

California Executive

How Leadership & Frugality Saved an Ailing Dot-Com (link)

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In his first stint as a business executive, Craig Walker pulled the bloated and seemingly doomed Internet startup Dialpad Communications Inc. from the scrap heap, trimmed the fat, revamped its business model and eventually sold it to Yahoo Inc.

It was a painful process and one that did not come without its share of heartache, like when the company slashed its staff of 150 to a mere 15. While revived the company from its deathbed Walker made his share of mistakes. But he put the lessons learned from those mistakes to good use when he launched a new venture, Grand Central Communications Inc., which he ramped up and operated without the same headaches, leading to a successful sale last year to Internet giant Google Inc.

"Once you've been down that road of being nearly destitute, it's good to apply those lessons in the future, even when you're not destitute," says Walker, now Google's senior voice products manager.

Assessing the Wreckage

The unlikely turnaround of Dialpad illustrates how the right approach and execution, embodied in effective leadership, can turn an inevitable fire sale into a handsome acquisition.

Dialpad, which provides voice over Internet protocol (VoIP) service and still operates under Yahoo's wing, was founded in 1999 and raised \$68 million in the course of six months. One of its backers was Sterling Payot Capital, where Walker worked as a technology investor. Typical of so many Internet startups at the time, Dialpad offered its service for free, pinning its hopes of future revenues on "banner" advertising.

By 2001, Walker says, Dialpad was burning through about \$2 million per month, carried a growing debt load of about \$12 million and strained under the weight of a 150-person payroll. That's when Sterling Payot, which had a seat on Dialpad's board, sent Walker in to stop the bleeding and sell the company's assets.

Walker called an all-hands meeting his first day, informing the staff that the majority of them would get pink slips.

"I walked into a pretty hostile environment. The worst part about it was the employees didn't understand the dire straits the company was really in," Walker recalls.

He cut staff by 90%, bringing the headcount down to a skeleton crew of 15. He says the plan was to bring the costs as close to zero as humanly possible and sell the assets, "because there was no way to sustain that type of a burn [rate]."

The 15 people Walker retained were extremely efficient and able to keep the service running at a high level, he says, which prompted him to consider the possibility that Dialpad may be worth saving after all. The technology was strong and the company had a large user base, it just needed a better management focus and a forward-thinking business plan, as is the case with many companies that fail, say business consultants.

"When companies have gone awry, usually it's because the leadership wasn't able to create a vision, or the business plan just doesn't work," says management consultant Kathie De Chirico, president & chief strategist of Visionary Strategies, based in Skillman, N.J.

### Picking Up the Pieces

Walker quickly got to work rebuilding the company, while taking decisive steps to tame the balance sheet. With the blessings of the board and commitments from the remaining employees, just one month after Walker took the reins, Dialpad would be given a fighting chance.

Cleaning up the balance sheet required a couple of serious maneuvers.

First, Walker took the company into Chapter 11 bankruptcy protection, which allowed Dialpad to write off its debt and renegotiate its contracts. Walker, who had helped other companies reorganize through bankruptcy as an attorney and venture partner, was particularly adept at this otherwise complicated process.

"One of the values of the bankruptcy is the ability to not be at the mercy of contracts. Your suppliers cannot turn their service off, and it gives you a way to renegotiate your contracts," says Vincent Paquet, Dialpad's VP of marketing and business development, co-founder of Grand Central and currently a senior product manager at Google.

Since Dialpad was an online voice communications service, the primary suppliers were telecommunications companies, which Paquet says were eager to renegotiate since the alternative - the demise of Dialpad - would not benefit anyone.

Dialpad was then able to raise \$6 million from private investors. One-third of the cash was used for the Chapter 11 reorganization, including legal fees, while the rest was stretched out over more than four years of operations. Eventually, Walker and his team were able to rebuild Dialpad into a paid service.

## Running on Fumes

But to reach its goal of profitability with only \$4 million in the bank, Dialpad had to get as lean as possible.

"We canceled the [bottled] water; we canceled the newspapers; I got every employee to take a 20% pay cut, with the promise they would get paid back in time, and they all agreed to that," Walker says. "So there were no lavish parties; any off site event was basically a potluck thing or a barbecue at a park."

They also used open-source software to avoid costly commercial software licenses and procured free, used computer equipment and cubicles from their investors. One of the investors who pledged an additional \$10 million once the company showed some traction saw his fortunes suddenly reverse, further driving Dialpad's frugality. As with much of Silicon Valley's short-lived wealth explosion, this investor saw his net worth quickly evaporate once the bubble burst.

In order to convince his management team and investors to come along for the ride - which required steep pay cuts and 15-hour days for an uncertain payoff - Walker needed the soft skills necessary to rally the troops.

"Craig is a great leader," says Michael Tribolet, Dialpad's VP of operations and former president of VoIP company Vonage Holdings Corp. "He's a really quick learner as well."

Walker not only oversaw the legal minutiae of the bankruptcy and contract negotiations, but also worked directly with customers, encouraged a free flow of information and remained absolutely honest about the company's progress, Tribolet says.

De Chirico says one cannot overestimate the importance of team chemistry in such an environment, or the need for a strong leader who is able to keep everyone happy and productive.

"The key point in almost any industry is that it is about teamwork. Everyone has to be frank and transparent, and the quicker you can achieve that, the quicker you can come up with solutions," De Chirico says. "It looks like he did it the right way."

In 2005, after Dialpad became profitable and virtually baggage-free, Yahoo came knocking. The amount of the deal remains confidential, but Walker and his crew joined Yahoo and helped integrate Dialpad into the pioneering Internet company's voice messaging service.

## Applying Hard-Earned Lessons

The concept behind Grand Central, Walker's follow-up to Dialpad, is the integration of multiple telephone numbers and voicemail boxes into one depository. He started the company with Paquet in 2005 and kept many of the same people who were instrumental in Dialpad's turnaround.

But even though Walker had access to deep pockets he retained the frugal approach. He continued to use open-source software, bought used equipment and scoured the Bay Area for the cheapest real estate available.

"When I started at Grand Central, those lessons learned during the real lean years of 2002 through 2005 were not forgotten," says Walker, who eventually sold Grand Central to Google for an undisclosed sum.

Many of today's startups are making the same mistakes the dot-com darlings made a decade ago, Walker says, by raising too much capital and hiring more staff than necessary.

"With too much funding, you end up with seven vice presidents and a lot of middle management and a lot of things that are really not conducive to a productive startup," Walker says.

Now that he works within Google, which boasts a market capitalization of more than \$135 billion, the situation is different, although he says he appreciates the entrepreneurial spirit of the Mountain View Web search giant. But he says his principles, honed during his time with Dialpad, remain unchanged.

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