have to be a hard conversation with Scott, it was still clear that they were backing him from day one, and wanted to see Scott there at the end of the journey too rather than seeing him replaced with more execution focussed CEO as the company neared later stages. For Marcel, that's what investment is all about - it's a very personal shared journey, having belief in the entrepreneur and wanting to see them succeed - putting as much board and delivery capability around them as possible to make this happen, even if you have to step up yourself. It's a core set of values that many investors could learn from and apply to their own investments.

Observations and Lessons From Building the Early Team

A big lesson is just what value and impact the early investors can have in building the early team. It's amazing to see how quickly and board-driven pulling together the team around Scott was and this is a key value-add entrepreneurs should look for when finding the right investors. From the investor's side, cultivating connections to facilitate this sort of team building can be a key determinant in helping your investments go faster and seeing them to exit sooner. Whilst many investors adopt a passive portfolio approach to investing, it's interesting to see how Marcel operated with respect to GreenButton. Not only did he add money and strategic advice, he had a commitment to really driving that venture to be successful as more than just an active board member; he acted almost like a 'personal accelerator'. This is also reflected back by early investor David Akers, stating that after the GreenButton experience, his view of what an angel investor should be is not just 'smart money' but as 'hard-working money' - meaning being actively involved giving money and days per week helping that company get over the line to exit.

Marcel describes his investment strategy as 'schizophrenic' in that he's picky and goes deep on a couple of his investments like GreenButton, but has a long-tail of others too that he's more passive in, but expects others to go deep on (whether others do is another question!) Whilst the reality for many angels in New Zealand still being full-time employed is a big gap, there's a lot to learn in that level of execution from investors and the board having really made this venture a success alongside Scott.

Another key takeaway for investors is to be clear where the capability gaps are on the team and what they're doing to address them as a whole. Passive investors should be more active with their appointed investor directors to make sure their directors are working at the same level of execution as GreenButton's were rather than sitting back assuming the ventures will eventually be driven to exit.

Closely related is having a stronger commitment to much more active governance in companies you might be sitting on boards of or semi-involved with. As investors there's a marked difference saying 'I believe in this company enough to invest' versus 'I believe in this company enough to drive it actively towards a return on my investment.'

As an investor the importance of building your own network is clear; always being on the look out for complementary skillsets and capabilities in your own work to help your investments down the line.

Overall the focus on execution from board level downwards made a manifest difference on the way the team focussed on building product and reaching objectives at all levels of the company.

5. Building Early Product

The experienced board and investment team brought exit strategy thinking to the table on day one - after all, the majority of investors were looking to make a return on their invested capital which ultimately made the discussions around hiring and the IP/product roadmap easier.

After some discussions around emergence of the market and their ability to reach and scale into that market, it was clear to the board that the most likely exit opportunity for GreenButton was a strategic exit to an aligned partner who wanted a prepackaged technology/sector advantage rather than a cash-generating machine. This drove a lot of the early product discussions since any potential acquirer would be focussing on the relevancy of the technology more so than customers.

Dave Fellows recounts that it was an interesting frame for the product roadmap around how to encapsulate the IP and architect the software to be cloud independent. This latter point turned out to be a critical decision on the product roadmap to create future competitive tension in exit discussions as an independent stack increased the surface area of potential acquirers and didn't lock them into one.

Early on this also meant a shift of the customer base to productise and sell into large enterprise (public versus private cloud) and the knock on effects to the roadmap of critical functionality required in the product to service larger clients (the killer app for enterprise being the management of billing and cost attribution across the enterprise which no-one had yet figured out). Knowing this architecture early and having a focus towards that end game, allowed Dave and the engineering team to set the right architecture to support those goals and maintain the right pace of execution.

Dave remarked that the tension between focussing on product depth versus product breadth was constant through much of the life of the product - there are just so many opportunities in the early life of the company and different rewards down each path - revenue versus exit versus sales, "being more razor-focussed on kicking-ass in a vertical allowed GreenButton much tighter integration with software and customers".

Observations and Lessons From Building Early Product

Seeing how introducing an exit focus in the early life of a company can have positive knock-on impacts on helping focus product development and the forward looking IP roadmap is an interesting lesson, in this instance, helping the team make better hiring decisions, and enabled discussions around future defensibility of the software. Similarly, getting the architecture right early with a future exit planned, allows you to make key technical decisions without later re-engineering the entire infrastructure.

6. Building Early Traction

After the decision to pivot into enterprise, it was clear to the team that there were barely any opportunities to sell into enterprise in New Zealand so the team would need to look further afield. Building a global company with customers outside New Zealand is a challenge when the development team is in New Zealand. Because the product was technical and complex, having pre-sales technical support was key for gaining early customers; GreenButton's development manager ultimately ended up spending a lot of time in the US working with the eventual sales team and they had to make sure the team back home could function well without the physical presence of that key person missing in action for large chunks of time.

GreenButton realized that they'd have to build a strong platform business to match their early exit strategy which would be hard to do without one or two strong verticals. This meant having a strong value proposition and demonstrable traction in each would be key to landing the next big enterprise customers in that vertical. GreenButton already had a strong value proposition for digital media with Scott's background in Weta but ultimately found it harder for other customer segments. Looking back, Scott remarked that he wished they'd done more work getting into target markets and having an easier to understand value proposition for those markets - a good reminder for the value of clear messaging and compelling pitch to all.

Whilst their exit strategy was strategic and technology based, early investors knew there was tension between GreenButton being bought versus being sold so they needed to have done enough on the sales side to want to be bought as well as building great technology - having early customers was going to be key to achieving the desired exit outcome.

GreenButton used ISVs (independent software vendors) as channel partners and with a lot of work they started to get the proposition and value to their customers, but GreenButton also knew that to achieve the exit they'd need to own those channels and build up bigger customer bases alongside.

Earlier lessons taught the team that companies all around the world (including Telecom) weren't interesting in sending their data to New Zealand, compounding the learning that they needed to have better international presence or find an international partner who could offer that.

Off the back of that decision, the team started looking for partners. In Hong Kong they met with Hewlett Packard (HP) and got some good interest - they were building cloud already so had a good grasp on GreenButton's value proposition. The Hong Kong team connected them with their data centre in Singapore where they were already building and led to some good early traction, signing an MOU with HP and the Singapore Government to create the digital media centre there.

After thinking they had found their first international partner, soon after, HP started getting skittish on cloud and shut down conversations at the Hong Kong and Singapore levels, redirecting the team back to Palo Alto.

The team also entertained discussions with Amazon, market leaders with their Amazon Web Services (AWS) product at that time, who showed early interest in partnering. GreenButton's Initial approach was cautious as they'd heard a few partnership stories that had gone sour, but ultimately these conversations didn't go much further, with the team retrospectively feeling that they divulged a bit too much information this time in the hopes of an early exit discussion. Their take away was to be more guarded with what they were divulging next time around and do more due diligence on the company - whilst Amazon.com had made a number of acquisitions, AWS had made none.

A week after HP went cold and Amazon wasn't looking like it was coming through, Microsoft contacted GreenButton who had heard about the team and really liked the idea - it was early days for Microsoft entering the cloud space and they were looking for early champions for their Azure platform. After a good few discussions, Microsoft was looking very positive as an early partner, and gave GreenButton some money to help make their technology stack compatible with the new technology stack they were building. This small investment from Microsoft was a good sign that GreenButton had found their international partner, and things started to look up.

Observations and Lessons From Building Early Traction

Looking back over this portion of GreenButton's journey there's some interesting takeaways - especially around realising the constraints of their location and making a good move to get 'outside of their box' fast.

The partnership approach, whilst time consuming worked well to get some good traction and market intelligence on the ground giving them good credibility entering new markets, but making sure to clearly understand partner motivations and both having the right alignment was key.

The importance of having clear value propositions and going after strong verticals even if you are ultimately building a platform business is another lesson learned. Even with channel partnerships in hand, figuring how to message and reach direct customers is incredibly important for relationship management and to ultimately add more strategic value to a potential acquirer down the line (as we'll see).

