Executive Perspective®

Unique Viewpoints from Industry Leaders

November 2017

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Editor's Note: *Peter Jackson is an experienced chief executive with a successful track record of founding and rapidly growing innovative SaaS companies into industry leaders. As the CEO of Bluescape, he is responsible for all facets of the business, from strategic direction to execution. Prior to joining Bluescape, he was CEO and co-founder of Ziploop, a leading smart wallet for mobile receipts and rewards. Early on in his career, he founded and grew two companies, Granite Systems and Intraware, leading them successfully through acquisition and IPO, respectively. He went on to found and lead several other companies to successful exits. Peter also serves the industry as an advisor and board member for many successful technology companies, including Eventbrite, DocuSign, and Kanjoya.*

How did your background lead you to where you are today?

There are two things that proved incredibly formative in shaping who and where I am today: First, technology was fairly nascent among my generation in the early eighties. Those entering the field were coming from engineering. Most of my peers were not choosing tech, and marketing and sales in the field were nonexistent. Big players like IBM or NCR were predominant in the space—these big legacy systems. That's what drew me to technology.

Second, when I was young, my mother was an educator of special needs students, teaching the totally deaf and blind. She communicated with them completely through vibration. I grew up among her students who couldn't speak or hear. They were non-verbal and had to use tools to communicate.

In college, I was the guy who could rewire a house 50 people lived in so everyone could have a telephone. Working with electronics came organically to me. I came to Cal on a scholarship and played soccer and rugby for many years, attaining leadership positions on the teams. A strength of mine was recognizing that each player had unique skill sets and I worked with them to showcase it. That's the DNA of how I ended up in technology and came to understand how to communicate and work with things of that nature.

Fast forward to the eighties—the rise of the personal computer, all the devices around it, and the need for distribution in the mid-eighties. Manufacturers were cropping up everywhere and each had different sets of rules on who could sell, who was authorized, who had a medallion. There were situations where you couldn't get an Apple medallion, or you had to buy one from IBM. The rules were arbitrary and didn't serve a unified purpose. Supply and demand should be based on logistics and execution in terms of getting product to people, the value they bring, and the services they bring to the table.

I was unorthodox when it came to my first startup, Granite, in the mid-eighties. To operate within the industry, retail stores were required but I was nonplussed about it. Instead, I began cataloging like CDW and grew a business pretty rapidly. Granite ended up doing about half a billion in sales because it eventually created all these retailers, with supply being met pre-web on 800 numbers. I learned about every type of technology, software, business, and what they were buying. There were hundreds of thousands of products by 50,000 different types of manufacturers, whether you're talking about memory, printers, cartridges or operating systems. It was a very fun time and a serious time. The bad news was you had to be better at logistics because margins started at 25 percent in the mid-eighties, and by the mid-nineties, they were at 5 to 6 percent. So, you had to be more astute with internal systems and had to grow quickly. You had to do five times the volume to make the same kind of money.

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That was my early DNA. When I got out of that business, I quickly started looking at software inefficiencies. The fact that things were being put on diskettes or CD's meant maintenance patches or fixes were being shipped in multitudes through the US Postal Service or UPS. When you walked into a typical IT environment, you'd see boxes and boxes of unused diskettes because people were on maintenance contracts and they had rights to these things. I ran into an opportunity with Jim Barksdale of Netscape when they were starting out and becoming very viable in the mid-eighties in server and web technology. They contracted with me to build a platform that would deliver software 100 percent digitally -- without the need for logistics or distribution. By the end of the nineties that business went public and was worth about $3 billion by 2000-01. Today, those patents deliver software for just about every major software company in the world. That company was called Intraware. I took that public in '99 and ran it for another decade, selling it in '09.

Since then, my interest has focused on different types of supply things. My most recent work is a supply communication tool for people around the world to work simultaneously through a set of display technologies. Companies like Dell or Microsoft are working on collaboration software. You can actually write on a piece of glass, store those images, have video, YouTube and PowerPoint running on it with everybody participating at the same time, commenting, exchanging and collaborating. Nearly $100 billion is spent today building software that allows people to communicate around the world simultaneously, on a simple piece of glass, which will replace a white board inside a conference room. I believe by 2020 you will see whiteboards being replaced—at least 50% of white boards in major corporations, by a device managed by Dell, Microsoft and companies of that nature. It will be our technology that will allow the content to be displayed, stored and shared.

