BIRTHING OF GIANTS

JERE SIMPSON ON PROPELLING ORGANIC GROWTH: FROM ZERO TO A BILLION

As a young software developer in his early 20s, Jere Simpson learned a lesson that would eventually propel him toward a $1 billion payday. "A client approached me about a project, and we agreed on a fee of $10,000. After I finished it, they asked for another license. I copied the application onto a CD and was able to charge them another $10,000."

The lesson, of course, is that the best business plans are highly scalable – that is, you can sell your products to 100, 1,000, or 1 million customers at a fraction of the cost of development. Simpson had this insight at a fortuitous moment: Web 2.0, which was all about near-infinitely scalable cloud-based applications, was right around the corner.

For the moment, however, that kind of scale was beyond his reach. Simpson continued developing his business and eventually became a contractor for the U.S. Department of Defense. His company, KITEWIRE, grew organically, taking on more employees as the work increased, allowing Simpson to eventually remove himself as a billable engineer, a courageous move for most business owners.

The U.S. government is the world's largest customer, and a pretty good one at that. It buys all types of products and services, and is required by law to provide opportunities for small businesses. However, it's very particular about how it makes purchases. Rules include size standards, sourcing, trade agreements, subcontracting limits, and more. In addition, the government must award a certain percentage to businesses owned by socially and economically disadvantaged individuals such as women, minorities, service-disabled veterans, and those operating in historically underutilized business zones (HUBZones). "I didn't fall into any of those categories," Simpson explains, but adds, "once you're in the system, the government can be an excellent customer."

In fact, KITEWIRE's DoD customers provided equipment, supplies and office space to the company, meaning the only outlay Simpson had was payroll. "It's a very low-risk business, which is what attracted me to it," he explains. "We were essentially a staffing agency. The only risk that you have is you have to frontload the cash: You pay your people before you get paid, but it's generally a 30- to 60-day gap." Still, he adds, "You know you're going to get paid no matter what, and that's a really good part of it."

THE MONEYMAKER: LOW RISK AND STEADY GROWTH

At the time, KITEWIRE was providing custom software, built to the specifications the government agencies dictated. "At the end of the day, they own the entire product, and they'll tell you what it needs to

do, and you need to build it and it needs to pass," Simpson explains. KITEWIRE had a time-and-material business model, so its gross profit margin was essentially the difference between what the government paid it and what it paid its employees. This is the very definition of a moneymaker: A low-risk business that has a more or less fixed profit margin. It could scale relatively easily – more contracts, more personnel – and pump out profits, but there was little opportunity for a big payout. KITEWIRE was successful, pulling in about $4 million in revenues with about 40 highly skilled employees.

And indeed, the company grew quickly – even making the Inc. 5000 list three times for exponential growth rates – but profit margins remained tight. Simpson felt stuck.

This was the model that Simpson was working on when he arrived at a Birthing of Giants Fellowship Week (then called Masterclass) in 2015. When discussion turned to business valuations, he came to a somewhat disheartening conclusion: "The business was worth about three times EBITDA," which is to say, three years' salary. "Only three years' work," he recalls thinking. "So why would I sell it?"

What Simpson was learning was that the most valuable companies sell at multiples of revenue, not profit, and the multiples can be staggering. But these aren't moneymakers; they're moonshots: businesses that have a total addressable market (TAM) that is, for all intents and purposes, limitless. They are businesses that don't really worry about the economics in the present, because they're growing so fast and they're so profitable that it will only get better over time.

THE MOONSHOT: FROM CUSTOM TO COMMERCIAL AT CLOUD SCALE

Simpson was also beginning to tire of the grind. He didn't like the fact that in order to make money himself, he had to pay his employees less than he was receiving for their work. "I wanted to make the best software in the world," he says now. "That means I had to have the best talent in the world. The best people in the world required the highest salaries, and that simply wasn't feasible with our current model." By this time, of course, the concept of cloud-based software-as-a-service had gained traction, and Web 2.0 was well underway. So Simpson tasked himself and his team with finding an idea that could scale big-time. He also asked them to find every way possible to improve efficiency, which would buy them both time to work on the project and the additional capital they'd need to complete it. So while the team was finding money-saving efficiencies and building capital, they were also canvassing their existing clients for unanswered challenges they were experiencing. The idea was that if a problem cropped up often enough and was within KITEWIRE's capability to solve, they'd have the right product to focus on. This is a classic entrepreneurial move: Solve a problem that a bigger company has. In fact, it's the first of three steps that form what we at Birthing of Giants consider the perfect business model:

- **Step 1:** Start a small services business that solves a problem for larger businesses.