GreenButton's journey also highlights the understanding at a strategic level of the difference of a company being bought and sold, ensuring you're doing enough on the customer side so someone wants to buy you alongside having built great technology for a strategic acquirer.

7. Planning for Success (Exit)

GreenButton had done well to hit a bunch of milestones after their first round of angel investment - they'd put a solid management and governance team in place; they'd built good product with a forward looking IP roadmap; and locked in a credible international partner. Off the back of this, the team were poised for growth, so they approached local angels to fund that growth round.

They were successful at raising a follow on $1.2MM from prominent New Zealand investors like Movac, Evander, and other local angels. Marcel being close to these networks led many of those follow-on discussions and helped close subsequent rounds, even heading up to Tauranga and pitching Enterprise Angels without Scott, the CEO.

For Bill Murphy, executive director of Enterprise Angels, the trust and experience he had in Marcel meant they didn't have to do as much due diligence as usual, which in itself was unusual for the club - it was presented as an exit round, with clear indicators in place and the partnerships looked good. A big surprise to Bill was just how much time Marcel had spent overseas on the company's' behalf stating that he doesn't see this sort of commitment in his other investments.

Marcel was a great conduit for GreenButton during these talks - he could create that discussion because they were closer towards an exit, with clear exit opportunities in the pipeline. At this level and stage of business, the product focussed discussions weren't as relevant so Bill found it more useful to talk to someone who understood the angel process.

For Bill, having Marcel involved deeply was enough to make the recommendation to the select club members who understood that space, which is a great nod to Marcel's experience, but also shows how much impact a more executive board chair with deep investor networks can be on a company's success.

One of Bill's remarks seeing how Marcel operated was that of a 'scary' realisation that if it takes that much involvement to drive an exit, many angels in New Zealand would not be ready for that level of dedication. He still sees a 'yawning gap' even in experienced investors about what it takes as an investor director to make an exit like this happen, especially with the majority of investors still working too.

NZVIF was a good investment partner too - at the time of second pitch it was clear they had an international focus from day one and saw Marcel as an extremely effective leader and chair on the board. Having clear competence in governance, with Marcel in NZ, and then supplementing with experienced US board members over time made GreenButton a good investment opportunity to match NZVIF's goals.

From day one, investors brought the discussion to Scott and the team around what success looked like and prompted the team to discuss the endgame for GreenButton through reading and discussions with visitors from overseas who had exited prior ventures.

With customers like Dell, VMWare, Pixar and Boeing coming on board and with Scott's network, they started planning in more detail how they were going to exit this business - this was a bigger driver now since they pitched a more 'exit-round' style raise at the last round and now having more investors looking for that exit.

Scott originally had set out to build a great product and company to fill the opportunity gap he saw in the market but hadn't thought much past this. The more that investors and the board talked about the exit, the more intoxicated Scott got with building a company and selling it - reflecting on just how much he'd given up to get to this point, with the team he now had, that exit seemed a very real achievable goal.

Whilst the talk of exit strategy was a boon to Scott, the implications meant they'd need a more challenging strategy to achieve that end - they'd need more capital, they'd need to build closer partnerships offshore, and likely raise money in the US. After five years carrying the weight of stress with stretched friendships and lack of availability to the family, the pressure would be back on Scott who was already tired to get to this point - this would be like resetting to day one again.

This was a key decision point for Scott and time to ask the hard questions of whether he had another five years in him? Marcel remembers testing Scott's commitment by asking if he would step back and let someone else take the reins if the business needed it. Whilst intellectually everyone likes to answer yes to these questions, emotionally this is a hard conversation to have, but Marcel and the team pushed Scott to think about this now because he'd be the one at the front making it operationally happen. After some good thinking, Scott came back strong, re-energised by the discussions around the exit opportunity and ready to take GreenButton to realise that exit.

It was obvious that Marcel had a clear commitment to keep Scott as CEO at the exit since he could talk IP roadmap and that would be key to a strategic buyer. Scott was who Marcel really invested in and whilst it's fine to ask the question 'would you step away if needed', that was more a test of understanding and strength of character more so than an order. To this end, another board discussion was not having Scott at 5% at exit, but some meaningful amount to keep him motivated, something like 20-30%, resulting in a number of board debates around valuations to achieve that.

The journey through the next few years would be hard and Marcel challenged Scott throughout when the team wasn't performing even having to set down ultimatums for the next quarter to ensure Scott remained on point (Scott, still seeing GreenButton as 'his' company wasn't too happy about that), but it's hard to anticipate in a conceptual discussion just how much effort this is going to take to see it through to the end - what capabilities are required, what are the logistics needed to make this work, all alongside business-as-usual.

Observations and Lessons From Success Planning

With the various investors'- and stakeholders'- personal investments, it's often easy to overlook the emotional journey that the visionary entrepreneur has been on to get to where they are today and the effort needed to get to that exit down the line. Ensuring that person and the team still feels like they have adequate 'skin-in-the-game' to effectively reboot to day one and carry through to the end is a key decision investors have to weigh up even if it conflicts with their own personal interests in the company. Ensuring the entrepreneur and team is incentivised to get to the endgame is the only way investors will see a return.

Again, the impact of having these early exit discussions and keeping them alive at board level meetings was a crucial determinant in the success of GreenButton, and more so, in re-energising and motivating a tiring team. Creating a context for that discussion and testing it to see if the team have what it takes is another good indicator towards how likely that outcome will be.

Having a clear understanding of the capabilities and logistics required to get to the exit is another prudent early discussion - how does the team need to look at the end, do you need a more operational CEO or can you keep the founder at the helm, and keeping at the back of your mind that as an angel investor you're supporting the entrepreneur's journey alongside your own financial upside.

Backing the CEO to deliver and finding a way to keep them motivated throughout the journey and not just diluted and demotivated at each stage is critical - go to the end game conversation and match expectations and rewards. As investors you'll be driving this conversation more so than the entrepreneur (unless they've been through this process before), so be wary of your personal values and their impact on this discussion - see the whole not just the money by matching the founder's journey and understanding their emotional journey alongside your financial return on investment.

Again this stage of the journey points to the value of a board connected and experienced in the investment industry to help close deals and raise funds effectively and quickly. Having expectations and planning to be offshore more than you think for the investor director/chair as well as the founder is another advisable take away on both sides. Be wary of your own gaps if you're planning to take on an investor director role and be aware of how much time and energy you have to give and how much it will take to drive towards, and achieve, that exit.

For angel groups, understanding how mid-stage deals presented with clear exit opportunities helps those deals close faster is a good reminder to review processes and templates for companies pitching, especially around your ability to be more nimble and make out-of-cycle decisions for quicker wins.

The GreenButton story shows how governance in New Zealand has to become more active and transcend into operational detail as well - startup companies in New Zealand have difficulties attracting this capability due to lack of- or availability of- suitable talent, so they often can become isolated or go alone - it's a key challenge in a nascent technology market like NZ - how can we collectively create more active boards that embody the values and commitment that GreenButton's showed in this role?

8. Playing Bigger (Going to the US)

After travelling a lot to the US and engaging with a number of US companies, the team realised organic growth internationally wasn't going to be achievable and they just had to be in-market. Compounded by the fact that their product was niche and hard to sell into the market, the board had to make a call on playing bigger and going to the US.

Initially the board were against the decision to move to the US - all agreed it was risky and would cost a lot more money but after discussion around what it would take, Scott stood up and said he would make this work. It was good to see Scott growing into the role who believed in the exit vision and was dedicated and confident to give it his utmost to make it work.

Whilst they had good local and international connections within the team, with US enterprise customers giving so much respect to brand names and labels like IBM, the team decided they needed to recruit new US board members to give them that credibility and experience in the US marketplace.

An important lesson the team learned during this phase was to have big aspirations whilst looking for international board members - many people think it's expensive to get high profile people on boards, especially those who have currency in the US marketplace, but as the team found out, it's easy to underestimate just how many people in Silicon Valley who would jump at the opportunity to get onto more boards.

Marcel got the first international director, Mark Canepa, onto the board through solid networking - it took six months for Mark to say yes and come on board as he learned more about the team and started to understand the opportunity. Whilst this might have taken longer than anticipated, Mark really was a huge win for GreenButton and the board as he brought huge enterprise credibility having been GM for Hewlett Packard and Executive Vice President of Sun Microsystems - two household enterprise brand names that could open senior level doors in Silicon Valley.

