Steve Krause : Blog

Personify Retrospective

Personify started before the dot-com boom and outlived most of those claimed by the bust. Yet its six-year run included an intense dosage of the good, bad, and ugly of that era.

I led the original founders in January 1996, and I stayed for the whole thing, through August 2002. My official title was CTO, but at one time or another I also sold our products, served on the board, deployed software in the field, was interim CEO, hacked out random fixes for bad customer data, cut partner deals, and did whatever else needed doing. Together, these activities were the best input possible for my most frequent role: something like a VP Products, working with a team of exceptional people in defining, designing, and delivering products that were among the most advanced of their type.

The Technology
Personify was one of the early players in enterprise Web analytics. For the sake of a definition, "Web analytics" means software that helps measure and analyze a Web site for the purpose of making it more effective. "Enterprise" means the software does enough—and costs enough—that buying it is a corporate decision, not something a Webmaster expenses on a credit card. At this level, our initial competitors were start-up companies Accrue, Andromedia, and NetGenesis.

The name Personify aptly summarized the vision: (1) enable a Web business to analyze and personify its audience, to understand what people wanted not as a whole but as segments and even individuals; (2) then use the learnings to make better business decisions and, ultimately, to personalize what people see.

Today's analogy is when Amazon.com learns about you and then adapts your experience accordingly. For the late 1990s, it was a big vision to fulfill as a software provider, where your solution needed to work across a wide variety of sites, which don't have Amazon.com-like resources to make it successful.

Although the competition could spin similar visions, their technical foundations were Web-site reporting tools. These tools were engineered for large-scale reporting on site traffic (page counts, session durations, bytes downloaded, and such) but ill-suited for what came to be known as CRM (customer relationship management), where the center of the data universe is customers (or, in this case, Web-site users). We were the only ones taking a CRM approach to Web data. We had privacy-protected user profiles, data-mined segmentations, and on-the-fly analysis of behavioral, purchasing, and demographic attributes. For 1998 and several years after, it was a unique feature set.

The Value
With Personify, a marketer could discover (via data mining) a set of behavioral segments, evaluate each segment's relative value to the business, and then explore what made each segment click: Which outbound advertising campaigns are delivering my "Core Buyers" segment? Are my on-site content investments paying-off for the "Researchers" segment? Is my latest wave of promotion just drawing the low-value "Price Predators" segment?

From day one, Personify customers were able to explore and answer these questions instantly. Later, we added a module that integrated with email and Web-site systems, so Personify data could drive personalization—for example, "Target this special email only to 'Core Buyers' who have not visited in three months."

In sum, we were in the business of enabling "difference marketing," where a business adapts itself to the key differences among customers, rather than making every decision based on Joe or Jane Average. In traditional direct marketing—the businesses behind the catalogs and credit-card solicitations you get in the mail—difference marketing had already proven the superior approach. But because difference marketing was fueled by data, and Internet data was like a new kind of jet fuel, there was an opportunity to do even better.

The Ascent
We were seed-funded in spring 1996 by U.S. Venture Partners. We spent the rest of the year as a garage shop called Affinicast, proving the basic opportunity and technology. Having passed that test, we spent 1997 building the product

and the core of a company to market, sell, and support that product. We also changed the name to Personify.

In February 1998, we launched the company and previewed the product at Internet Showcase, where we won a "Best in Showcase" award. The first official release was in June 1998, by which time we already had paying, referenceable customers and a fan club of analysts and industry types.
1999 was pure growth, as we scrambled to hire salespeople and support personnel to chase the demand. To reinforce the core, we acquired a 30-person professional-services company, Anubis, which specialized in data-warehousing technology. It was a great injection of talented, dedicated people.

The Peak
By early 2000, Personify was widely regarded as a hot commodity. We had just raised private money at a $500 million valuation. We had turned away multiple acquisition approaches and were preparing an IPO filing. Having watched companies in our competitive set go public to billion-dollar market caps, our investors were hungry for a home run, as were the employees, all of whom already knew somebody who got dot-com rich.

