

MARKETING IN THE KNOW

Marketing In the Know Podcast Blake Modersitzki

Blake: If you have passion and love and then, most importantly, joy in what you're doing, this growth thing will come together and you'll be a successful entrepreneur.

Male Speaker: Welcome to Marketing in the Know, the premier podcast to help you leap ahead of the marketing curve so you can grow your business. Now get ready, set, and grow with your host and tour guide through the marketing jungle, Buckley Barlow.

Buckley: Hello, hello Insiders. It's Buckley here. And welcome to Marketing in the Know, a podcast to help you grow your business. And speaking of growth, make sure you also check my blog out at beintheknow.co or .C-O for original content on growth.

And so speaking of growth also, I thought it would be a great idea to see what's out there through the eyes of a well-known venture capitalist. And I want to say this up front; you will want to definitely stick around to listen to this entire episode because for one lucky insider, yeah, that's you listening, you'll get a chance to pitch him on your idea or startup. But if you have a friend or family member who is looking to raise capital, this is probably the episode you'll want to share with them.

So, I'm excited because this interview marks my first VC on Marketing in the Know. He is a guy that's been around the software world. He's grounded in marketing. He's grounded in sales and M&A; mergers and acquisitions. He worked with Eric Schmidt at Novell before Eric was recruited to be the CEO of Google. And he is now a managing director at Pelion Venture Partners. Blake Modersitzki, it's a pleasure to have you on today.

Blake: It's great to be here Buckley. Thanks for having me.

Buckley: Well, Blake, let me give you the back story of how I found you. It's actually quite simple. I reached out to Eric Schmidt who I had

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on the show. And he's raised a huge amount of venture capital as you know in his life. And I asked him, "Who's the best guy out there to talk about growth, growth marketing, software?" And he said, "Hands down it's Blake." So, the pressure's on, Blake.

Blake: Eric's a great guy. He's a successful entrepreneur and we're happy to know him.

Buckley: Well, are you ready to get our Insiders in the Know about what's working out there in terms of growth, Blake?

Blake: Absolutely.

Buckley: Let's do this. Well, before we dive in to talk about what's working and what's not working out there for growing a business today, especially businesses that you oversee from a board of director's standpoint, and what kinds of entrepreneurs and ideas you're looking to invest in, I'd love to know more and so would everybody listening. Tell us more about Blake; your back story and what you're work is over there at Pelion.

Blake: Sure. The back story is I'm just a farm boy from Idaho. I grew up on a farm, went to school in Utah, and then moved to New York, lived in New York, worked in sales for a software company, then in Seattle, then moved back to Utah about 20 years ago. So, this really feels like home for us. And on a side note, I have a wonderful wife and three great daughters. Almost empty nesters. So, that's a new transition for us in our life.

And then at Pelion Venture Partners, we are a software focused venture capital firm. We just raised our sixth fund, exceeded our target of \$200 million. And so we're excited about that. We're starting to deploy that; capitals. We have a brand new fund and we invest all over the country. So, we have companies from California to New York, all up and down Utah. We are based here in Salt Lake City. So, we have lots of companies here and in Seattle and Denver and kind of all over the place. And that's a little bit about us.

Buckley: Early stage, mid stage? What are you looking at?

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Blake: We're early stage. We want to see a prototype of a product. Do you have some beta customers? If you have some paying customers, if you're much past \$6 million, \$7 million/year in revenue, you're probably too mature for us. So, we like that inflection point between pre-shipping product to shipping product and at that part where companies are really looking to accelerate their growth and to get things moving.

Buckley: That's great. What is it about farm boys that do so well?

Blake: My dad used to tell me when he'd wake me up in the morning to go do chores, whether it's move pipe or feed cows, that an education will get me out of here. So, I think it's that motivation that you don't want to get up early to feed cows.

Buckley: Oh, I get it, I get it. Well, Blake, you've had some really notable deals that have done very well. Which one has been your biggest winner to date?

Blake: Gosh, that's an interesting question. And there's probably a whole host of them that I could talk about. But let me just touch on one company that's based here in Utah; a company called Fusion-io. We met the entrepreneur when they were getting ready to think about raising a Series B round of financing. And so we engaged with them, we talked to them. We ended up putting a bunch of money into the company.

And then they went public on the New York Stock Exchange. First company I've had go public on the New York Stock Exchange. I've had plenty on the NASDAQ. So, got to go with the company back to New York City. And as the CEO rang the bell to open up the market, I got to participate in that event. And that company generated a lot of returns for our investors. So, we're pretty excited about Fusion-io.

And then the second go around, we actually have backed Primary Data, which is the second company from the founders of Fusion-io.

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Buckley: That's great. And that was a big winner too. What a great company. Well, how about on the opposing side? What was your biggest loser?

Blake: Gosh.