Their second international board recruit, Art Wong, took twelve months to secure. Art was a serial entrepreneur from Canada who had sold his company to Antivirus Software company Symantec, and had been through four other exits already. Art was really good at building and selling companies and was a great foil for Mark on the board, allowing the company to now have senior door opener, and an experienced serial 'exiter' to help the team navigate the journey ahead.

The success for the team here was their ability to turn up in the market early with a bunch of contacts and work them hard to get the outcomes and reach the people they needed. NZTE were a big help during this period and GreenButton leveraged them hard on the ground. Ben Anderson, who oversaw NZTE's BeachHeads network for North America remembers how the team were big learners about the US and Silicon Valley in particular and their commitment to doing business here.

Ben remarked he doesn't see enough Kiwi companies building great local boards here in the US, "too much flying in, doing a little business, then flying out again." Ben's experience of Silicon Valley life is that it's always on 24/7 and that's a big culture shock to Kiwi companies who come here. Just as in New Zealand, the real business is transacted offline - "in churches, on kids' football fields on the weekends, and at farmer's markets - meetings get scheduled and cancelled so quickly here that it becomes hard to keep up if you're not physically here."

And that wasn't just the message coming from Ben. Whilst they had good leverage with Microsoft, being awarded Microsoft's Azure Partner of the year award for 2011, and prospects they talked to loved the idea - enterprise customers were still reluctant to engage with a company based in New Zealand.

Scott finally started to realize that they'd need to have someone there, and it needed to be him. Looking back, Scott distinctly remembers pitching his wife (then fiancée) Lynda, about having to go to the US. On the back of the positive investor sentiment around the exit - he recounted telling her it would only be a six month stint and just about manageable being away from the family for three months at a time as his visa allowed (fast forward to when the exit was finally achieved some five years later….!)

Ben was a great help on the US side making connections once Scott was offshore. Ben had a good HR background and ran a leadership and executive recruitment firm in Silicon Valley so had great alignment and insight into the labour market once they landed.

One of Scott's early decisions was to hire a US-based VP of sales, which made sense given the downtime he'd need by being back onshore. The sales VP had a solid track record making sales, but the team took a bet on growing him into a sales leader which was outside his prior experience. Unfortunately, over time, the VP failed to perform in that strategic role, instead falling back to a sales role, focussed on deals rather than scaling into the market.

This caused consternation at the board level, and the board found they ended up running the sales strategy sessions. Even after the board giving a six month window for the VP to perform and failing, he was still there after a year showing it's a lot harder to separate good relationships from the duties of a CEO around performance management. Additionally, the VP had negotiated stock options based on sales rather than years of service and that made the performance discussion more complex.

Mark Canepa's advice from his experience of working with companies coming to Silicon Valley held true for GreenButton as for others - that the CEO needed to be here without question, and they need to be the one leading sales and marketing here. He's clear that it's much easier to delegate engineering than sales, saying "the model of demand creation can only be done by the CEO in a company of GreenButton's size." It's also interesting to hear his experience of the 'flying-in and delegate to VP of sales' model - "the CEO *is* the VP of sales in each new market!"

Ben Anderson also offered the following advice he gave GreenButton at the time generalised from his experience. "Entrepreneurs aren't clear enough in their product-market fit before coming to the US and this is a critical piece to figure out before they land. Being bolder on finding networks faster, being clearer about what we want and respecting people's time more than we do in NZ. Expectations having grown up in Silicon Valley is that you respond to a text within 10 minutes and an email within 24 hours - the level of interactivity that goes on in Silicon Valley really is mind boggling."

Observations and Lessons From Playing Bigger

Understanding the pressure and emotional journey on the entrepreneur to commit to being in the US is another lesson both Mark and Marcel discuss. You can't have a lonely CEO living in an apartment in the US with their family back at home - especially when that 'secondment' takes up five years of life - planning the right work-life balance, even if the company has to support this needs to be built-in, remembering back to the early lesson of creating the right environment for your CEO to perform exceptionally. Marcel, for example, who frequently travels internationally in similar circumstances, ensures his wife accompanies him on every third trip as a way to maintain some balance.

For many entrepreneurs, the lure of getting into the US is strong - the reality of what it takes though is often much harder and with hard lessons learned along the way. A key insight for entrepreneurs is that there's no substitute for being present in-market - especially if you are courting big enterprise. Similarly, in more mature markets, you don't need to take a punt on less experienced people, hire to the role, but be quick to fire for performance - this performance management is critical - if it's not coming from the CEO, be clearer about accountability at board level for making it happen, even if you have to pull forward outside regular board meeting cycles.

Setting some realistic expectations of the acquisition taking a lot longer than you might think and not happening by accident is another key takeaway; plan to set these expectations at home - you want to win at business without losing the family in the process (a story often untold, but unfortunately all too common in many successful entrepreneurs).

Another further lesson can be learned around setting the right expectations around lead times for getting the right people on the team and board. Don't be afraid to approach people to come onto a board, but give yourself plenty of runway and start those discussions early (up to twelve months if Mark's and Art's are yardsticks to measure by).

The importance of Mark as the 'elder statesman' cannot be overstated later on in the exit - look for people respected by your target acquirer and have them on the board driving those senior level discussions. The additional capability of having in-market exit experience on the board really was another differentiator for GreenButton - both have different uses, from reaching top-down from the acquirer's view to bottom-up inside the organisation. Identify these changemakers for your company early and be persistent getting them onto your boards to make a difference.

The key lesson that many of the management team came away with looking back is that the entrepreneurial journey is all about picking the right people. The investors would be much more picky about the founder next time around and CFO Darryl commented that "there's a lot more people and personalities than he thought so he can see why US VCs love serial entrepreneurs - the proven track record is of huge value."

9. Chasing US Venture Capital

The default route in front of many entrepreneurs looking to go overseas is that of US venture capital - the allure of billion dollar valuations and big money to accelerate growth can always be tempting to follow. Whilst many people assume that US VC is the tried and trusted route, few companies which started in New Zealand have been publicly successful raising US VC (Mark Thomas' Right Hemisphere being one of the few publicised ones in New Zealand).

GreenButton's journey took them the same way. They did the 'rounds' on Sand Hill road, notorious home of the most prestigious venture capitalists in the US, and tested the story and ability to raise larger funding. In total they spoke to nearly forty VCs in the US, which ultimately helped shape the pitch, but they couldn't get the right answer they were looking for, as the on-demand enterprise space just wasn't resonating with the more social/consumer focussed VCs based there.

Additional to this, the pitch took too long to explain and they never managed to come up with a compelling enough value proposition to speak to larger VCs. Feedback from the pitch was that VCs didn't get the vision and what was pitched was too conservative, "you're really a $1B business, but you're pitching like a $100MM business" (Scott's experiences with Telecom coming back to haunt him?)

David Aker's perspective recounting the period chasing VC is that "it's true about VCs not being interested if you're not 45 minutes down the road - if they can't pick up the phone and meet you within 30 minutes, they're not interested as they feel they won't be able to add enough value."

Regarding messaging, Ben Anderson commented on the comparison of just how well US VCs train their companies - wordsmithing, value proposition crafting, process, and actions to hold them accountable. This is a great learning point to assign time and capability (both resources and expertise) to do the same in New Zealand to raise the odds of more ventures being successful. It could thus be an interesting exercise to give our investors more exposure to the way US investors operationally run their investee companies and learn from them.

After not making significant progress with VCs, there were some frank discussions with the now expanded board about what point the founder carried the company until he was not needed and whether or not they should hire a US CEO - Marcel again came back to the early decision to back Scott and keep him at the helm as a point of principle, but this needed to be backed up by future performance.

Whilst the VC route was good for testing, those conversations did put the company in a stronger position when talking with strategic partners as it helped increase the competitive tension. Marcel was tireless in this process alongside Scott, going head to head with top people, and keeping intensity on the whole process. He would put the work rate on and hold Scott accountable. In Mark Canepa's view, Marcel acted more like a Silicon Valley Chairman than a New Zealand chairman, stating that he doesn't see that level of accountability from Kiwi boards often. For both Mark and Ben, accountability is a way of being amongst Silicon Valley entrepreneurs, and their advice is to increase your intensity and accountability on your team *and* with clients, "it's just expected here".

