

## How Infoglide went from doom to boom: 12 turnaround tips for software firms in peril

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Let's say you're the freshly hired CEO of a software company.

Then let's say that in your first few weeks on the job, you peel back that shiny layer of promise only to find out, "Hey, this software company that just hired me sucks!"

That's the nasty surprise that was waiting for Michael Shultz in 2001 when he took on the job of CEO at **Infoglide Software**, a maker of risk-assessment and security software.

And Shultz was no beginner with stars in his eyes. Then 55, he was a 30-year industry veteran who'd just sold his latest company, **QuestLink Technology**, a site that provided information for electronics designers. His next strategic plan had been to lay on the beach, maybe write a book.

But a young company called Infoglide across town in Austin, Texas, had a lot of promise. Shultz liked the business model, and he liked the product. With a little bit of gray hair, he thought, this thing could really take off.

Surprise. The product was barely there. The market was about to collapse. The company was sorely challenged even to survive.

Shultz had his work cut out for him. But he did it.

The company hit #67 on the [Inc. 500 list](#) of fast-growth enterprises in 2004, with cumulative growth of 1,548 percent. And it ranked #163 on the 2004 [Deloitte Technology Fast 500](#).

Those mentions were due to impressive sales growth, from \$4.7 million in 2003 to \$7 million the following year. This year the 50-person company is on target to top \$11 million in revenues.

OK, he did it. But how the heck did he do it?

SoftwareCEO caught up with Shultz for an intriguing conversation where he shared 12 unconventional tips on how to turn around an ailing software firm.

### **Turnaround tip #1: Fire everybody.**

Well, not quite everybody, but damn close.

Shultz saw a hollow space behind Infoglide's handsome facade. "A lot of the marketing claims turned out not to be factual," he said. Meaning, the stuff didn't work.

"It turned out the company was built on sand. We really had to go back to the beginning and build a new foundation. You have no idea how much of a downer that was."

Another CEO might have set the development team to work ironing out the kinks while pursuing "business as usual" in every other area.

But Shultz was wary of sending good money after bad. So he slashed the staff from 75 down to 22: a cut of 70 percent in headcount.

"I took out all the sales and marketing, for fear someone would sell something," he recalls.

He really wanted to make sure that things don't get any worse, and that the company didn't disappoint any more customers. He kept only a handful of developers, plus his HR expert.

"She had to help me lay all those people off."

He cleaned house in others ways too. In one case, he returned a customer's \$50,000 check with a promise never to darken their doorstep again, at least until their software worked as advertised.

At an age when he could have easily retired, why didn't Shultz just walk away from the mess, go to the beach and write that book?

"I think if you're in for a penny you're in for a pound," he says. "I felt I had an obligation. I didn't get hired to have whipped cream on my strawberries. I got hired to make this company successful."

### **Turnaround tip #2: Drop the bomb on your staff.**

Shultz understood that not all the remaining staffers would believe it was possible to turn around the company.

Rather than take half-measures, he built himself a doomsday device, and made it clear he was willing to use it.

"I had people sleeping on the floor, working around the clock, and I asked one guy: 'Is this product ever going to solve this problem?' The answer was no."

So one Saturday morning in 2001, he called everyone together to lay out the situation. He gave them the facts. And then he apologized. How come?

"You've got to be as honest as you can," he says. "You tell the people who are left what the situation is. You apologize for not having done a better job of running their company."

"You have to remember, these are people with house payments and children and cars, and they look at you as manager to see that things are taken care of."

With everything out on the table, Shultz dropped the all-or-nothing bomb.

He gave his staff a stark choice: Either we rebuild this product and this company, or we give the investors back their money and call it quits. Shut the doors, pack our bags, and turn out the lights.

Faced with those options, the staff decided to move forward. And Shultz created a situation where he was sure that those who remained truly intended to make things work.

**Turnaround tip #3: Reconsider your existing customer base, and bail out on them if necessary.**

Shultz inherited a company focused almost entirely on the insurance market.

InfoGlide's "similarity search engine" can help spot links between seemingly unrelated insurance claims. It does this by matching names, addresses, vehicle ID numbers, and other characteristics, even if they've been changed.

This idea achieved some traction early on. In 1999, for example, the software company formed a strategic alliance with the **National Insurance Crime Bureau** to help fight insurance fraud.

