

24. As the Startup Gains Meaningful Traction, It Is Important to Get It Well-Positioned with Institutional Investors and Research Groups That Are Thought Leaders

In the early going, every startup strives to maintain a level of anonymity that is principally motivated by its desire to protect the idea or concept it is being built around. This “stealth mode” approach often lasts for many months as the early architects tinker with the technology and collaborate with trusted sources outside of the company. Once the base technology concepts are established, the leaders embark on a mission to nail down specific use cases, ideally in concert with selected target customer prospects. As key milestones are crossed, it is critical to begin engaging influential research groups with established reputations in the company’s area of technology. This enables the upstart to position itself as a thought leader in an emerging technology segment, providing it with a unique opportunity to shape requirements and expectations in that space. Additionally, it can glean feedback from a broad range of end customers that the research groups are affiliated with. Over the years, I have come to appreciate the influence and reach of Gartner, particularly in the area of enterprise infrastructure.

Early on in my career, I never took the time to understand the unique value proposition that Gartner and other technology research firms deliver to early-stage companies. Not only do they have deep insights and relationships with large technology incumbents, they also possess long-standing partnerships with CIO’s and CTO’s from most of the top global enterprises. In fact, a healthy majority of those multi-national organizations are also Gartner customers that respect the opinions and research that come with the service. As a result, they have an educated perspective on the competitive landscape when it comes to the way the large incumbent OEM’s are approaching new areas of

technology. With a desire to establish a first mover advantage, planting early seeds and gaining access to the deep bench of resources Gartner, has proven to be a winning strategy.

At Versa Networks, the team had come up with a thoughtful go-to market strategy, but there were a few unique technology options that had to be weighed carefully. While we were fortunate to have good access to a number of highly strategic customer prospects, there were some important nuances particularly in the area of network management that were fairly binary. The company could simply not afford to pursue a strategy that was not on target. The engagement with Gartner, through a number of calls with its senior analysts and a more extensive on-site deep dive, provided a new level of clarity in a few key areas. Additionally, the Versa team was connected to a few new customer prospects that Gartner knew to be pursuing solutions that were in Versa's sweet spot. As the partnership with Gartner grew more strategic, we worked closely to put definition around a new class of security and connectivity services that would come to be known as SD-WAN and Network Function Virtualization. Versa Networks would be placed in the upper-right quadrant as an early mover and market maker when Gartner formally launched coverage for this new technology segment. A win-win for both companies.

Another important box to check as the startup gains further traction involves gaining visibility and establishing relationships with the most highly-regarded sell-side research analysts covering the company's area of technology. Through the years, institutional investors gravitate toward the work of those analysts who prove to be most competent in their coverage areas. Financial institutions that offer trading services are highly motivated to employ top analysts which in turn attract large investors to their desk to trade. Institutional investors pay close attention to the work that the most accomplished analysts produce, so it is in the startup's best interest to position their technology

appropriately when the time is right. Not surprisingly, these highly-regarded analysts are also eager to uncover new technology companies and trends that can further differentiate them from the work of their own competitors. Early stage companies don't pursue this strategy enough, but the ones that do so effectively are handsomely rewarded.

When a highly-regarded research analyst mentions an emerging technology company favorably, a buzz is created that draws the attention of investors and customers alike. This positive press also provides a meaningful lift to the morale and spirits of the startup's troops that, by then, are heavily invested in the company. It also begins the process of introducing the company more publicly to a broader investor audience which is always on the hunt for the next hot technology company. Investor interest, even in mid- to later-stage private companies, can accelerate quickly, but must be managed carefully in an effort to keep the company focused on the task at hand. The investor relationships gained through this process can become highly strategic as the startup moves to secure additional funding or an eventual initial public offering.

Over the past several years, mutual funds, private equity groups and corporate venture capital groups have actively invested in later-stage technology companies in an effort to secure a meaningful equity position ahead of a public market debut. As a result, access to capital for private companies has expanded meaningfully and with that, valuations have also exploded higher. While one could certainly argue that private market valuations have gotten ahead of themselves as a result of these changing dynamics, the financial flexibility it has provided to the best positioned startup outliers has been unprecedented. While this strategy does require an investment of time and resources that always come at a premium in the world of a startup, the rewards to those that have most effectively deployed this approach have consistently outweighed the costs by a wide margin.