Observations and Lessons From Chasing Venture Capital

GreenButton's journey dispels one of the myths of many New Zealand entrepreneurs around the rhetoric of how easy it is to raise money in the US - with such a credible and well connected team they still failed to achieve this result. It did however serve to raise an important tension with strategic partners and help push those discussions forward alongside.

A clear message for entrepreneurs to take away is to be extremely clear on messaging, customers, and product-market fit before looking to raise US venture money - this was the number one feedback the team received from each VC.

Others have written about the differences of how American's do business compared to Kiwi's and GreenButton's account shows these again, leaving a good opportunity for boards here to hold their teams more accountable for reaching milestones and increasing their intensity to compete in larger markets.

10. Hunting Strategic Partners

Whilst GreenButton was chasing US VC, a strategic exit was still high on the board agenda so they were still courting potential strategic partners. After a presentation at a US conference, GreenButton was approached by Fujitsu who were really interested in what they were doing and wanted to buy them! This was perfect timing after getting so little traction with venture capitalists.

The team hired early-stage investment banker Growthpoint to help manage this initial discussion. GreenButton was a sweet spot for Growthpoint who looked for teams with no serious revenue currently, but addressed very large markets, and developed technology today who could move the needle for their large network of enterprise partners in two or three years' time.

Growthpoint's advice around pursuing strategic exits is that it's a significant mindset shift for most founders - even profitable companies at $1-2MM a year are not interesting from an acquirer's point of view - it really has to help them reach the next level in such a large increment, especially since any acquisition is a distraction for the acquirer as much as it is for the company.

Having a good grasp of the industry, Growthpoint revalidated the US opportunity, and they reinforced that for GreenButton most larger customers were still not comfortable shifting compute-cycles into the cloud so early partnerships with known brands was the way in. For those partners, they needed someone who's in the customer's face every week; and who would get onto the sales cycle with the partner and understand their sales card to make it easier to partner. The overriding sentiment was that bigger firms would be reluctant to partner with a startup, but if you're partnered with Oracle for example, it's much easier for them to say 'yes'. Growthpoint offered this sort of insight and networks, and were a good partner for GreenButton, especially with senior lead-ins to customers like VMWare.

Even with Growthpoint's support, after a long year of negotiating, dating, and due diligence, the Fujitsu deal ultimately didn't come to a positive close. The main contributing factor to this was that the internal champion driving the deal left the company and they never managed to find the next person to keep pushing inside the company.

This was a hard time for GreenButton, in total that whole process burned a year of time and resources in the company, and again, it turned out that the potential acquirer was a subsidiary entity not Fujitsu itself. During this time Scott also travelled to Australia a number of times to help on some joint deals that also went nowhere.

The biggest realisation the team had through this process was that Fujitsu had approached them rather than the team being more proactive and going out looking for the right purchaser. They engaged Growthpoint more proactively to put them on a formal footing and got back on with a more aligned exit strategy - Growthpoint had the contacts and were close to corporate development (M&A) in large companies so could provide insights on who might be interested.

The benefit of going through that acquisition process was that it generated a lot of competitive acquisition interest - Dell took a look, then Microsoft, HP, and VMWare - all initially talking partnerships. The team started to distil from these discussions that if they could package large branded customers like Pixar, Halliburton, Boeing, and Dell - the opportunity for a purchaser would be to get all of the ISVs on board as part of the purchase, which at that time was one of the bigger issues in the industry.

Talking to all of these partners, and still doing the rounds of the venture capital circuit, really helped to create some competitive tension between lots of players. Because of this, the VMWare partnership discussion advanced significantly, with them making a multi-million dollar investment offer - a good deal for the team, and not far from expectations from a more traditional VC.

That's when they took the deal back to Microsoft.

Microsoft Partnership

The tension really played out with Microsoft, who rightly started to think they'd invested time, money, and profile into GreenButton up to this point, and it would be a shame for VMWare to steal that investment from under them. Microsoft was keen to keep GreenButton on the Microsoft technology stack and could foresee that VC or another strategic partner in time would force them onto other technologies.

A useful context here is to understand GreenButton's position to Microsoft - Dianne O'Brien, Senior Director of Cloud and Enterprise Business Development, recounted that GreenButton was an early and important partner for Microsoft and often helped their on-the-ground sales teams with pre-sales and early customer adoption.

Microsoft believed a lot in GreenButton's technology but Microsoft themselves were not yet ready for an acquisition, mainly based on the immaturity of the Azure platform at that time which still had a lot of feature development to be completed without the distraction and complexity of having to integrate another acquired technology alongside it. Microsoft wanted to go ahead and see if GreenButton could grow the business and develop their engineering roadmap and get commercial uptake before they committed more.

Once the strategic term sheet was on the table from VMWare, it meant that GreenButton could put the same offer to Microsoft and ask them to beat it. And they did. In just 24 hours, Microsoft came back and matched the VMWare term sheet, but *undiluted* to lock in a very close partnership. In acquisition terms for Microsoft, the amount offered 'wasn't work getting out of bed for', but it did allow Microsoft to look under the covers and have first right of refusal down the line when future acquisition discussions began. Dianne commented that it was a great investment in GreenButton, and Microsoft didn't do deals like that at the time - and even today similar deals are still rare.

So, it really was a great win for both sides - for Microsoft to continue developing the partnership and getting grassroots support whilst testing the relationship in more detail; and for GreenButton signing a solid enterprise partner.

The downside risk of the partnership was lock-in with a key partner that could reduce their future acquisition options, and signal if Microsoft chose not to acquire them in future, but the team outweighed this due to the strength and trust in the partnership. Obviously this turned out to be a good decision, but also because to GreenButton, Microsoft were already part of the family having worked so close with the team. Scott had relationships with many of the product teams inside Microsoft and this allowed him to develop further inroads to the business and corporate team over time too.

An additional positive side effect of partnering with Microsoft in this way is that it allowed GreenButton to keep their corporate structure simpler for longer - being forced down the VC route or strategic equity route would have meant they'd need to flip into a US company to comply with those expectations.

Observations and Lessons From Hunting Strategic Partners

The key lessons looking back at this time was just how different expectations were from the reality of what happened. Thought-leadership amongst peers was great marketing and ultimately led to the first acquisition offer. Scott remarked that "you've got to be out there doing it, not just assume they'll come to you".

The harder lesson to learn is doing the right due diligence on strategic partners and acquirers before spending too much time on them - it's hard in the face of the 'dangling carrot', but much like the fundraising process, acquisition talks with the wrong partner can be a big distraction especially over a period of a year's wasted time.

Scott's experience shows us to balance your exit desire with enough understanding of your internal champion and their position in the company, and do some fact checking whether that specific entity has a history of acquisitions - it's easier to get dazzled by big brand names, but their structures may not be clear.

Finding Growthpoint was another good boon for GreenButton - taking that lesson on board suggests thinking carefully about trying to find the right people and partners for your own exit partnerships - understand who's already talking to M&A folks all the time in corporate development and has those relationships - consider engaging an experienced early-stage investment banker like Growthpoint as a first point of call to give you that extra support and market visibility to put you on a more formal footing.

The win for GreenButton here was having a close pre-existing working relationship with Microsoft and using that to further develop over time as an option when looking to raise further funds. These early dots help join the line when it comes to eventual acquisition talks and shows good loyalty throughout that process. Having a clear view of who your acquirers might be early, and guiding your journey to cultivate those relationship over time is a significant advantage for entering the endgame.

The competitive tension generated during the VC process and courting strategic partners was key in helping GreenButton get the partnership/investment over the line - the importance of this cannot be stressed enough, so having a focussed strategy rather than talking to whoever comes along can really help drive better exit outcomes for the company over time.