By the peculiar financial standards of the day, we looked good. We had already doubled our 1999 revenue in the first quarter of 2000 alone. For that quarter, we reported $1.25 million in revenue, using a conservative accounting practice that only recognized the value of a contract over time. When you combined the fast growth with the conservative accounting's trailing indicator, it was obvious that we were heading for something like $10 million in new business that year.

The other standout for Personify was the customer list: Our IPO filing listed more than 50 customers, many of whom were household names. Given the media's interests at the time, we probably got more buzz out of serving Drugstore.com, eToys, Petopia, and DrKoop.com than we did Barnes & Noble, Volvo, J. Crew, L.L. Bean, or REI. A lot of these companies were dabblers in what we enabled—sophisticated clickstream data mining, analytics, and targeting—but they paid real money nonetheless.

We filed to go public in May 2000, two months after the NASDAQ peaked. At the time, no one knew it had peaked. When we filed, the NASDAQ had bounced back near its position at the start of 2000. But the markets were jittery, and the Internet IPO window was in the process of closing—for years, it turned out.

The Fall
Despite the non-IPO letdown, we ended up exceeding $11 million in new business for 2000 anyway, acquiring customers such as American Century, Bose, Continental Airlines, the New York Times, Nieman Marcus, and Volkswagen. These names reflected the fact that in early 2000 we stopped pursuing the dot-coms, raised our prices, and aimed squarely at corporate America. As a result, the average deal size climbed above $250,000. But despite doing bigger deals, with bigger customers, and capturing far more revenue, the Personify of early 2001 was no longer worth $500 million, or anything close to it.

This irony was not unique to Personify. As the Internet boom hit its limit, the super-inflated valuations of Internet companies were punctured. To put it in airline-safety speak, a loss of cabin pressure occurred, except the oxygen masks didn't drop. Valuations had gotten so disconnected from business fundamentals that when the fall came, the decompression was massive, overwhelming whatever other factors might normally contribute to a business's value. For a lot of Internet companies, the plane outright crashed; for those like Personify, it leveled-off just above the treetops, running on whatever fuel was left in the tank.

In 2001 and 2002, our (former) dot-com customers were not the only ones suffering. More important for us, big corporations were hurting too. Accordingly, they were putting big software purchases on indefinite hold, whether from Internet upstarts like us or from the likes of Oracle and Siebel. Everybody's numbers were way down; the real question was who had the cash to survive until things got better, whenever that might be.

It didn't get better soon. Although we had enough substance to raise some additional private money in the early part of the bust era, it was a far cry from the war chest that would have been had from the IPO. So we did as virtually all others and managed the business's costs against the falling revenues. That meant multiple waves of layoffs in 2001 and 2002.

Nevertheless, by 2002 Personify reached the point where our products would win deals and then the company's financial condition would un-win them. Typically, a prospect would want to buy but be concerned about whether we'd be around next year. Assuming that other prospects would have the same concern, each would walk away, putting us on the wrong side of a self-fulfilling prophecy: No one buys because they think no one else will buy.

We had not helped our cause when, in 2001, we absorbed a start-up that wasn't viable alone but had some cash. It also had some debt. The deal gave us the appearance of being a consolidator in a consolidating market, but it was too little, too late. The cash was nice, but the debt was a time bomb, with a fuse set for mid-2002.

The Final Cut

By mid-2002, we were running out of time and alternatives. In an effort to circle the wagons, we agreed to be acquired by the only other then-independent company from our original competitive set, Accrue. As of late July 2002, we had a signed term sheet, the final documentation was prepared, and all Personify employees and customers were going to be carried forward.

Then a bad thing happened, symptomatic of a time when bad things happened a lot: A creditor we had inherited from the 2001 cash/debt deal was now in bankruptcy (too many boom-financing deals had already gone bad) and at the last moment decided cash was king. Although the creditor had signed the acquisition term sheet, the creditor scuttled the deal on the day it was to be finalized, instead making a play for our remaining cash by effectively killing the company.