- **Step 2:** Make sure you address three underlying problems for large companies: Hiring people at a lower cost than your customer can, investing in technology, and getting paid after the work is done rather than up front.
- **Step 3:** Do for your company what you did for your customers: Reduce headcount, leverage technology, and charge for your solution in real time. That's a moonshot.

It didn't take long for the KITEWIRE team to come up with the idea for its moonshot: mobile security. At the time, in 2016, Fortune 500 companies and government agencies were still carrying BlackBerry phones. Even President Barack Obama had one. Why? Because they were more secure than the newer phones, whose biggest selling point – the ability to run multiple third-party applications – created potential security vulnterabilities.

Here is where Simpson made a really, really smart decision. The Silicon Valley approach to developing a new product, whether software or hardware, follows a common pattern that is now firmly embedded in the public imagination. First, it should solve a previously unsolvable problem – or better yet, a problem people didn't even know they had: calling a ride with your phone, for example; getting instant results from a drop of blood; listening to any song at any time, and on and on. The idea has to be flashy and game-changing. On this brilliant, disruptive idea, entrepreneurs can then raise hundreds of millions in VC money so their startups are worth billions. Then, of course, all that's left is to change the world. The problem with this narrative is that it rarely succeeds. It's like winning the lottery: The successes are highly visible, but what about all those worthless tickets?

Simpson flipped this script on its head. Cybersecurity, though critically important, is anything but flashy. In fact, when it's working well you never even know it's there. Instead of glad-handing and backslapping to secure multiple funding rounds, Simpson realized he could use his current pool of customers – government agencies – to pay for development. And rather than splashing his face on magazine covers to generate interest, he chose a client whose endorsement was all the convincing other customers would need: the FBI.

Here's how it worked. First, KITEWIRE switched from a time-and-materials revenue model to fixed project fees. This meant that the more efficiently the company could deliver to clients, the more profit it would realize. Simpson would plow any additional profits into an elite internal team working on the mobile security project. KITEWIRE's normal operations, meanwhile, served as a talent funnel for the team. "Whenever someone showed promise, I took them off whatever commissioned project they were working on and moved them to the mobile security project," he explains.

Simpson's pitch to the FBI was straightforward: Employees can use the latest smartphone without compromising security. But the terms would be different from his previous engagements. The agency

could set the requirements for the project and vet it for effectiveness (a process called "red-teaming"), but it wouldn't own the final product, just a license to use it. KITEWIRE also defrayed expenses by partnering with Samsung, which was looking to break into the government and defense market. "The FBI was the ideal first customer, because I'd never be able to afford the validation processes," Simpson explains. "They said, 'we will red team it for you. If it passes, we'll buy it.'

"Getting that validation from them was huge," he continues. "We could go anywhere else in the government and say, 'Don't you want a smartphone? We got validated by the FBI,' and their people would say 'That's good enough for me.'" Financial institutions and other security-conscious businesses also came on board as customers.

All in all, it would take about two years to get the product ready to sell. Those two years were tough. Funds got very tight, and some team members abandoned ship. In the end, however, it set KITEWIRE Mobility, as the company was now called, on a path to achieve $55 million in revenues by 2019, even expanding into the consumer market. What's more, KITEWIRE achieved this growth with eight fewer employees. Let's have a quick look at the math: The company went from generating about $100,000 in revenue per employee to $1.7 million.

Having achieved his dream of creating a moonshot, Simpson has again become restless. "I was getting a little bit bored of the cybersecurity business," he admits. "It's getting a little inundated with charlatans and was losing some of its credibility as an industry altogether, getting oversaturated." He also had a sense that as with many third-party solutions, it would eventually be absorbed by the operating systems (iOS and Android) themselves, drastically reducing the marketability.