GreenButton also shows us to look for ways to understand the drivers and rationale behind what will give your potential acquirer additional value - for them for example the brand conversation around acquiring not just technology, but big enterprise clients like Boeing, or access to a network of partners (ISVs in GreenButton's case) that really helps move that needle for them or gives the added unfair advantage.

The next two years for GreenButton was all about getting enterprise traction and maturing their technology - they found using existing customers and the Microsoft partnership was key to helping them get new business across the line.

11. Building Up To Acquisition

As the partnership with Microsoft continued, Scott Guthrie, the number two head of cloud at Microsoft, visited New Zealand which was a great opportunity for GreenButton to show how their product had evolved since their original partnership. Scott distinctly remembers Dave Fellows asking how much he should show them, and Scott replied "Show them everything!" Dave's demo went incredibly well and Scott Guthrie left very excited about what GreenButton were doing all on Microsoft technology. He asked what GreenButton wanted of Microsoft next, so they made the pitch:

"We want you to buy us!"

They pitched at the high dollar end as every good seller does. Scott Guthrie was interested, and took the message back to Redmond. GreenButton were in a great position with Microsoft: a good track record; early partnership; having developed the engineering roadmap as anticipated; and really being an outward champion for what could be done on Microsoft's technology - all the ducks were lined up neatly in a row.

After a week and a bit of face-to-face negotiations, and then on phone and email, the term sheet negotiations took about a week. But as both teams started to enter the due diligence phase - unforeseen disaster struck - Steve Ballmer, CEO of Microsoft at that time had just announced his departure from the company, leaving an organisation of 100,000 employees needing new leadership. Now was not the time to be looking at corporate development through acquisitions!

This was a real setback to GreenButton, and whilst it wasn't the internal champion this time who had departed and killed the deal, it left similar feelings of high risk for the team. There was massive pressure on Microsoft at the time to get this hiring right - Steve Ballmer had left a huge legacy behind him. During this time, there was nothing more GreenButton could do, but keep the relationship and deal alive. They had strong signals that Satya Nadella was in the lineup for new CEO and GreenButton knew Satya, but everything just went quiet. In the end they had to sit through November, December and January whilst Microsoft went through the recruitment process.

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Finally Satya did indeed get the appointment as the new CEO which was a great asset for GreenButton - Satya had a solid background inside Microsoft heading up both cloud and the server and tools divisions during his time so understood what GreenButton were doing deeply. Scott Guthrie was moved up to head the tools division the next day and within the week the GreenButton team were up to Redmond and restarting the acquisition conversation.

Apart from the high risk of the deal falling over during that time, perhaps the next biggest risk was that the sales team had given up during this period due to the acquisition discussion. The board knew that Microsoft wouldn't be buying them for the sales, but the challenge was not to dispense with the sales organsiation so as to preserve runway if the deal fell over, but also not to restructure during the negotiation as this would ring alarm bells for Microsoft. Whilst the board recognised these tensions, the team were constrained in retaining sales capability even thought the acquirer was not interested in that.

In a small team it's often hard to separate business as usual from the excitement of a potential exit, especially when there's a term sheet on the table. Whilst the board had a good process to keep business-as-usual discussions and exit discussions separate at board level, they stated that they'd make a better effort next time to "keep exit discussions in the board room, rather than the bar room", and be clearer about telling all the staff in a consistent way at once rather than ad-hoc friend-to-friend discussions. This is a hard balance when you've built a small closely-knit and open culture, but all too often the risks are only fully seen by the board, and for employees, it can be easier to draw foregone conclusions and celebrate prematurely.

A big benefit of having focus on the exit from early investment onwards is that GreenButton did housework they knew would be part of due diligence as they went along to make that process ultimately smoother. CFO Darryl Lundy was amazingly focussed on this for three months leading up to the exit and was highly organised which took immense pressure off Scott. Growthpoint too were a huge help assisting Darryl early in building the electronic data room, compliance documents, and more.

Growthpoint helped negotiate and put perspective into the deal by bringing the team back up to the 'helicopter view' to keep the discussions going as smoothly as possible. They turned out to be a useful third party relationship to the buyer for GreenButton - both as a gentle hand steering the deal and as a circuit breaker and release valve when certain parties wanted to stand their ground.

In making the deal happen, Growthpoint could also help alongside the board to create a 'two-pronged attack' by creating relationships from the top-down, and mid-tier up keeping pressure on the deal closing. Of course most corporate decision makers don't like to feel you've gone over their heads so the team had to manage that relationship closely, but again felt it necessary to keep pressure on the deal, blaming 'the rogue chairman' when this was questioned - the appetite to get the deal done outweighed a few potential bruised egos.

Observations and Lessons From Building Up To Acquisition

This lead up to the deal reminds us that no matter what smooth journey you plan and preparation work you've done, they'll always be unknowns that will push out your time frames - making sure you've allowed for these in funding, cash flow, and continued revenues are critical until you know the deal has completed and money is in the bank. It's imperative that you continue business-as-usual during these negotiations both for acquirer sentiment and as your backup plan in case the deal falls through.

The GreenButton journey highlights that even with an open company culture, the importance of choosing the right time to disclose acquisition offers with the wider team is critical, remembering that whilst the team has less at stake (but still vested interests), their journey is an emotional one as much as yours and this has to be valued and weighed in how you communicate that message. Making sure you have balance in a small team between critical updates to all of the team at once versus sharing information with teammates on a friend-to-friend basis.

Linked to this point is balancing confidentiality with visibility and transparency - the VP of sales in this instance was often involved at board level discussions too and it could be interesting to evaluate who from the senior management team need be present in the board room during this period. However, what did work in the board room was having clear separation and responsibility for business-as-usual and exit framing and it meant both were kept clear on the agenda.

The value again of having an experienced strategic investment banker or lawyer help navigate this exit process meant there was a better chance of having all relationships come through the process intact, remembering that post acquisition those relationships will still be needed, more so than before to ensure a good integration of the team and technology.

Likewise, having the access to lead the deal both top down and middle up can really help to keep pressure on the deal - engaging at the business level for mechanics, and enterprise and executive level to drive the deal. Having a clear line of sight to someone higher up the organisation to clear blockages in the negotiation process is a must, but use that resource sparingly.

Overall after the deal was back online, the lead up to the deal was swift and smooth, making the subsequent process easier.

12. Acquisition Offer

After receiving a letter of intent to acquire soon after those discussions, the focus turned to due diligence and setting the terms of the acquisition. Growthpoint, as in the lead up, were a great help closing the gap between what both parties wanted. Their perspective looking back on the deal is that GreenButton had a very complementary board who were very hands on, which they saw as very unique to the usual deals they see which tended to have more seniority on the management team.

Mark Canepa and Art Wong came to their fore during the negotiations as anticipated, with Mark adding the credibility of a huge respected figure in the industry, and Art being able to talk benefits out of the other end of the deal.

During these detailed negotiations, the board suggested Scott should not be in the final negotiations since he had too much at stake and could negatively impact the deal, so the final details were ultimately worked out by Microsoft's lawyers and Growthpoint on GreenButton's behalf.

For Scott this period was nerve wracking and stressful - with the journey looking like it was nearing liquidity for him, the only hurdle was getting through the due diligence process successfully. Scott knew that revenues weren't great, but he disclosed this and kept everything up front during the acquisition. Whilst he knew it was important to show traction with customers, he held onto the fact that Microsoft wasn't buying them for revenue, but strategically for the technology.

With the delays during the early lead up to the acquisition the additional concern for Scott was that they if this deal didn't happen, given the underperforming sales, they'd need a new investment round and were effectively financially teetering whilst they played out this process - there was real possibility that a more ruthless acquirer could see this through the due diligence process, rescind the offer, and then make underhand offers to cherry-pick the staff.
Of course this was more the paranoia of an overworked founder's mind than the reality, mitigated also by the fact that GreenButton had built such a strong relationship of trust with Microsoft over the course of their partnership.

All out, the deal took only four weeks to complete, and Microsoft said it was one of the cleanest deals they've ever done - which was high praise given just how many deals they do a month. The deal was clean also from GreenButton's point of view with Microsoft not wanting to run GreenButton as a business unit, instead wanting to fully integrate the teams and technologies. This made the deal easier on both sides and allowed Microsoft to take a mature view of the value they were going to get over time.

