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ANGEL ASSOCIATION NEW ZEALAND

Reflections on a Successful Exit

A Post-Post-Mortem of the GreenButton Story

Written By Dan Khan

Image credit: thenextweb.com

Earlier this year I met Suse Reynolds and Marcel Van Den Assum from The Angel Association and both asked if I'd spend some time capturing the lessons learned from the GreenButton journey from idea through to exit, an event which was relatively fresh on the startup horizon in New Zealand.

I'm no stranger to startups, having built and scaled a few in my time, as well as seeing one through to acquisition by the largest Internet Service Provider in the UK back in 2000. I've been in New Zealand now for 10 years, and even today count the number of similar acquisitions in our nascent community on two hands, so GreenButton's journey was particularly interesting.

Since designing, leading, and running the first two programme cohorts of startup accelerator Lightning Lab over the last few years, I've been looking at ways companies can not only get a leg up starting up and getting initial seed investment, but critically, what happens after that seed funding arrives. My observation of early stage companies over my time in New Zealand tended towards a sluggishness of execution and a lack of understanding of the pace that many international counterparts were moving at. There's lots of focus in New Zealand about the startup phase, but little, if any, on the endgame and exit.

So the more I heard of GreenButton's founder and CEO, Scott Houston's story, the more I felt the insights and lessons of just what it took for them to get to exit, was a goldmine which could help accelerate other entrepreneurs and early investors alike.

This short-form article sharing a more personalised account of their journey comes off the back of more in-depth and objective research I carried out over the course of this year for the Angel Association of New Zealand (supported by New Zealand Trade and Enterprise). This article gives a brief summary of some of the key lessons that I personally decided to draw out, but I urge readers to also review the in-depth work linked below to draw their own insights.

That deeper case study provides significantly more background and input from a wider range of people, and details specific decisions made and steps along their journey. The insights in that work are manifold and I hope that entrepreneurs, angel investors, board members, and exit teams can take away significant inspiration from that document to help craft their own companies' journeys.

***Download the in-depth case-study:** "Anatomy of a Successful Exit: The Green Button Story"*

Brief Background

For those that don't know much of the background, GreenButton was founded by Scott Houston after years building supercomputers for Weta Digital to help speed up the rendering pipeline of movies that they were working on. Scott noticed that the computer servers, which had to be purchased up front to reduce timing and availability risks, were mostly sat unused, and saw an opportunity to leverage those high-spec processors to carry out other work during this downtime. He later developed these ideas at the New Zealand Supercomputer Centre, and eventually saw the opportunity to productise this on-demand processor power to form GreenButton.

Scott's real vision with GreenButton, spurred on by friend Mark Thomas of Right Hemisphere, was to export processor-intensive jobs into the cloud with the simplicity of pressing a big 'green button' inside the app, and returning processed results much faster than they could be processed in-house. From here the idea for GreenButton was born, which really was ahead of it's time in a world where 'the cloud' and 'infrastructure-as-a-service' as we know them today didn't exist.

Scott self-financed early iterations of the product, giving up the already achieved Kiwi dream by selling his boat and rental properties to see out his vision. After gaining confidence in the idea, but no investment, by pitching the idea to strategic partners, he ultimately pitched the early concept to Wellington angel club AngelHQ.

Investment Into Making the Entrepreneur Successful

Up to this point, Scott was a solo-founder and had driven the idea alone to realize the vision, build the early product, and get it in front of investors. There's lots of negative rhetoric about solo-founders and how all good startups start with a co-founding team, but it's easy to forget that in any startup, the idea and vision is usually driven by one person and investors usually back that visionary individual, trusting them to pull a team together around them.

In this light, perhaps the biggest thing that Scott received from AngelHQ, wasn't money (of which he did close that early small round), it was the quality of the people that came with it. Investor David Akers spotted the deal first at a club investment evening, and passed it to friend Marcel Van Den Assum, who both formed the initial governance team around Scott.

Looking back over the research interviews, the most striking thing about Marcel and the early board is how they operated as a 'Startup SWAT' team, pulling in trusted allies, prior co-workers, and team members around them to fill out the missing governance and operational roles to help Scott make this venture a success. From COO Chris Teeling, CFO Darryl Lundy, and CTO Dave Fellows, suddenly Scott had a strong experienced management team around him that knew how to execute, and much of this value came from the connections and network that early investors brought.

Perhaps the biggest insight for me in listening to how the board operated within the team, was their commitment to supporting Scott to be personally successful (albeit with the resolve to have the hard conversation if performance didn't stack up), possibly even more so than Scott realised. 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 throughout the company's life, often changing the strategy to fit with his personal and emotional journey to make him successful.

A particular point from that early journey that resonates with me is the ability to "pitch above your capability, but execute within it". This takes strength of character of the CEO and early investors 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.