As a leader, how did you ride the shifts in the markets and keep the company moving?

I think downsizing or adjusting to market demands is a sobering, yet necessary, thing to do: being able to recognize the market's not growing. It's shrinking and adjusting. Technology tends to leapfrog or become passé. For example, you can be focused on a project like software distribution, and someone could introduce the cloud, removing the need for data centers or software. If you don't migrate to where the trends are moving, chances are, you're going to become obsolete as an executive or a leader.

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For me, as I've gone through those challenges, it's one of two options. Either you have the ability to pivot, or go to someone like Marty Wolf and say, “I've got $80 million that will be $78 million next year, and I won't be able to pivot unless you introduce new technology.” Or you go to Marty Wolf to sell to someone who's scooping up legacy-type revenues. There are many people out there on the private equity side. I've gone through those down times, as well. You have to be sober and be a realist about your growth opportunities. You can see erosion potentially in your margins. You need to see the top line. Sometimes you're not being honest. So, you have to go to outside services like your company to get a realistic effect in terms of what the market bears. You might be better off selling or merging than letting it go and getting into the new trends, whether it’s cloud or collaborative technology. I've always been brutally honest with myself, recognizing the reality of where I am and, more importantly, what's going to happen to my people.

You took the company through an IPO. How is the IPO market different today?

First and foremost, the IPO can provide, if you’re in the right valuation and right strategy, an ability for you to do M&A using public currencies to buy companies, which is difficult to do when you're private in terms of raising money. It gives a currency.

It's not really about providing as much liquidity today as you may think, especially if you're an executive, because you're subject to really stringent lockups and all kinds of liabilities relative to statements you might make and things you may project to the marketplace. You're essentially liable for any of those things that go on. You have to be very sensitive to the fact that while it may look good to sit on the Nasdaq or NYSE, the reality is you become subject to some heavy issues because of it.

The other thing is, being public is really hard on employees and restricts your ability to innovate. Once you start saying, “I've got a development or visionary budget to pivot or do divisions,” those usually take a loss to get going. Announce you’re planning to spend $50 million, and it's going to have a direct hit on your bottom line. If you’re running on a PE ratio, it's going to have a direct hit associated with that as well. You have to be incredibly careful about the fact that if you're public, it becomes difficult to be an innovator, because you're restricted in terms of that R&D spend.

“The IPO market has certainly changed in the last 20 years.”

Finally, you're in the public eye, and have to answer to a different set of owners. Certainly VCs aren't exactly easy either, but after an IPO, your owners are the public, and the public can remove you. They can also say you're doing a bad job and you're subject to all kinds of myopic scrutiny that you may not want. The IPO market has certainly changed in the last 20 years for those three reasons.

Given this chilling effect of public scrutiny on innovation, how can large IT companies like IBM remain competitive?

You can look at this issue two ways. If you consider Salesforce to be the definitive cloud solution for marketing and commerce, you can view legacy companies like IBM and maybe parts of Oracle as extinct. But clearly companies like IBM and the legacy software components of other major IT companies continue to be formidable. The “why” is multifaceted. Obviously, they have lawyers protecting their patents and preserving their institutional advantages.

Additionally, legacy companies benefit from clients who are afraid to move to the cloud because they’re afraid of having their own Equifax incident. And there’s significant potential for improvement. Look at companies like Hertz or other rental car companies. These are big, IBM-type companies. They will need to innovate to be different. No one enjoys going to a rental car counter and signing a form that looks like an accordion when there are online solutions like using DocuSign. So whether for Equifax reasons or because of prior investments in legacy infrastructure, demand still exists for legacy solutions, and that can lead to companies missing out on prospective earnings.