When Microsoft came to New Zealand to first discuss the deal, GreenButton wanted to keep the process fun and reflect their Kiwi culture, to this end, they showed up to that first acquisition discussion wearing custom printed Microsoft tees with the GreenButton logo as the 'O' of the Microsoft logo. Whilst on one side they worried what the corporate team would think of them having messed with the strict corporate branding, it ultimately set the tone for the discussion, creating a good icebreaker and giving a sense that this was going to be a fun process. Microsoft loved that cheekiness and wanted to preserve this culture after the acquisition - even going to the lengths of opening a research centre in New Zealand specifically to keep the team and kiwi culture alive here post-acquisition.

Whilst obvious people surplus to the deal such as the CFO and sales team were unfortunately lost in this process, Microsoft recognised all of the key staff and brought them all onto Microsoft terms and contracts, which for many of the development staff who had taken early risk and worked at less-than-market salaries for so long, were very happy to be moved onto full salaries. Because of the broad employee share option scheme on exit (11% pool total), everyone in the also company made some cash from the deal.

Deal Technicalities

As mentioned, the deal progressed relatively smoothly, but there's a number of observations that are helpful to review.

There were a few issues to be cognizant of in terms of US employees owning New Zealand stock with certain California laws having rules around stand-down periods and exercising of stock options. Whilst it might make sense to grant such employees part of the stock option pool at exit time, such rules might have implications around when those employees get to see the actual benefits compared to others in the company so planning ahead and putting appropriate vested options may make better sense for employees in a similar situation.

The deal actually closed over the course of a weekend, so electronic tools like DocuSign helped a lot for getting those signatures urgently to make the deal happen. The odd timing is also a reminder to ensure that you have no last-minute items that might be harder to deal with over the weekend - in this case, Microsoft didn't want any hanging assets, and the deal couldn't close until all those last details were closed out. This seemingly trivial detail required Scott to travel to the US the weekend the deal closed, specifically to drive the cheap company car he'd purchased (to ease the quantity and cost of US-centred travel) from the storage facility to a car yard to make the sale and remove it as an asset from GreenButton's books!

CTO Dave Fellows knew that ownership of source code IP was an obvious due diligence item, but more so than this he was surprised just how much diligence and time Microsoft had spent on just *who* had seen the code, next time he remarked being more rigorous around that to accelerate that part of the process would be a great help.

Closely related to that and a by-product of a startup dealing with enterprise customers, some early customers had required that the source code be put into escrow as part of their commercial contracts so they had some continuity of operations if GreenButton had to be wound up for whatever reason. This ownership issue potentially threatened the deal and had to be pushed up to a senior level in the acquirer and a number of pre-acquisition discussions with those customers to resolve.

In terms of the financials and structure, many of the latter investors came in on 'soft preferences' which seemed a more founder-friendly option than the hard preference shares that are currently popular in the New Zealand investment space. These soft preferences worked by 'expiring' the preference after a period of time (thus converting to ordinary shares), on the basis of achieving a certain valuation and interest threshold in subsequent rounds.

Both Bruno Bordignon (GreenButton's NZ-side lawyer) and Growthpoint recounted that revenue recognition in the final balance sheet is always a topic of discussion during those exit discussions and both parties usually have differing opinions on what should go on the balance sheet and what shouldn't (e.g. should prepayments for customers that would come in after the deal takes place be shown as revenue now versus that being revenue on the acquirer's side). Bruno advises to go through each revenue item before the deal with a fresh lens and ask the question whether this is really a revenue item as it always crops up on deals he has seen.

The importance of sales and having some working capital was another point CFO Darryl Lundy touched on - if there's working capital (i.e. cash in the bank), the deal parameters can often allow the deal amount to be adjusted both ways and give an extra element of flexibility in the negotiation, whereas if the company is not at revenue or relying solely on invested capital, the sale amount will only ever be adjusted downwards.

In acquisition deals, a component often present in the final deal is an 'earn out' clause (either a bonus or an amount held-back from the total proceeds), usually locking the key team in until a set of growth, integration, or handover milestones are completed. The final deal agreed to had no earn out which was a great result particularly for GreenButton, showing again the importance of having a close trusted and working relationship with the acquirer.

Because Microsoft were not just acquiring the technology, but the also the team behind it, a key piece of due diligence was ensuring the rest of the team were also on board with the transaction. Before the deal closed, Microsoft came to New Zealand and interviewed the wider team - it would be a disaster and deal-breaker to them to complete the sale and then for the entire team to quit, so before the deal could close, each transitioned employee had to be offered, accept, and sign a conditional offer of employment with Microsoft. Again whilst Microsoft could have required this to be a lock-in scenario for those employees they instead showed their strength of commitment to the team by incentivising based on bonus rather than constraints.

A more uncomfortable part of team due diligence for Scott and the board was going through the scenarios and impacts of getting rid of the sales team as a precondition before the deal could close as Microsoft already had key enterprise sales channels and this was a technology acquisition. This is a very hard decision for any CEO, who, having seen the failure of closing a prior deal with Fujitsu during due diligence, was now being asked to fire his only way of making future revenue without a guarantee that if he did this, the deal would definitely go through.

The final technical issue of note was a minor expectation around compliance and contractual issues. Previous deals the team had done (especially in New Zealand) used an electronic data room to facilitate information sharing through the due diligence process (using DropBox or similar). Whilst this helped speed the process, for the final agreement, Microsoft wanted everything in the electronic data room to be appended as schedules to the main contract to contractually bind that information. Whilst this made sense, this unexpected process for GreenButton did add a chunk of time towards the end post-diligence.

Observations and Lessons From The Acquisition Offer

For many, the acquisition process is as much a black box to founders and investors as the first fundraise is to entrepreneurs. There's a number of key insights to draw out of this stage of the process that is helpful to forward plan for when crafting an exit strategy early on in your own companies.

Planning on having the right acquisition team can make a big difference. When seniority and experience is lacking on the management team, getting hands on and supplementing their experience from board level and externally is a good model for other Kiwi companies. Again, Marcel being deep in a few companies and across them well really helped GreenButton, and Growthpoint reflected this back too. Although not everyone has capacity to operate like this, it is critical to understand the roles and value that the right board has in the exit discussion (i.e. the value of Mark Canepa and Art Wong).

The importance of building an early trusted relationship with who you'd like to acquire you comes across at many points during the final acquisition and positively impacted the deal terms and getting the deal over the line. Understanding this early and having exit strategy at board level discussions can help nurture these over time.

Not surprisingly there will be plenty of stress points along the way so expect and plan for these, but have faith in relationships and people - whilst you may play out paranoid scenarios in your mind, remember that bigger companies are often more publicly accountable so some of those scenarios may be unlikely. These stress points and pre-planning also extend to the wider team - during the acquisition, the CEO will often be gone for extended periods, sales might be drying up or slowing down, and it's easy to lose direction or focus on business-as-usual.

Setting yourself up for due diligence from day one is not only a smart way to operate, but makes an eventual deal go so much faster which helps reduce that stress entering the endgame.

One good benefit Bruno discussed about having Growthpoint, or any good investment banker, involved is that they were good at profiling risk - which meant they weren't just good for helping you close the maximum amount for the deal, they can also help you keep that money and protect it from clawbacks when you get it!

Hearing the process at work for GreenButton is a good reminder to prepare for the potential impacts on your team and make sure they're on board at the later stages of the deal, especially ensuring you have good alignment in the team with potential acquirers so they don't kill the deal outside of your control. Additionally, the benefits of doing some what-if scenarios as part of early pre-planning can help reduce stress from an already stress-laden final process.

Specifically looking at lessons from a technology point of view, Dave Fellows reminds us that even if you're building platforms, it's good to have an end-user focus. Potential acquirers usually already have good platform-plays, but often struggle to go vertical above this. To have a point of difference to companies like Microsoft, go higher up the stack and offer focussed verticals on top of their existing platforms such as rendering-as-a-service, or genomics-as-a-service in their case, and build your platform as a side effect of these verticals.