This is a great lesson 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. It's easy to lose that sight at later stages when investors come in with a purely financial focus and forget the emotional journey of the entrepreneur, and wanting to see their early vision carried all the way through to the end with that person at the helm creating personal success for the entrepreneur.

Personal Impact Acceleration

The key difference around how Marcel operated versus how some other investors operate is what I would call the impact his 'personal acceleration' had on GreenButton. He gave not only money to GreenButton, he also gave his expertise and time - making the transition over time from Investor Director, to Chair, to Executive Chair. He did what it took to take the company where it needed to go and helped Scott turn this into a success, even if his work transcended pure governance and became semi-operational at times.

It's easy to treat investing as a volume game by taking portfolio approaches - spreading money, but abstracting yourself from personal involvement. Whilst the majority of Marcel's investments are hands-off, he is incredibly picky about which investments to go deep on, investing time and money and driving them hard to return. This approach stands in stark contrast in an increasing world of more traditional accelerator programmes who tend to drive companies hard, but with less engaged mentors, and over much shorter periods of time.

That more-personalised approach is a good reminder about why many of us got into angel investing in the first place - there's better low risk ways to place money for purely financial returns, but the ability to invest time and energy and watch an individual grow into a successful leader and create something out of nothing is why many of us come along for the journey. Often angel investors don't invest in the idea, or the market, but the *people* - what better way to feel that connection than being alongside the team, helping drive your own return?

Of course the reality for many New Zealand angel investors is that they are still working full-time and unable to commit to this strategy, but how can you find a way to be involved more in your investments? After hearing the GreenButton journey, I now subscribe to David Akers new view of an angel investor as no longer just adding smart-money, but adding *hard-working* money (i.e. money *and* days per week of effort).

The Benefits Of An Early Exit Focus

From day one the board brought an early exit focus to GreenButton and that helped to accelerate the vision for the IP roadmap, the capital strategy, and a partnership strategy that really defined the trajectory of the company over the coming years. It's something that many entrepreneurs don't think about early enough in my opinion, and seeing what a difference it made for GreenButton, I hope it is one that entrepreneurs consider sooner to help shape their path to achieve it.

There's a perception I run into often that companies are bought not sold, which may be the case for many of the high-profile ones we see in the media, but for these stories we often only see the external glamorized view of the 'overnight success' so it's hard to extrapolate what really led to that exit. GreenButton's was one of clear exit focus from the board and kept regularly on the agenda at every meeting to ensure they were driving towards that. How many of your boards are driving that closely? How many board papers or shareholders reports talk about driving a checklist towards exit - even if that is five years in the future?

The sense of ownership and pride many entrepreneurs have about not 'selling out' early because it sometimes compromises their vision is another point I hear often. For the most part, the exit and choice of acquirer is rarely about money (assuming it's in the right ballpark); it's usually about alignment of vision and helping a company achieve that same vision through a larger channel or ability to reach the market more efficiently. For the entrepreneur driven purely by vision alone, an early exit strategy is the perfect way to achieve that vision (and put some cash in your back pocket too) so shouldn't be seen as a defeat in not having personally built that last mile.

The Myth of US Venture Capital for NZ Companies?

As GreenButton grew, they realized that they'd need to get out of NZ and start selling overseas, and like many, assumed they go to the US and raise venture capital. But after 30-40 trips down the infamous Sand Hill road in the US, they just couldn't get any traction with VCs. In fact, the number of Kiwi companies that have successfully raised US VC is smaller than many entrepreneurs would believe, Mark Thomas (mentioned earlier) being one of the few to successfully do it.

For GreenButton, they had to change tack, and focussed more on strategic partnerships and raising strategic funding that ultimately was successful in getting both investment and future acquisition interest.

This has really changed my opinion to foreign venture capital not being the default growth route for Kiwi companies and has been a key lesson learned reading the success of GreenButton's partnership journey. Whilst Kiwi entrepreneurs are often blinded by US funding announcements in the popular technology press, many don't understand the value of building strategic international partnerships not just for customers or access to new channels, but as an ultimate source of liquidity for the business.

Whilst this may not be appropriate for all companies, and I recommend testing out both routes; reading the GreenButton account in more detail shows how this really played out well for them. 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.

The Value of Strategic International Partnerships

Reading the acquirer, Microsoft's, account from their early days to exit, it's clear that the early trusted relationship and GreenButton being their technology champion was a significant reason for GreenButton's success. Microsoft was early in building their Azure platform and needed a good application championing it on their behalf and this was the role GreenButton played for them.

Their partnership really was a win-win: GreenButton gained a solid enterprise partner and credible routes into international markets, and Microsoft gained thought-leadership and clear case studies for their nascent platform. But as Dianne O'Brien, Senior Director of Cloud and Enterprise Business Development at Microsoft said, this would be wholly different if GreenButton approached them today - knowing the maturity of partners platforms, their lifecycle in the market, and which routes to market they need are key when approaching larger enterprises like Microsoft.

