



Harry Zarek

President and CEO, Compugen

Editor's Note: In this issue, *martinwolf* interviews Harry Zarek, President and CEO, Compugen. Harry founded Compugen in 1981, and under his leadership it has grown from being a small basement-based company to become one of Canada's largest IT solutions providers. He holds an undergraduate degree in Engineering Science and a Ph.D. in Physics from the University of Toronto, and he is an active investor and member of the board of directors for a number of early stage technology companies in Canada and the US.

MW: How has your strong technical background helped you as the CEO of an IT company?

The quick answer is, "No one can BS me." The fact of the matter is that the technical background helps me understand what's really there from a product, hardware and software point of view. So there's no smoke and mirrors—instead, there's a basic understanding of the underlying technology both in the engineering and applications space. And at the same time, for each new technology, I find I can reasonably quickly evaluate potential business impacts and what opportunity it presents.

Why start Compugen? How did that happen?

It's very unusual—Compugen didn't start with a big business plan. I had just finished my PhD, and, I had a family to support, I needed to find some work. As I was searching for potential post-doc fellowships, I thought "let me take the skills that I have and see if there's an interest in the marketplace." I came across a geophysics company that needed a programmer and someone who had worked with Digital VAX computers. I initially took on contract work as I was waiting to hear about the fellowships—but I quickly realized that I really preferred the consulting work. Shortly after that I connected with a school colleague who was interested in starting up a business. So we decided to join forces, and, as luck would have it, this was at the same time IBM came out with the PC. For someone who had seen the raised floor IBM mainframe and then moved over to Digital VAX, it was a revelation to see a computer on a desk. I literally thought "oh my gosh this is amazing" and got captivated by the industry.

How has the IT industry changed since you started Compugen—you just mentioned a major change then.

I'll begin by talking about the current market conditions. To quote Charles Dickens, "It was the best of times, it was the worst of times." It's the "best of times" given the number of new technologies coming to market and the possibilities they can have both for individuals and

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for business. But it is the “worst of times” for many organizations who are burdened with legacy systems—hardware or software — and are struggling to transition to new models and new portfolios. Given the current pace of change, I don't think there are any of us, including vendors, who can be complacent. The good news is, to use another quote, “when there's mystery there's margin.” Many organizations are confused, and the volume and variety of things that they're being expected to deal with is overwhelming. They need help, and that speaks very strongly to the evolving role of the channel and the value we can provide. We have the ability to understand the broad reach of technology and how to implement and manage it effectively.

Let's touch on Compugen's transition over the years. Have you transitioned to become a solution provider as the industry changed?

Even from the earliest days, while we may have gotten excited about the “gee-whiz” of technology, we've understood two things. Number one, things have to have a practical business value. There has to be some way to apply technology that makes sense for business. And, number two, businesses are not able to be entirely self-sufficient in every aspect of technology. They do need help. We understood that if we became experts in key areas of technology, they would come to us. It's not that they aren't smart enough to do this themselves – it is about focus. It's about harnessing our capabilities so that they can focus on what is core to their business.

So the belief was that as long as we focused on developing our skills and becoming more knowledgeable, there would be a role for us. In the early days, it was sufficient to understand what the product did and how it worked. The needs now are much broader and the knowledge and skills to support them are much more significant.

The realization was that while products and software were important components, they can't do anything without someone sitting in front of them—so we figured out how to develop skills in a number of different areas. In the early days it would be how to set up WordStar and WordPerfect—there would always be a certain amount of personalized service for customers to be able to get things done. And so from the start we asked how we could put our own unique value around the products and software we were offering.

Over the years, it's required more and more aptitude in order to understand how to put this together. So the service side of the business has always been our key capability. It's easy to get mesmerized by the product side, particularly the revenue it can generate, but it's much more valuable to be able to deliver the services around that. So that's always been our thinking. We haven't changed to a solution provider—we've really always been a solution

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provider ... we've just adapted to filling the gap between what customers want and what they need to get there.

Right—that's an important distinction. Where is the biggest gap that you're seeing?

Well first there is certainly a gap in expectations. The consumerization of IT means that what people are using at home is often more cutting edge than what the use at the office – and it is instantly available. Traditional IT is sometimes seen as too archaic and too slow to respond - holding back the business rather than contributing to the positive health of the company. IT departments have to confront this in the same way one would deal with an unhappy customer—empathize, understand what they're really looking for and determine how to provide that level of support. Too often we're still seeing the Ford model of IT—any color of device you want, as long as it's black (or, in this case, Vendor X)—and that's no longer acceptable for many product categories.

I think there is also an on-going struggle for IT to stay aligned with the business. This is partly about agility but it is also about a shift in mind-set and culture.