Buckley: You hate to mention these. I know, I know, but let's see if we can get it out of you.

Blake: We have plenty of those as well. But I'll tell a quick funny story. So, we invested into a company called Strict Systems down in Southern California. Just a terrific company. And this was kind of pre the wireless access point. This company was focused on doing a wireless mesh network. And fast forward through the life of this company. It was doing really well. Cisco bought a company, started giving away access points, really had a dramatic effect on the company. We ended up selling the company for bits and bytes. We had invested a total of \$11 million into this company. And the return was I got a great looking computer back for it.

Buckley: Oh, that's great.

Blake: I still have that computer back in my office. My partners tease me about why I still use it. It's a great reminder on how quickly things change in this industry.

Buckley: Oh, boy, you aren't kidding. Well, let's get down to the nitty gritty, Blake. That's a great story. And I really want to get into the specifics of what it takes to grow a business and have a successful exit for the entrepreneurs, for you. And you see a lot of the best deals run across your desk. So, give me an idea of your preliminary investment framework. What are you looking for? What's hot out there right now, and what is catching your attention?

Blake: We view the world really as the evolution of computing environments. And so if you think about the world 20 years ago, it was all about, gosh, we can hook a computer up and share a printer. That was really cool. Forward to today and everything is about mobility. And people talk about the Cloud. But how do you

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leverage the resources of the Cloud? You've got this new thing called the internet of things. You've got FinTech, all different sorts of kind of computing environments.

But you still run into the same old problems on how do you store it? How do you manage it? How do you secure all of this data? And with the explosion of data and the amount of data that exists out there, how can we keep track of what's going on in this world? And those are some of the areas where we're looking at for companies to solve interesting problems around. You say the word analytics, but analytics as it's applied to financial technology. And how can people be smarter within the FinTech space?

Buckley: There is a big issue right there; collecting big data and then actually being able to distil it down to little data that's meaningful

Blake: Yeah, I love the buzz word big data. But it doesn't mean anything unless you can actually do something with it on the other side.

Buckley: Now when you're ready to make an investment, describe what you like to see out of an idea, a company, a team. Love to know your thoughts.

Blake: Yeah, so we look at three different things. First and foremost, how disruptive is the technology? It's just not the same mousetrap painted a different color. But is it disruptive and is it attacking a really large market? And that's the second thing that we look for. So, they're all sorts of great ideas around solutions. But we need to see the visibility that this can be in a billion plus market. And then the third thing we look at, and this is probably the most important, is the team. And that's the passion they have around what they're trying to solve.

So, we aggregate those three things together, that's what we look for when we engage in an idea. Keep in mind our firm looks at probably 1,000 business plans a year. We engage 30 percent of those companies in terms of doing active due diligence on them. And we invest in five to seven companies per year.

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Buckley: Yeah, and you do a lot of software. Do you ever invest in team members that are not developers? That they know how to build software companies but they certainly don't have development experience? Do you see that much?

Blake: Absolutely. In fact, it's one of these things where I would say it's the art of our business versus the science. And that is sometimes it's just a really talented engineer. Sometimes it's a really talented go-to market guy. Sometimes those guys are together, sometimes they're not. And so we definitely look at can they attack a problem with a plan of success? And so you don't have to be an engineer. You don't have to be a sales and marketing guy. But what's great is a lot of entrepreneurs understand their strengths and weaknesses. We've invested in engineers who their first question is, "Look, I don't want to be the CEO. I like what I do. So, help me hire a CEO."

Buckley: That's great.

Blake: Or conversely, a great CEO who says, "I need a VP of sales. Help me hire a VP of sales." So, those are the sorts of things that we look at and try to be helpful around.

Buckley: What's too many team members? Three, four? And what's your sweet spot?

Blake: So, usually the space that we invest into, there's usually I'll say maybe five to a dozen engineers and then three or four business guys or business people, business individuals. And so anywhere from ten to 20. We invested into a company that was – I would call them in stealth mode that had 60 engineers with 70 percent of them being PhDs. And so we really don't distill it down to a certain number.

Buckley: What about founders?

Blake: Yeah, so founders, there's usually two or three. And the one thing I would probably caution entrepreneurs on is sometimes we'll see Chief Marketing Officer, Chief Sales Officers, COO, CEO. You've got all these C titles that come rolling in. And, honestly, at

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a startup you need guys that can just do stuff. So, when you start attaching a lot of C titles to people, it does raise some, I'll call it a yellow flag for the VC community.

Buckley: That's good to know. Now as a VC you sit on the board and give portfolio companies tons of advice, guidance. And in terms of marketing, which is a lot of what your background is routed in, what are the best channels right now to grow a business today? What do you see your portfolios companies doing that's really working?