This event took down Personify, which paid-out what was left to creditors and closed in August 2002. Accrue later ran out of gas as well; after a bankruptcy filing, its assets were resurrected as a different company.

Meanwhile, the next generation of enterprise Web analytics players had emerged in the late 1990s. They were either new companies (founded a few years after the first generation) or smaller, lower-end providers that were transitioning up to serve the enterprise. The new generation's offerings had less functionality but were packaged as easy-to-buy application services. This value proposition was the right recipe for the bust era: Customers who couldn't make big purchases could perhaps find a few thousand dollars a month out of a marketing budget; and since you could pay monthly and turn it off whenever, the "going concern" issue didn't matter. Since then, the best of that generation (companies like Omniture, CoreMetrics, and WebSideStory) have filled-out their features and raised prices to pick-up where the first generation left off.

Clever versus Stupid

"It's such a fine line between clever and stupid," observed David St. Hubbins in the movie This Is Spinal Tap. Let's explore that line.

In retrospect, Personify should have been acquired. We declined multiple opportunities. But at the time, an acquisition was not so obvious.

Even when we did our private financing at a $500 million valuation, Personify was substantially undervalued against companies with similar financials that had already gone public. Yes, a huge portion of everybody's valuation was hot air, but those who went public transformed their hot air into large amounts of cold cash, maintaining their independence in the process. It was an appealing path. Looking back, it was arguably the only path for an Internet enterprise-software company like Personify to have a shot at remaining independent through the bust, taking the boom's loose money and squirreling it away for the long winter.

And it wasn’t just about the money. Personify had taken the big-vision approach in a time of great change. It was a rare chance to build a company of consequence. A quick way to kill that chance would have been to pull the ripcord on an acquisition, thereby becoming a cog in someone else’s machine.

Of course, the IPO path was only open for a limited time. We narrowly ended up on the wrong side of the line, that fine line. And thus history tells us that we should have sold out to an acquirer at the top, notching a $500 million win for the employees and investors. But this lesson amounts to little more than “buy low, sell high.” (Thanks for the tip.)

Endings as Beginnings

The good news is that the dozens of people who comprised the Personify core have long since gone on to great things. (Because Personify had so many heroes, I've avoided naming-dropping a few at the expense of others. They are all deserving. I've also omitted discussion of a few villains because life is too short.)

Of the first 80 employees, 15 have since been founders of companies, often together in pairs or threes. For my part, I went on to start another company, which was acquired by CNET in late 2004. Although it was a different kind of venture, it was informed by many Personify lessons.

As for the technology, last I heard it was still running at several sites. That included one doing the whole vision—analytics integrated with personalization—on a terabyte-scale Personify database. My heart warms at the thought.

And on that note, I say this: Whatever you do, you better enjoy what you're work on and who you're working with, because the big payoff may come or not—and statistically speaking, you'll be looking at "not" more often than not. (Yes, that was my attempt to coin a Yogiism.) Even on Personify's worst days, there was always the quality of the core people—of whom there were many, in all parts of the company—who thrived on doing what had not been done before and doing it well. If instead we were slogging something just to make a buck, the game for most of us would have been lost before the outcome. I'm glad I was a part of it.

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Comments

As an ex-Personify member, I find truth and clairity in your analysis of the birth and death of the company. More importantly, it reminds me of the high caliper employees roaming the halls, and pride I had in being part of it.

Posted by: louis | December 02, 2005 at 02:35 AM

A poignant, accurate recount of the Personify story as part of a larger context. Steve has been exceedingly kind and gracious in not vetting out the host of characters that would make for a can't-put-book-down read. A "Bonfire of the Silicon Vanities" if you will.

Good job Steve, I was going to ping on an unrelated matter. Very glad to hear that you're doing well...

Posted by: Brad Winney | December 08, 2005 at 12:08 PM

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