Understanding what features could be provided by your potential acquirer and focussing your technology roadmap accordingly is another lesson Dave highlights - Microsoft already had a good scheduling of virtual machines (VMs) component built already so making the decision to use theirs, not only saved a large chunk of development time, it also brought the companies closer together through integration.

Another related point to feature-usage is looking for feature-opportunities. Scott's vision of simplicity of pressing a single button to scale out your processing and solving the complex billing issues of attributed chargeback in enterprises is still a big issue today. Having a great product vision to make the simplest solution in customers' eyes really was a big plus. If you're building software that might start with small business, but ultimately end up in enterprise, ideating these features early on allows you to build features that apply to both, and make the end-to-end process seamless for customers.

The wider advice that many offered post-acquisition is to plan early on understanding what your ultimate market is and how to sell to that market, particularly paying attention to who your partners will be. Most of the deals happen when there's been some other transaction or commercial arrangement between companies so look to who you're currently working with that might become your future acquirer.

Microsoft clearly bought GreenButton because they were an IP company not because of the salesforce they had created behind this - many of the senior team remarked that they were sort of disappointed by this and realized that at the end that sales needed to be driven much sooner in the organisation. Non-IP companies who are good at sales can generally last forever, but IP companies have a much more limited life - with stronger sales comes greater optionality (compare Trademe's story of rejecting the $30MM offer from Yahoo, versus selling for $700MM two years later once their business model and sales channels were in place).

13. Acquirer's Perspective

Whilst GreenButton's story is a great success story from their point of view, it also was a real success from Microsoft's too, so it's interesting to review and compare that journey.

From the early days, Microsoft knew that GreenButton was a compelling idea and since they knew Scott from prior business they wanted to partner early on. Dianne O'Brien, recounted that they realized early that GreenButton needed a major technology partner in their corner to make their idea a success.

For Microsoft, five years ago was early days for Azure (their cloud computing platform) so it was a risky time for GreenButton. Dianne recounts that it's critical for startups to understand early their routes to market. GreenButton was great timing for Microsoft because Azure was brand new and they had just launched their commercial offering so anyone who would give Microsoft credibility and demonstrate commercial uptake of the technology in-market was a great partner for them.

GreenButton was doing major things on the platform and being disruptive. For Microsoft, public cloud was future looking and companies would have to sink lots into infrastructure costs to move processing into the cloud. Microsoft got that GreenButton was ripe for democratising the space and bought into their early vision - from their perspective, GreenButton were leading the space and building the future.

Microsoft backed them early as they became a good marketing channel for Azure; with Scott's talented background and having Pixar on board as a client made for a great case-study and use-case for Microsoft and the partnership seemed like a clear win for both parties. The big value proposition for Microsoft was the thought-leadership they gained from working with GreenButton pioneering the space - GreenButton's early successes became Microsoft's early shared successes too.

Dianne remarked that Scott was a great networker and continued to make the right contacts at corporate level inside Microsoft and kept working those contacts over time. That close relationship meant that GreenButton helped Microsoft to figure out what worked and what didn't in the field - effectively being their trial and error in the market and that was the real value for Microsoft. Because of this they developed a very close relationship of trust.

But timing was paramount for GreenButton. Microsoft was at the right place at the right time on the emerging wave of a nascent industry and early into going deep into that market. If Microsoft had come across GreenButton today it would have been a whole different partnership because their needs would have matured.

Dianne remarked that one problem she saw with GreenButton was that their elevator pitch was always hard for the average person to understand and that definitely held them back during their growth cycle. But that didn't stop them - they had a solid product and compelling technology and great engineering talent in New Zealand. She mentioned that they retained the entire engineering team which is unusual in other technology acquisitions they've made.

In keeping the team in New Zealand, which she said was not the easiest to manage, it's clear their commitment to keeping the team culture was strong and required to preserve that talent - through GreenButton, New Zealand is Microsoft's first international Azure R&D location.

Observations and Lessons From The Acquirer's Perspective

The key lessons from Dianne's perspective was to understand timing and relevancy for you, your acquirer and the industry you are playing in. She advises to clearly think through what you're selling and who you're selling it to - every quarter you're likely to see 5-10 new good ideas from your customers, but choosing what aligns with the main value proposition is key to staying on target for your strategic roadmap.

Her advice for others approaching Microsoft specifically is to have done your iterations sooner and know how you're going to make money. If you're coming to Microsoft you know you're going the enterprise route, so know if you're going direct or through a channel to reach customers. She said don't come to Microsoft and expect them to think through these things for you - have a clear and compelling value proposition, business model and understand your route to market.

Dianne's final insight was to know your acquirer's roadmap well, especially if your service might be competitive in future - understanding where they are going and innovating one step ahead of them is a great way to get on their radar for potential future acquisitions.

14. Closing the Deal

Within four weeks, the deal had closed and this was a great relief to Scott and the board who had put so much work into getting this over the line. As part of the sale, the numbers and details of the final terms remain confidential.

Whilst it was a good result for the company, in the context of the market at the time, it's worth asking the question whether the company could have sold for a larger amount than was achieved.

To understand the answer to this question it's worth looking at the reality of the situation with an internal lens. Whilst the company was running out of money with poor sales performance, there were other financing options available, but another fundraise meant they'd have to set the bar higher for the same results (return). There was pressure on the runway, but they could manage it.

But the real answer to the question is that this wasn't about runway or money - it was about energy. Marcel compared it to having made the sprint to the front of the pack in a long race - if someone moved the line now the race for Scott was going to be over. The ideal exit would be an impeccably timed run with all the risk and tension alongside, but it's easy to overlook the emotional journey that entrepreneurs go through getting to this point. It's testament to the board buying into Scott and his vision and wanting to see him successful that the deal closed rather than taking much larger money, and probably replacing him as CEO.

As during the prior purchase offer, the key thing that would have created a better (financial) outcome was more competitive tension from other potential acquirers. The board knew this and did have Intel and VMWare lined up during the discussions, but for reasons outside of their control, extending the timelines to pursue them further wouldn't have justified the risk in Microsoft losing interest in the deal which already had momentum. The VMWare CEO for example was on holiday at the time, and they didn't have the right sponsorship internally otherwise.

Whilst for GreenButton the acquisition was everything and took centre stage, to enterprises like Microsoft, corporate development is one of a hundred things they are doing, with them doing maybe ten to fifteen acquisitions a month. If GreenButton decided to put the Microsoft offer on the back burner whilst they waited for other potential acquirers to come back from holidays and then start the discussion, there was a real risk of closing neither.

So ultimately they weren't able to get the competitive tension this time around. Marcel remarked that added tension and negotiation might have added another $10MM or so onto the final total, which looking back wouldn't have made a material difference given the significant additional risk.

Observations and Lessons From Closing the Deal

The key lessons to take away from this process is whilst everyone reports financial amounts for how much a company exits for, it's not just about the money on exit - it's about the energy level of the team.

The importance of competitive tension is clear, but not always possible to achieve or may be bad timing so it's prudent to weigh up whether it would make a material difference holding out for more buyers given the risks and rewards.

And finally, remembering that having internal sponsorship is what makes these deals happen, understand that to you it's everything, but to the acquirer you're could be one of fifteen deals happening that month!

15. Post-Acquisition

Looking back past the exit there was a clear realisation that throughout the life of the company, especially during the exit, that Darryl, Marcel, and Dave Fellows put in a disproportionate amount of time on the venture alongside Scott, and weren't getting rewarded enough for that additional commitment (board fees nowhere near covered that extra effort).

In signing up Mark Canepa to the board, he negotiated a deal where he received a small percentage on exit, and there was a sentiment that a similar deal should have been done for those others too because of the weight of the exit making a liquidity event for other shareholders.

Marcel estimates that in future deals of this size, approximately 250K - 500K should be set aside for compensation of those who needed extra recognition at exit, commenting that next time, identifying the right people and capabilities required to drive the exit ahead of time is literally worth millions.

During the final negotiations, the board did go back to shareholders to float the idea of additional commission on exit; but with money comes a mix of personal emotions, and contrary to the alignment at venture founding, it's easy to optimise for individual gain when money is on the table.