Blake: Some of the key things that they need to look at is who are your best go-to market partners? And in some cases they're other software companies that range from the old line guys like an IBM or a Microsoft, to a Google, to think some of the newer technologies around content distribution and those sorts of things. And even some of those companies are privately held. So, who are your best go-to market partners? And then establish a partnership with them. But make sure that with that you can generate revenue.

We call them the Barney. My kids were little enough that they remember the purple dinosaur which was all fluffy and everything. You've got to have some meat around these partnerships. And so that's what we try to advice these companies on. And the best entrepreneurs understand and get that. It's like if this partnership can't help accelerate revenue, revenue is the key in all early stage companies. And so that's what we look for to try to help.

Buckley: Give us a little better idea of partners. How do they form? How do they come together? What's the basis of a great partnership other than the fact that, yes, we want to drive revenue? But what are you seeing out there for software companies, how to leverage that growth? Give us an example of how you'd help an entrepreneur put one together or guide them.

Blake: In some cases, the partnerships are around making sure that the startup company's products are on the pricelist so that they can have a joint selling relationship. In other cases, it's an OEM deal where you OEM the product, which means you basically license it

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to them, they include it in their solution, and then they sell it out the door.

And in other cases, there is a lot of value around some branding where essentially Google, for example, endorses a certain sort of technology.

And then it's this whole ecosystem idea around, gosh, I could be successful because I – it's the success by association. And so those are the kind of three, I would say, partnerships that we try to help entrepreneurs establish as they get going.

Buckley: Yeah, that's one thing about venture capital networks. They're pretty extensive.

Blake: Yeah, if I look around my own shop I've got guys who've been sales executives, marketing executives, CEOs. And their networks are pretty diverse. One of my partners, a guy named Carl Ledbetter; his peer group growing up in this industry were guys like a Steve Jobs, Larry Ellison, Eric Schmitz, Scott McNealy from Sun, Bill Gates.

Buckley: Just a bunch of nobodies, right?

Blake: Yeah.

Buckley: Nobodies.

Blake: That's who he grew up with in this industry, which is a lot of fun to learn from him on what it was like in the early days. Those guys were running the industry.

Buckley: Wow, that's a great network. Now, since I have you on the line, Blake, I'm gonna ask questions as it pertains to some of the things I'm working on. What do you think about the online education and training space for professional development? It's been a huge investment channel for many VCs. You can think Udemy, Lynda.com, which was just acquired by LinkedIn, or General Assembly. What are your thoughts on that space?

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Blake: Education: We have a company in our portfolio called MasteryConnect, which is in the education training space. We think it's a really lucrative and interesting place to be in because everybody is looking for a differentiator. And knowledge is part of that differentiating. And so online education, training, all of those sorts of things I think are really interesting and will only spawn more and different and innovative ideas coming down the road.

Buckley: Yeah, that's great. Now we're gonna change topics big time. And this is a topic that I've been really excited to talk to you about. There's been a lot of noise out of Silicon Valley lately about the rise of growth teams; teams that essentially are focused on growing the topline through innovative growth hacking, experimentation, iterative testing. And it's a technical skill set, and it has a lot of traditional marketers wondering how to cope with it. And so I'd love to hear your opinion on this topic because it has been polarizing. So, what do you think about the rise of these growth teams?

Blake: It's an interesting question and one in which I'll say I think the jury is still out on how this is going to play. As you mentioned, it's polarizing. I view it as it's kind of we had Internet 1.0. We're now Internet 2.0, 3.0, 4. This is kind of the growth 1.0. And so I think we'll learn a ton of stuff through this process. I think it's good in general. I think there's going to be some innovation that will come from it. Growing that top line is extremely important. And so how do these growth teams do it? We'll see, we'll see. I'm excited to watch this thing play out as it continues to evolve over time.

Buckley: What are you seeing in terms of how growth is structured right now in your portfolio companies? Is it still under the marketing banner? Or do you have any other portfolio companies that may have put it under product or marketing? What are you seeing?

Blake: Yeah, so it's really a combination. In some cases, that's actually a business development function. And that business development function sometimes resides by itself or reports to the CEO. Sometimes it reports into VP of sales. The marketing and sales especially around lead generation, it's almost this iterative process

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where it's [inaudible] [00:17:03] growth with marketing's function and then comes the branding and the I'll call it corporate marketing down the road. But we're seeing it more and more be a business development function as interesting as that sounds.

Buckley: Yeah, it's interesting. I think it was Andrew Dumont of Bitly who is the VP of marketing over there now. He grew Moz's revenue from \$6 million to \$30 million which is an SCO company. And he did it without one salesperson. And it's interesting to know that a lot of old marketing and sales approaches have changed where marketing is really a full stack funnel experience now. And it's interesting to see how people can leverage their marketing efforts now today.