The only trouble was, the insurance industry blew its technology budget in advance of Y2K. With the stock market down and real estate slumping, the sector's revenues were already running slow by the time the millennium ticked over.

Then 9/11 hit and the industry really tanked. Revenues all but stalled. Cash reserves were hit hard. There was certainly no money left for any technology upgrades.

Wishful thinking might have said, "Look at the flip side. Infoglide already has software deployed in the space; it has big-name relationships and a firm foothold. Surely the industry will rebound in time."

But Shultz couldn't afford any wishful thinking. He could easily run out of money before the insurance industry came back. So he walked away from that market.

**Turnaround tip #4: Do something that can't possibly work: Try to sell software to the government.**

This was his Plan B?!

"People who run small companies and decide they're going to do major business with the government are either somewhat crazy or badly misinformed," Shultz says.

Yet that was just where Infoglide headed next. In the midst of the post-9/11 security hysteria, Shultz saw a way for his product to help protect the safety of citizens, especially those who take to the skies.

So he put in a bid for a passenger-security contract from the **Transportation Security Administration (TSA)**. And he actually beat out hundreds of

competitors for the deal. The initial license sale was for \$6 million: Not a bad jackpot.

It pays to go right to the top. Infoglide got its foot in the door with a call direct to Transportation Secretary Norman Mineta, who invited company executives in for a meeting, and then referred the firm's officials to TSA technology procurement officers.

"Basically, I'm the luckiest SOB who ever lived," Shultz says.

Well, they say you make your own luck. It's true that Infoglide benefited from the massive upswing in security spending.

At the same time, the United States government was showing unprecedented willingness to dole out dollars to small business.

Last year, small businesses took in a record \$69.2 billion in prime contracts from the federal government, up almost 6 percent from 2003. That figure represents close to one quarter of all federal prime contracting dollars.

But remember: Shultz had to turn his back on the company's existing roots and take a huge gamble to gain a foothold in that market.

#### **Turnaround tip #5: Use each big deal to help land the next and build awareness in your market.**

Infoglide wasn't just a one-hit wonder.

Shultz capitalized on the good fortune of their first aviation contract to leverage other opportunities. For example, the company partnered with **Boeing** on a project to help detect illicit weapons in container cargo.

"That in turn created the opportunity for other people in government, and other integrators, to get a look at what we really had," Shultz says.

"It led to general recognition that our technology was steel-plated, that this was the genuine stuff."

But wait a minute. How did Shultz get from "it will never work" to "the genuine article?"

Something crucial had to happen before Shultz could seize the day: He needed to get some actual working software.

To that end, he brought in CTO Charles Moon, an 18-year veteran with **IBM** and a track record of success in developing big enterprise systems.

What did Shultz like about Moon? Mostly the fact that the guy didn't really seem to care whether he got the job.

"He didn't come here to impress me. He came here to see if we were what he wanted to work with," says Shultz.

**Turnaround tip #6: Don't ask the customers' opinions.**

You know the part where you find out what the customer wants, and then you build it? Shultz and Moon sort of skipped that step.

They knew what changes they needed to make to their software. They needed to build a platform that could support multiple, highly configurable modules.

But they worried that if they started talking up their technology in the marketplace, someone else might steal the idea. So they forged ahead behind closed doors.

"At that time I was a 35-year veteran of the technology industry, while Charles had 25 years' experience with IBM and **Dell**. So we understood most of the elements we needed," Shultz says.

"The only question was: Could we build a platform that was fast enough and robust enough to do what it needed to do?"

With that as the goal, he let his CTO move forward, guided by his own experience and imagination. "My deal with Charles was that it was his job to build amazing stuff, and my job was to get him the resources he needed to build amazing stuff."

Since then the company has filed more than two dozen patent applications for related technology.

As the company made its way back to a solid footing, Shultz decided to part with the conventional "don't look back" wisdom. He returned to the insurance industry — and even to customers that Infoglide once left high and dry.

In numerous cases, he's given past customers access to vastly improved, significantly more expensive software. For free.

And he does seek customer comments, but only after the product had been built, rather than as a development driver.

"We knew we needed to do more work on our user interfaces. We needed to make the usability more robust," he says.