Hunting for the right partners is another big lesson from the GreenButton story. Scott and the team wasted almost a year of effort dealing with Fujitsu who made an early acquisition offer, and similar partnerships that went nowhere with HP and Amazon. Much of the failure of these was down to GreenButton not having done the right due diligence on those partners beforehand.

This is an interesting lesson as it's easy for the first -time entrepreneur to get dazzled in the headlights when a partner talks about potential acquisition, but often it's harder than it sounds to do the right level of due diligence on them before committing time and resources on talking terms. It's a hard balance: as with any sales process you want to build up a pipeline of suspects and prospects, but it's sometimes harder to understand the real acquisition history of the specific entities, rather than assuming that it's the same as the parent entity (the subsidiaries GreenButton were in discussions with had never made an acquisition before). Also understanding the motivations and drive of the corporate sponsor who's pushing internally on your behalf to make that deal happen. GreenButton suffered a few times where that internal sponsor left the company during the process and ultimately killed that deal progressing.

Competitive Tension Is Critical

When it came time to think about both venture capital and potential acquirers for GreenButton, the reminder of how important competitive tension is in any sort of deal-making becomes even more evident when a potential exit is on the line.

The tension of GreenButton talking to VCs led to interest from other partners and ultimately an early acquisition offer from Fujitsu. Similarly that same tension allowed GreenButton to accept an early *undiluted* investment from Microsoft, not only because of their close trusted relationship, but more so that Microsoft didn't want to lose out that initial thought-leadership and traction to other competitors forcing GreenButton off Microsoft technology. After the first few bites from potential acquirers, you could see how much additional value tension added to the mix as it really forced competitors to lay their cards on the table.

Unfortunately the reminder in the final acquisition deal *not* having much competitive tension is that there are always factors outside your control. Whilst GreenButton were having all of the right conversations with others when the final Microsoft deal came to fruition, internal sponsors being away on holiday and/or bad timing for other potential partners is just something you can't plan around (other than continuing business as usual). This is shown no more clearly than in the final deal itself, in which the acquisition discussion had to be put on hold whilst Microsoft had to find a new CEO after Steve Ballmer stepped down - a nerve wracking 3 month period for the team with an acquisition offer on the hook, and all acquisition discussions put on hold by the acquirer!

But luckily that deal did pick up quickly where it left off after new CEO Satya Nadella came on board and ultimately, the most trusted partner won out. Understanding just how much leverage that trust 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.

Having The Right Acquisition Team Is Worth Millions

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.

The final deal was driven hard by a number of people - top down from the board level by Marcel, Mark Canepa, and Art Wong, and from mid-level up inside Microsoft by Scott and the management team. They also found these discussions were focussed well by engaging third-party investment bank Growthpoint who had relationships with both GreenButton and Microsoft so acted as a circuit breaker when negotiations hit sticking points.

Mark and Art played particularly critical roles as international board members - Mark was a well respected elder-statesman in the deal giving credibility and trust due to his long standing in the enterprise server industry in the US, and Art being a serial entrepreneur and involved in five prior exits provided an experienced eye to help shape the deal.

The commitment in both time and energy on the lead up to that final deal was significant, with CFO Darryl Lundy and CTO Dave Fellows spending months preparing technical and financial documents, and Marcel putting in a huge effort with regular overseas travel to help make the deal happen - certainly signficantly more than covered by board fees or his investment, and none of which was rewarded with any additional compensation.

The lesson to learn here is that 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 (Marcel estimates setting aside 250K-500K for those who need extra recognition at exit for deals of a similar size).

Latter board members negotiated a small commission on exit to help drive towards that goal, and this feels like a good future way to recognize and reward that extra commitment to see a return.

The Impact of Exits On The Startup Ecosystem

I've always been an ecosystem guy, and am passionate about building a sustainable startup community here in New Zealand. My last and most important takeaway, therefore, is just how important exits like GreenButton's have on the startup ecosystem as a whole.

Not only are exits like GreenButton's 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 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, we'll build a stronger virtuous circle, better companies, and ultimately, a stronger New Zealand.

Further Insights

This short write up doesn't do justice to the teams' full journey, which in 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.

I believe 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, the 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.

I encourage you to download and read the in-depth write-up at the location below, which contains many more insights and context than I was able to draw out in this short summary. Please do share both articles with your investees or other entrepreneurs you know; as the saying goes, 'a rising tide raises all boats', so I'd love to see more stories like this in New Zealand's future.

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About the Author

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Download the in-depth case-study: "Anatomy of a Successful Exit: The Green Button Story"