Blake: Yeah, the sales and marketing executives, they almost have to be joined at the hip and be extremely collaborative. Because one can't survive without the other. And in some cases we've seen some fabulous VP of marketing who interestingly enough started their careers as a junior sales guy 20 years ago. So, they have some selling. And then on the flip side of that, we see some really talented sales guys who started their careers in marketing because they understand and they can hear the voice of the customer.

Buckley: Well, there's no doubt that marketing is becoming much more technical today especially with SAS companies, right?

Blake: Right. Well, and then when you think about all the channels that you're having to reach people, just understanding how to market and leverage a social media platform where it's not noise. You've got to understand the technology that's associated. So, yeah, there's all sorts of kind of technical disciplines and knowledge technology that you have to understand as a marketer.

Buckley: Yeah. Now growth is a mindset, Blake. How do you instill that mindset into the culture of a startup? And then how do you keep it intact as the business starts to scale?

Blake: So, it's not something that I would say that we have to instill. Because there's two types of entrepreneurs. There's those guys who are a first time entrepreneur, first time CEO, which have a lot

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of passion, a lot of drive. And for us, it's helping them not make some of the same mistakes that we've done in our careers or other second time CEOs have done. And so helping them along that line. And that growth, they get that, look, I get up every morning passionate about what I'm doing here. It's almost like this change the world sort of view.

And then you have the second time or the serial entrepreneur where it's like, look, they've seen this rodeo before. And for them, it's all about point A to point B requires these three steps around growth and demand generation and customer adoption.

So, that's what I'd say to the entrepreneurs. If you don't have that kind of fire in your belly that's okay, but it just means that you might have a different sort of career path that might be more enjoyable to you than the stress that's associated with building a company. Can I make payroll next week? Can I hire the right guy? That sort of stuff.

Buckley: Yeah. Well, back to growth teams. By the way, I wanted to mention this. Personally, I think it's the evolution of marketing and the way that business is being organized today. But I don't get caught up in semantics or where that growth has to fall or even if it – I'd actually like to see it more as just an entrepreneurial spirit in general driven by the founders, right? Because I think at the end of the day you've got to focus on your top and bottom line.

So I'd like to know, Blake, if you were to hire one person today, whether you were running a portfolio company or even for your own venture capital company that you have today, if you were to hire one person today in your growth or marketing department, what kind of person would you hire with what kinds of skill sets and why?

Blake: Wow.

Buckley: It's a loaded question.

Blake: Yeah, it is a loaded question. At that stage, I would hire, if I could use a tired sports metaphor, I would hire a guy who could play

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shortstop, second base, first base, can pitch, and can also hit for power. And what I mean by that is those guys, men, women, the passion that's associated with loving what they do and having the natural ability to kind of do multiple types of functions in an early stage company, kind of in that growth trajectory, I think are the most valuable. Now when a company gets large enough, you can start to segment that and get some specialty that's associated with that. But that's probably what I would look to hire right out of the shoot.

Buckley: That's good stuff, Blake. Well, last question: Would you mind leaving us with your best growth or marketing tip or piece of advice that you've kind of learned along your journey?

Blake: What I would say is if you have passion and love and then, most importantly, joy in what you're doing, this growth thing will come together and you'll be a successful entrepreneur. If you're not having fun, rethink on how I'm doing this because it's hard to be an entrepreneur. And I admire these guys day in and day out. But if you're having fun, all of this growth stuff will come together and it will be a natural evolution for you.

Buckley: Well, I couldn't have said it better myself, Blake. I appreciate you coming on. Now this next part of the episode, don't go away Insiders. We are not done because this is fantastic. Blake has been generous enough to offer one lucky Insider the chance to pitch him on your business. In and of itself, this is a great offer because pitching someone of his caliber; it's hard to break down these doors. But you get to hop over all the stacks of business plans because you're listening to Marketing in the Know right now. So you get a chance to pitch Blake on your business. And so, Blake, I'm excited to have you back and tell us how it all went.

Blake: I'd love to. I'd love to. I look forward to meeting whoever wins.

Buckley: Well, that's great. Well, Blake, thank you so much for coming on and sharing some incredible growth insights.

Blake: All right. Thanks, Buckley.

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Buckley: All right, Insiders. That is a wrap. Heh, thank you so much for listening to Marketing in the Know today. And as we just mentioned, you've got to head on over to beintheknow.co and sign up for a chance to pitch Blake. This is an incredible opportunity that's being solely offered to our show's listeners, you Insiders. And this could have a major impact in the future of your business. And so for more great insights, and always from the minds of some of the best and top leaders today like Blake, keep listening to Marketing in the Know. And until next time, I'll catch you on the flip side.

Male Speaker: We appreciate you joining us for this episode of Marketing in the Know. For show notes and a free version of Ready, Set, Grow visit beintheknow.co. Thanks again and we'll see you next Tuesday here on Marketing in the Know.

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