As it relates to the challenge of being a public IT provider: to reiterate, being successful requires innovation. It's easy for a company to acquire innovative solutions as long as it is making its numbers and it has currency that allows it to go out and write checks. In many cases, this means it's easier to acquire innovation than to develop it in-house.

Conversely, developing solutions comes out of the company's earnings. Justifying that R&D expense means having to explain it from the perspective of future potential. Corporate executives run the risk of litigious events in the event that they overachieve on those expectations. Most boards are skittish of going outside the bounds of traditional R&D for that very reason. Of course, this caveat does not apply to some of the largest IT companies like Amazon, who enjoy practically infinite R&D and reap continued rewards. Stocks traded on a traditional PE ratio basis can't compete and private companies face no such scrutiny.

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I want to talk about your experience at Ziploop. What attracts you to the digital wallet space?

Ziploop's digital wallet API offers merchants, malls and brands a way to manage relationships with their customers based on spend and reward. It has avoided the payment focus of wallets for good reason: I think the digital wallet will be left up to the big boys.

PayPal and Venmo certainly create the universal, "We pay you, you pay your friends." The bigger challenge is to step back and look at the food chain from end to end. In doing so you're going to find that the closer you are to a financial institution or the Fed, these eighth of an eighth of points, fractional payment things that work into a model, can only work inside very large transactional bases. So the players that play in it are going to be the Bank of Americas and the First Republic banks of the world. If you look at their mobile strategies and where they're going, they're going to become more logical. If that's where you're banking and you're getting the same sets of services that a lot of these tech startups are doing in the fintech area, you're basically going to either get bought out—if you did something with patents or on a proprietary basis they need—or become obsolete.

If you don't have a lot of things that are unique or have a large database of users, chances are you'll probably be obsolete because people will switch from using Venmo to their bank that has a lot of the same sorts of services, and don't have to add that other layer, if you will.

I think we're all going to be seeing payment through Walmart, and the benefits are going to be things like loyalty. If I pay this way, I'll get 10% off the rest of the year or whatever it is. So much of that consolidation in terms of fintech is occurring and it's just going to get closer and closer to wherever that supply chain is. It's like using hotels.com to get your loyalty when you can go directly to the hotel and get more benefits from them. Those hotels have to pay third party fees to an extent. If Marriott catches up to hotels.com, there are a lot more reasons to use your Marriott technology, just as I've mentioned with your bank technology. You're going to end up getting a better value for it.

There are two different faces to the SaaS industry: pureplay SaaS providers and rebranded legacy players. Who will lead the SaaS market going forward?

"I don't think [SaaS] is going to be the radical shift everyone talks about."

I think everybody is on the increase relative to SaaS because you get what you eat, and you're not managing data centers associated with most of those services so you have fewer people to manage. You're setting yourself up for a standard platform as opposed to a custom platform.

That being said, we see what happened with Equifax. We're having hacks. You're going to get hacked. It just depends on what industry you're in, whether you're going to move up your own data farms and move to cloud farms because those things aren't foolproof. Certainly, our own data farms aren't either, but using a third party cloud service to run your SaaS platforms and running the risk of the liability of exposure is going to continue to beg the question of how much we can put on SaaS and how safe SaaS is.

I am a SaaS guy. I am a big proponent of SaaS, I like to see the development of it and like to see users go to it, but I certainly see the argument of why people continue in the legacy markets. There are also a lot of people who have spent a lot of money building their proprietary systems across many industries that aren't going to just suddenly shift. That's why you see the NCR's, IBM's, Oracles and Workdays of the world. They're going to have their cloud offerings but also continue to have their legacy platforms. I don't think it's going to be the radical shift everyone talks about.

The one thing about SaaS, I will add, is that when you look at revenue associated with long-term contracts, there's a huge safety component

I like in regard to that. The safety is that you know this customer has an ARR that is going to go out five to six years on the average customer side. This ensures predictability, which is always difficult in technology, to say, “Hey, where are these going to be in five years from now, at what gross rate are they adding customers, and what is that doing to ARR?” It's certainly easy for anyone who is financing these things in terms of projection, where it's a lot harder in the legacy area.