By handing the finished product back to the customers, "we learned that the technology was in fact well-constructed. We had seamless upgrades, with absolutely zero down time as we upgraded customers."

But it wasn't the feedback alone that drove Infoglide to seek out its old friends. There was a fundamental strategy at play.

"We wanted to show our loyalty to those companies that had been with us," says Shultz. "No customers are as important as your old customers, because they are the ones who help you get new customers. Plus, it was the right thing to do."

Doing the right thing has paid off. Today Infoglide boasts a customer list that includes household names like the **Department of Homeland Security, eBay, and Metropolitan Life.**

**Turnaround tip #7: Don't spend money.**

Financing has been a major challenge facing Infoglide over the past few years. The purse-strings just couldn't get much tighter.

Shultz has done what he can to shore up the company's financial position.

Since he signed on, Infoglide has taken on \$6 million in equity financing from a consortium of investors including **Conning Capital Partners**, **Intersouth Partners**, **MMC Capital**, and **Sanchez Capital Partners**. The company has borrowed almost \$2 more from existing investors.

But that's not enough to let him sleep soundly at night.

"You don't build a software company on that kind of money," Shultz said. "We are basically operating the company out of cash flow. We literally have to develop product, sell product, satisfy customers, and collect money just to keep going.

In this situation, "if you run out of gas, you die."

To keep the engine running, Shultz is spending very carefully. He does no advertising, puts little effort into the company website, and has just one administrative employee.

Although more than half the staff has security clearances, Shultz doesn't have a dedicated employee managing those clearances — an often cumbersome task. Instead, he pulled someone from the implementation team to do double-duty as the security management coordinator.

Oh, and he still hasn't hired a sales staff. Instead, a handful of "business development" people go out to make introductions.

"The evangelist gets the interest. Then we bring in architects — people might call them a pre-sales team — to architect a solution for that potential customer. Then our implementation people may prototype that solution as a proof of concept."

Only then do they seal the deal.

"It isn't about someone wrestling the customer to the floor to get them to buy something. It is a much more orderly process."

The typical deal size is in the \$1.5 million range. A pilot or trial costs somewhere around \$600,000.

This multi-stage sales cycle, including pilots, runs about 18 months. The deal generally gets closed through a channel partner like IBM or **Lockheed Martin**, but the sale is done directly. In other words, Infoglide sells the solution, which is then implemented by a systems integrator.

**Turnaround tip #8: Hug your competition.**

Competition is hot in the security software market.

As Shultz points out, "There is a lot of money there. The government is spending hundreds of millions of dollars, and business goes where the market drives it."

Infoglide has an interesting relationship with its competition. As with many smaller software companies, there's an ongoing dance with the big integrators.

IBM is leading the big companies in the effort to build comprehensive, enterprise-class security solutions. That's good news for Shultz, and not just because IBM can integrate Infoglide into its offerings.

It's a win, Shultz says, because IBM can define the market in a way his company never could.

"They will spend hundreds of millions of dollars helping people understand what these things are and why they are important. As a small company, you just can't afford to buy that kind of recognition," he says.

Sometimes there is head-butting, but it has typically broken in Infoglide's favor.

For instance, IBM is the prime contractor in the effort to implement a U.S. airline passenger screening system. In a recent bid, Infoglide beat out IBM's own security offering. That's right: IBM integrators chose Infoglide over IBM's own product.

Despite this win, Shultz has no delusions of grandeur.

"At the end of the day, IBM is going to be the leader in this marketplace. They've already spent half a billion dollars just to get ready. They are going to win. But they are only going to get 25 or 30 percent of the market, and they will make the market 10 times bigger than it could have been."

So he figures there will still be lots of room left for Infoglide.

### **Turnaround tip #9: Don't be nice.**

Shultz admits he made a mistake early on that cost him dearly. He tried to be nice.

Two people from Infoglide's past — the founder and the ex-CEO — remained invested in the company, and they started to voice concerns about Shultz's management.

"I tried to be a gentleman with the founder and the CEO that I replaced," he recalls. "I tried to be respectful. I tried to be thoughtful about their contributions."

But, tensions between old and new regimes didn't let up. In fact, Shultz says he's spent almost \$1 million in legal disputes with his former partners.

The lesson? If you're not getting along with your partners, it's probably best to make a clean break — not just in day-to-day management, but in ownership as well.