Simpson's approach to exiting was as smart and measured as his original growth strategy – and also got a boost from his Birthing of Giants experience. Simpson had hired consultants to research potential purchasers and was considering next steps when Birthing of Giants Entrepreneur-in-Residence Norm Brodsky countered, "So you paid someone a lot of money to tell you what you already knew?" Simpson realized Brodsky was right. He already knew which companies would be most likely to want to purchase KITEWIRE. But how to get the best price? "Just ask," Brodsky said in his typically blunt fashion. "So that's what I did. I went to the companies I thought would be a good fit for KITEWIRE and asked them what would make it the most valuable to them. To my surprise, I had some very frank conversations. They told me, 'We don't care if you grow sales or not. We want the product to be entirely self-service.'" In other words, potential acquirers wanted a no-touch onboarding for new customers, rather than involving numerous manual processes. "So I took all that information and just made it happen," Simpson recalls. In the end, he sold the company for a stake in the company that acquired it – a stake worth $1 billion.

NEXT STOP, MARS

With the deal complete, Simpson is already hard at work on his next idea: a passion project called Atlas UP. "The best way to describe it is 'GPS for work,'" he explains. "If you make a wrong turn on your way to business objectives, it puts you back on the right path. When we realize we missed a milestone, we have to pull over on the side of the road, metaphorically. It takes a while to come up with a new plan, which means you're perpetually late all the time, and there's no easy way to figure out what you should do next." Atlas UP is currently in private beta, and Simpson has taken a page out of his own playbook by developing it with the most reputable, hardest-to-crack customers he can find, including the U.S. Navy, DARPA, and Caterpillar. "I believe this is something everybody who does work needs," he says. "The rewards for these organizations are huge. The amount that they will pay is easily worth it because they're doing big things. They're working on some of the biggest public commissions." He'll need this validation straight out of the gate, he says, because the product will need a network effect to succeed. "The speed at which we need to go is tremendous," he says, adding that he's already anticipating exiting this latest venture within five years, having doubled his previous success.

"I feel like I really have a good understanding of how to do it and do it fast," he says. "One of the best things that came out of this deal and probably the sweetest part of the offer was I could take my entire leadership team with me. You don't get to start too many businesses with a leadership team that has worked together for years. This is my opportunity to build something huge that I'm passionate about and that I think could change the world."

5 TAKEAWAYS

Jere Simpson is a textbook example of a smart entrepreneur, a guy who knows how to persevere when things get tough and who has the patience and vision to make things happen. Do you have the stamina to take a similarly disciplined approach to achieve your entrepreneurial goals? Here are a few things you can take away from his experience:

1. **Seize opportunities.** You hear a lot about "doing what you love," but for Simpson, cybersecurity was an opportunity, not a passion. "Don't let anybody tell you that is wrong," he warns. "It does not necessarily have to be something that excites you. Sometimes, where it takes you is the exciting part." Simply put, KITEWIRE went into the security business because that's what the market was demanding.
2. **Don't take money you don't need.** Other people's money is great, but it usually comes with a lot of strings attached, meaning that you are giving up control over the trajectory of your business. Simpson found a novel way of financing his business – by having a customer pay for it – but it wasn't easy. It required time and discipline to make it work. In the end, he owned 100% of the company and could reap 100% of the benefits.

3. **But if you need it, take it.** "I strongly believe that you should know exactly what you're going to do with the money before you raise it," Simpson says. At the same time, VCs and other investors bring more to the table than just money. They bring experience and connections. If you need either of those, the high price of their money may well be worth it.
4. **If you want to know, you have to ask.** One of the biggest lessons Simpson learned when selling his company was a straightforward one: Ask the right questions. He estimates that by asking potential acquirers what was most valuable to them, he was able to sell for 10 times what he would have gotten had he not simply asked.
5. **Talent is key.** Like another entrepreneur we profiled, Chris Roth, Simpson took a unique approach to recruiting. He used his regular business activity – custom software development – as a farm team for the A team that would create his moonshot. In addition, he was careful to take his leadership team along with him for his next venture – a team he knew was both effective and collaborative.

TIMELINE

2007: Jere Simpson launches KITEWIRE as its only employee and seeks government contracts for custom software development.

2015: The Moneymaker: KITEWIRE thrives on its time-and-materials model.
Employees: 40
Revenues: $4 million
Revenue per employee: $100,000

2016: The Pivot: A switch to fixed fees lets KITEWIRE use customer financing to develop talent and build a SaaS application in "found time."

2018: The Moonshot: KITEWIRE Mobility launches with the FBI as its first customer.
Employees: 32
Revenues: $40 million
Revenue per employee: $1.25 million

2021: The payday: Simpson gets a stake in the acquiring company worth $1 billion.

2022: The Mars Shot: Atlas UP – "GPS for business."