How fertile is that market today for growth and expansion? Do newcomers face too many barriers to success?

I sort of break the market down based on B2B and B2C. B2B customer acquisition is more straightforward. Let’s say you want to sell to Oil & Gas companies. A B2B strategy would entail putting an enterprise sales rep in Houston and reaching out directly to companies through their procurement channels. A B2C strategy means targeting the prospective users: putting in a lot of advertising in target markets, going after management, and ultimately converting your investment to revenue by proving yourself to the end user.

“You will see hundreds of companies where you used to see five.”

It's difficult to even hire the best salespeople in the world to get into the top ten of what a CIO or an IT department is putting in, unless their hair is on fire relative to security. Companies like Tanium in the cyber security area are going to accelerate just because there is so much fear, and you can't have the risk and you can't afford the insurance. So you have to take measures and those kinds of security-related things are becoming very dominant for obvious reasons. But if you have a small B2B technology play, it's hard to get the noise at the IT level or even the investment at the IT level unless you're in a specific market where you prove your bottom line by 10%. If you do this, getting a hero or champion to participate or install costs more than 20%.

I also think the millennial generation is a technologically astute group of individuals, and their understanding of technology is beneficial from the standpoint that they want to adopt new technologies. The other side of it is that millennials are also the ones creating an abundance of products. There are too many things out there. If you look at the sectors, you will see hundreds of companies where you used to see five. And they're all surviving off venture capital where you see a lot of these funds not reaching liquidity. I do think we're at a difficult time relative to getting exposure and getting critical mass. Especially if you’re burning cash, there's a large probability that you're going to need to be bought up in that sector. Position yourself to discern that's what you're doing and make sure you're friends with your competitors.

"Look at your staff not just with compassion, but thinking about what needs to be done."

Given your unique perspective, what's a potentially transformative technology waiting in the wings to reshape the IT industry?

I think there's one solution that's coming into the fold. Consider the different priorities of the Microsoft and Apple retail environments. One thing that's been compelling is how quickly Microsoft has moved into collaboration. Collaboration means devices need to be able to communicate in visual forms, not just sharing files. Look at Microsoft's laptops: many of them emphasize and celebrate their touch screens. It's conceivable that in the future, when you move something on one screen, your actions will be replicated on one or many other devices. Apple, on the other hand, has elected to not emphasize or even offer touch screens on their computers, instead delegating touch interaction primarily to their iDevice lines. We'll see going forward which approach will win out.

I envision a future technological emphasis on touch screens and direct interactions, supplanting our existing tabs, files and folder structure. Where does that leave Dropbox, Box and other solutions? That will depend on how they innovate going forward and whether they are ultimately able to offer infinite canvases showcasing the latest communications. The mind absorbs 90% of things visually—not contextually. You'll be shocked in the future when you go into a retail center and see everyone taking notes. That'll be the next major shift, accelerating through 2021. What's stopping now? Cost, but that's dropping. A 55" touchscreen technology monitor cost $27,000 at this time last year. This year Dell announced one for $3,000. As the cost drops, it opens up an opportunity to replace longstanding low-tech solutions like whiteboards. Finally, the quietest person in a company can be as loud as the loudest.

What's a piece of advice that was once shared with you that you want to pass along to our audience?

I think the thing I learned the most from a couple of different mentors is that your employees are your family and your friends, but you're doing them a disservice if you're protecting them from not being able to perform for you. If they're not productive and you can't find a role for them to succeed in, you need to be prepared to make critical decisions about the company. The needs of the company, its shareholders and its customers are why you exist. Part of my problem in the beginning was being too compassionate, trying to make things look different from what they were. Instead, I was taught the need to draw boxes in an organization independently of the people you have—instead, assess your company like you would the machinery of a factory. Then, fit your people into boxes, and let those who don't fit go. I once let go someone who went to school with me, and it was painful at the time. Later, at Eventbrite, one of the most successful unicorns, I heard he thought forced attrition was a major component of corporate management. That's one of the hardest but most valuable lessons I learned. Look at your staff not just with compassion, but thinking about what needs to be done.