The balance in organizations between unleashing the insights from data to drive innovation and decisions and keeping data secure is an on-going concern. Customers are very concerned with being able to maintain the confidentiality and compliance aspects of their data. Headlines like Home Depot's latest breach keep this very much front of mind.

Additionally, the time it takes for IT to set up applications for different business units is pushing the business to places such as Amazon and others to get the work done quickly, bypassing the internal IT provider.

With the ongoing need for secure access to expertise, reporting requirements, data and related analysis, and overall basic reliability and stability across all of the segments of IT infrastructure, we're never concerned that we're going to run out of things to do for customers.

One of the unique things about Compugen is that you've elected to remain private. How have you been able to compete with large global competitors like CDW?

At the end of the day, our perspective is that business is done on a local basis. We have a business model that to a large extent is centered on building a relationship with customers. That means knowing their business and it means, face to face. That's why we have 14 sales offices across the country. The fact of the matter is we have a relationship with each and every one of our customers. And

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since we're ultimately driven by being proactive rather than reactive (we go to customers rather than waiting for them to come to us), the nature of our relationship is very different.

When our customers require us to extend our capabilities outside our geography, we partner. In fact, we are a founding partner in GlobalServe (www.Global-serve.com), which enables us to support our customers when they have global requirements.

Our approach is different - what I mean by that is you we don't call customers and say "what do you want to buy today?" We don't take that approach—we're going to try and understand their business requirements first and focus on how we can improve the performance of their business. This business-to-business relationship is the foundation of all we do. So that means that it's all about the capability and qualities of all of the individuals that touch our customers, top to bottom. Given the wide range of services capabilities we offer, we don't think that there are many organizations that can compete across that broad spectrum. CDW—sure, they do good things in lots of areas and we have a great respect for them, but we think our value proposition is one of high value. I want customers to feel like we're sitting on their side of the table, not opposite negotiating with them. It's a very different perspective—our success isn't so much about us wanting a lot of business (that's important, don't get me wrong) but we value when customers tell us "thanks for helping us."

Is that due to your smaller size?

We have very large customers—we're not dealing with small customers, we work with medium to large organizations—The fact is we don't want to be thought of as a 'Big Business' as it tends to have a connotation of slow, unresponsive and inflexible. We prefer being seen as a 'growing business' that can respond quickly to unique customer requirements. Additionally, we know our portfolio very well—and we seek to understand what customers are planning to do with their technology, and offer to help install, deploy and manage it to ensure they have a productive environment.

Is a public company any different? They don't have to be—there isn't anything that is fundamentally different in how public or private companies treat their customers.

But the thing I can offer customers is the personal touch; when I get involved I'm saying "The buck stops here." As owner of the business I can make sure they understand decision-making lies within the confines of our business - here rather than outside the organization. The only accountability we have is to our staff, our customers, our vendors and the community—so it's a very efficient structure and we don't get distracted by public company requirements. We maintain

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strong financial metrics, but we will not compromise on short-term targets at the expense of long-term benefits. So we can be much more flexible and agile, and make decisions way more quickly than a public company concerned with stock market perceptions.

Let's talk about M&A.

We've only done some very small acquisitions, with mixed success. And that's because in the end, in this industry at least, what you're really buying is the skills of people and their relationships with customers. And the problem is when you're buying that, it runs the risk of being ephemeral. We have had much better success in growing our business organically – expanding sales coverage and broadening our portfolio offerings. It's slower for sure, but we don't face all of the challenges and uncertainties associated with acquiring a business in this industry.

So no upcoming M&A plans?

No plans. We certainly get called all the time about companies that are interested in talking to us, and we get all kinds of calls from private equity firms who want to come in, but we think we're in a very good position and we're happy to be a successful private company.

Are you exploring further expansion to new geographic markets?

We are. We are currently expanding our presence in the US market. We'll continue to grow in Canada, but more of our customers are asking us to provide services to their US locations. We are being selective about what we are offering there. But we believe that there are aspects of our portfolio that differentiate us and are of value to US customers. For example, we have very good managed services capabilities that seem to be attractive to certain segments of the marketplace. The goal is to promote a couple of our services lines in the US marketplace - particularly with some of the cloud technologies that are available (providing us another opportunity to expand our services to a new technology). So we will definitely expand in the US, but in a focused fashion.

Since you just mentioned the cloud, is it playing a larger role?

It is. Again, there's a large conversation about the impact that the cloud has for us. The cloud becomes a vehicle to a much more comprehensive managed services capability. For us, it's not just about reselling the cloud—it's about relieving our customers of having to manage all of that infrastructure. The interesting thing is that once customers accept the cloud, they are more willing to have us manage it for them. That represents our most significant growth opportunity and would represent a great catalyst to a global marketplace for us.