This all said, the final sale amount was a great result for investors - early investors received around 12X on their investment; with NZVIF returning over 5X; and later stage investors still taking back 3X into their portfolios.

Observations and Lessons From Post-Acquisition

Big lessons learned post-acquisition coming from the team was to identify the right people and capabilities required to drive the exit and rewarding them well next time. Making sure everyone involved has freed up time to participate in the exit discussion as it will be a big toll on all. Keeping exit discussions on the board agenda at every meeting and regularly driving towards it is critical in making any deal happen (many people think companies are bought not sold).

Lessons of understanding the right route for Kiwi companies - whilst many talk about raising US venture capital, very few have actually done it. The strategic partnership route is less prevalent in many startups' minds here and is often a better, clearer route to exit for such companies.

The bigger lesson and opportunity compared to Silicon Valley counterparts is that the role of the early investor director should be about being excited about the entrepreneur and wanting to make them a success - this is often invisible and unseen by later investors, especially coming in at a venture level where it's much more mechanics and numbers that drive decisions. Having big respect for the emotional journey and future journey of that entrepreneur and be willing to adjust the strategy to accommodate the capability of that person is part of the journey.

The benefits of getting deeper involved as investor directors in our companies can pay big dividends - the team got exponential value from meetings where both the investor director and CEO turned up, with partners in Silicon Valley commenting that "Investors turned up, they must be serious!".

The observation looking back over the deal is just the sheer number of back and forth trips to the US and commitment it took to make this happen and the impact this had on personal lives for the team. Marcel remarked that you've got to treat this as life and not the burden - bring the family with you every three trips, go out and enjoy the weekends when you're overseas, remembering that for startups like these, whilst you do need to have the destination in mind, you get a huge amount of value from the journey too.

16. Ongoing Acquirer Value

It's easy to think that once the deal is signed and money is in the bank that they story is now over, but far from it. To make the deal a success the acquirer still had to get ongoing value with integrating the team and technology.

It sometimes happens that in acquiring a company, the purchaser shuts the service down or the team and technology fizzle out. But for Microsoft this couldn't be further from the truth - they have venture acquisition and integration down to a fine art, allowing the remaining team to focus on the technology rather than the process and context-switch - Dave Fellows commenting this was good for team morale in the face of such a large change.

Another positive impact on the team was that the Microsoft team that GreenButton staff had merged into was still young enough to have the feel of a startup making it an easier transition. The sentiment from the Microsoft engineering team was one of "about time we acquired the GreenButton guys!", which really helped the team morale and tighten the already close relationships, making the team feel well valued at the other end.

In terms of integration, with still being a remote office, one developer did relocate on each side to help with cross-pollination of the team, and Dave travels to Redmond around once a month and always takes a few of his developers with him each time to keep the teams aligned and share culture.

So overall, a very positive experience for both the GreenButton team and how well they integrated into such a giant enterprise.

17. Summary and Reflection

In reviewing such a large body of work the summary insights and lessons to be learned from both the entrepreneur's perspective as well as an angel investors' perspective are manifold at every stage of the journey. Whilst readers will no doubt draw their own parallels and insights, some specific observations worth considering are drawn out below.

Perhaps the biggest insight is the huge commitment by the investment team in supporting the entrepreneur to be successful. The heart of any leader is best summarised by the desire to create future leaders from the people they work with, and this rings true in the belief and commitment Marcel and the board had in Scott, often changing the strategy to fit with his journey to make him successful and manage around his emotional and personal commitment to the journey. This reminds us that true angel investment isn't just about money and seeing a return, it's about returning financial wealth and future talent back into the ecosystem around us in a sustainable way. The one line that resonates most from this part of the journey is "pitching above your capability, but executing within it". This takes strength of character in an industry where venture capitalists are all too eager to replace the founder or CEO with a more operational one to maximise their chances of creating the next billion dollar company for selfish gain.

The second insight to take away stands starkly in a world of generalised acceleration programmes and risk-spread portfolios around just what sort of personal acceleration and time commitment it required from Marcel and the board to help Scott turn this into a success. The difference in approach to structured programmes being a wide and shallow short burst approach with short-term value versus narrow, deep, focussed, long-term support in a venture you believe in and drive right to the end to your- and others' return. It is a hope that others reading this take to heart what impact your experience, networks, and diligence can have driving more success outcomes for our entrepreneurs, many of whom we didn't invest in because of the idea, or market, but because of the people.

The third insight drawn from this journey is that US venture capital isn't everything. Whilst Kiwi entrepreneurs are often blinded by US funding announcements in the popular technology press, the reality is that very few Kiwi companies still have been successful raising money that way, yet many pitches still put their future go-to-market plans as 'raising US VC'. The focussed pathway the team had to test both, but have much more success with a strategic route really played out well and in some respects could be considered a better opportunity for foreign companies targeting larger mature markets like the US. Even if such a path does not lead to acquisition potential, the close trusted relationship you will end up building will still often be the heart of your business and open further opportunities over time. A key lesson drawn from the final sections around understanding the acquirer's prospective roadmap and development of their place in the market stand out too.

We often hear companies talk about keeping an exit focus on their boards, but how many really do have a commitment to that and driving towards it at each meeting? The GreenButton journey teaches us that not only did they have that commitment brought by early investors, it drove so much of the early product/IP roadmap, capital strategy, and partnership strategy that really defined the trajectory of the company over the coming years. Many of the young companies we see have an idealised version of how acquisitions happen that at some point in time when you've made enough progress, someone will just come and offer you $100MM for your company. This naivety sounds similar to the 'raise US VC' fallacy, and negates any strategic planning towards that outcome.

When it came time to think about both venture capital and potential acquirers for GreenButton, the reminder of how important competitive tension in any sort of deal-making becomes even more evident when a potential exit is on the line. Whilst it unfortunately didn't play much part in the final deal, from both the initial Microsoft undiluted investment, and the first few bites from potential acquirers, you could see how much additional tension and value it added to the mix as it really forced competitors to lay their cards on the table. But ultimately the most trusted partner won out, and understanding just how much leverage that gave GreenButton in their journey is a good lesson to take away for cultivating that level of trust early in your own ventures and partners.

Hearing GreenButton's journey and the sheer level of commitment it took to get the deal over the line from those involved at the board and senior management level reminds us how much extra effort above normal business-as-usual these people provide. As Marcel says, having the right people and capability required to drive the exit is literally worth millions so identifying these people ahead of time and being open to rewarding them for you seeing any liquidity on that investment is a key sentiment all investors should have going into early deals.

The final insight is just how important even smaller exits like GreenButton's have on the startup ecosystem as a whole. Not only is this unlocking experienced talent back into the wider community, creating new leaders, and sharing expertise and networks; the funds from these exits ultimately go back into creating the next generation of ventures and successful entrepreneurs here. Talking to many of the investors and people involved with GreenButton already shows about 10% of those funds having been reinvested back into the community through investments into the next generation of startup companies. This is what building a community and sustainable ecosystem is about and if we can all take the principles, sentiments, and learnings from this journey to build a stronger ecosystem, we'll build a stronger virtuous circle, and ultimately, a stronger New Zealand.

18. Acknowledgements

Research of this depth with shared, honest accounts and takeaways are rarely seen when companies are acquired, especially with few such acquisitions on the landscape in New Zealand's relatively young technological past, so a final word of thanks is given to those who chose to give back and share their learnings, with special thanks to *Scott Houston, Marcel Van Den Assum, Darryl Lundy, Dave Fellows, Mark Canepa, David Akers, Dianne O'Brien, Bill Murphy, Chris Twiss, Bruno Bordignon, Ben Anderson, and John Cromwell at Growthpoint*; as well as to Suse Reynolds at The Angel Association of New Zealand, and New Zealand Trade and Enterprise for making this research possible.

19. About the Author

Dan Khan is a technology entrepreneur and angel investor based in Wellington, New Zealand. After founding technology ventures from startup through to exit, he's now passionate about building a sustainable early-stage tech startup and innovation ecosystem in New Zealand. Dan most recently designed and led NZ's most successful seed-stage venture accelerator, Lightning Lab, and helped co-found Startup Weekend throughout New Zealand. He can be reached by email at dan.khan@gmail.com.