"I should never have left them with any ownership. I should have bought out their stock at the start," says Shultz.

This may be related to another mistake Shultz readily admits. He was, by his own assessment, too slow off the mark in recognizing the serious problems facing the company.

"The first mistake I made was not recognizing the problem fast enough. That cost us three or four months and a lot of money," he says.

What did he learn from that?

"Ask harder questions. Ask more questions. Keep asking questions in different ways." In other words, you can't afford to be nice during a turnaround.

**Turnaround tip #10: Use. Small. Words. Define precisely what you mean.**

The strength of Infoglide's software is that it can be readily configured to meet the demands of specific situations.

That means the company needs to have more than just developers at home base in Austin; it needs implementation teams wherever the product is used.

Right now that includes two people in Washington, D.C., and two more in the United Kingdom. The groundwork is in place to establish a team in New England this year.

This helps get the talent out into the field where it is needed. But the challenge is to maintain productive communications throughout the force.

"It's bad enough just to get information from my side of the building to the guys on the other side of the building," says Shultz. "Those difficulties square for every 1,000 miles you get from home base."

Shultz keeps ahead of the curve with a monthly all-hands meeting. He also travels to each location once a month. The face time is helpful, he said, but the content of the encounters matters most, and that content is best delivered in really tiny pieces.

"You have to make it simple. You can't let the messages get too confused," he says.

To make sure everything is perfectly clear, Shultz's team is literally writing its own dictionary, a compendium of commonly used words within the industry and exactly how they are defined by the company.

"Words mean different things to different people," Shultz says. "Someone recently used the phrase 'move development from Austin to Washington,' and of course the people in development were having nightmares about packing up their families."

In fact, the comment only meant being able to configure the product at the customer's end. As Shultz rightly notes, language is often imprecise, even in the technical arena.

"So as you grow and add people, you literally have to define what words mean."

**Turnaround tip #11: Capitalize on similar international markets.**

If language is an issue for Infoglide today, it will likely be more so in the coming months, as the company moves to expand its international activities.

While there is plenty of security work at home, Shultz says, the promise of a fast-growing security market abroad is too great to pass up.

"The people who are involved in police work and security all talk to each other. The guys in the U.K. talk to the guys in the U.S., especially because a lot of these systems need to interoperate."

To capitalize on this interchange, Infoglide's business development leader now spends about one-third of his time in the U.K., where the government is actively planning a range of new security strategies.

To succeed in that market, says Shultz, patience is critical. "Where in the U.S. we might make more of a bold stroke, a more impetuous move, guys in the U.K. will do trials and then do bigger trials," he says. "They tend to minimize risk on things."

As a result, Shultz is deploying assets there slowly, making sure he does not get ahead of the actual market.

"I am being very careful with my financial commitments until that business can pay for itself," he says.

After Infoglide's U.K. presence is established, Shultz says the company will reach out to Canada, Australia, and New Zealand. In fact, Infoglide already has a partnership in place with IT consultancy **American Management Systems (AMS-CGI)**, whose efforts extend beyond the U.S. to the U.K. and Canada.

**Turnaround tip #12: Software is widgets. Business is business.**

So you think you're special? Think again.

Sure, software has its quirks. Keeping developers happy is not like keeping lawyers or accountants happy. Different animal entirely. But despite its quirks, software is in many ways just another business.

Shultz tells a story about his time as a founding member of **Cirrus Logic**. One day, management realized that the product didn't work, and the investors wouldn't take their money back, so closing up shop was not an option.

Sound familiar?

The executive team did the only thing they could think to do.

"We literally sat down one afternoon and charted the product direction and the market direction for the company, which eventually became a massively successful business with a huge IPO."

His point is that when push comes to shove, management expertise is not industry-specific. Hardware, software, widgets: The basics all stay the same.

"This is not just about software. It's about running a business," he says.

Infoglide's CEO has certainly demonstrated that he can do that, even under scary conditions. Using his determined approach, he's managed the living daylights out of Infoglide, and transformed it from doom to boom.

And the world is taking notice.

Among many other honors that have befallen him, Shultz was awarded the **Ernst & Young** Austin 2004 Entrepreneur of the Year Award in the Realizing Business Potential category.

That's another nice jackpot to hit, but this time it wasn't sheer luck that did it.

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