

## IVCA Private Equity Profiles



### Fieldglass, Inc.

*Management:* Jai Shekhawat, chief executive officer and co-founder; Sean Chou, chief technology officer

*Venture Capital Partners:* **Madison Dearborn Partners, majority owner; Prism Opportunity Fund, Bluestream Ventures, Grotech Partners, Starvest Partners, HLM Ventures.**

*Headquarters:* Chicago

After surviving an entrepreneur's classic start-up tribulations, Jai (pronounced Jây) Shekhawat, founder and CEO of Fieldglass Inc., is doing just fine, thank you. His 11-year-old company – which received a \$220 million infusion of investment capital in September 2010 by private-equity firm Madison Dearborn Partners, now its majority owner – is a true Chicago start-up success story.

With its origin as a seed-stage founder and angel-backed enterprise, Fieldglass has become a leader in cloud-based labor management software and, in the process, attracted about \$38 million in backing from venture-capital firms before Madison Dearborn Partners with its investment valued the business at nearly one-quarter of a billion dollars. Its annual sales in 2010 climbed to \$35 million and continue to increase, while its employees now number 170, primarily in two Chicagoland offices. It serves more than 100 customers in more than 70 countries.

Shekhawat brought deep industry expertise and an in-depth survey of potential customers when he founded Fieldglass. He surrounded himself with an agile, young and talented team that included Sean Chou, who remains today as the company's chief technology officer. Together, the team stayed the course, navigating two deep recessions and intense competition. Today, they are among the only pure examples of an enterprise class SaaS company serving Fortune 1000 businesses across the globe with a technology solution that ties together more than 7,000 suppliers.

Born in India, Shekhawat, a former freelance journalist, served for six years as operations chief at Syntel, an international application-outsourcing firm. He got his MBA from Northwestern, then worked on cross-border alliances and redesigned sales strategies among other assignments as a McKinsey & Co. management consultant for three years. He co-founded Quinnox, an IT and business-process outsourcing firm that continues to thrive under the other Fieldglass co-founders.

In November 1999, Shekhawat incorporated Fieldglass (under the name b2bpeople). He believed his software concept for managing contingent-worker services showed real promise. Suppliers of such temporary workers – estimated at 2.5 million in North America – often felt that a complete lack of communications existed with buyers, who could ask many temporary-help firms to work on an assignment but then only use the services of one. Buyers had frustration, too. They considered many suppliers too aggressive and the transient help they recruited unreliable.

#### E-Commerce's Rise Helped

When Fieldglass began, Shekhawat still didn't have a viable software solution. But the last piece of the puzzle locked into place for him as electronic commerce grew in importance and its pioneers Ariba Inc. and Commerce One (now no longer in business) emerged. Completing transactions over the Internet was the key. As for its niche market, Fieldglass wasn't the first; it was the fifth. But Shekhawat felt the company had a clear edge by viewing its contingent-worker operation as a supply-chain problem for human capital. None of the first four firms exist today.

In early 2000, he lined up half of his initial \$1.5 million in funding from Prism Opportunity Fund. But before the deal closed, the dot.com crash erupted on March 20, Shekhawat's birthday. "We only had two weeks of cash left at that time," he recalls. "If Prism yanked the term sheet, I figured we might be done for." But, in April 2000, after putting some additional protections in place, Prism invested \$750,000 in the company with the other funds coming from angel investors

"Certainly broader macro-economic events entered our minds and our decision process as we looked to back Jai and his team at Fieldglass with seed capital," says Prism Partner Steve Vivian. "However, start ups take time, and raw software start ups often achieve milestones measured over years – particularly when they are creating a new industry sector as Fieldglass has."

#### *A Snapshot of Fieldglass, Inc.*

- Leader in supplying software that lets companies manage contingent-worker services and other human capital services through its InSite technology platform
- Overcame many obstacles before revenues exceeded cash outflow; 2010 sales were \$35 million.
- Employs 170, most working at two Chicagoland offices.

Vivian adds: "In those situations as a VC, it's somewhat like SCUBA diving 60 feet below the surface in rough waters. You understand there is some slight impact of the waves crashing above you. But you are focused on what's right in front of you and by the time you reach the surface, you hope the sun will be out and the storm has passed."

For the rest of 2000, Chief Technology Officer Sean Chou built the company's InSites technology platform following the emerging model of software delivery known as SaaS. It involves a single code base and the software is delivered entirely over the Web. After that, he, Shekhawat and their first executive vice president of sale were on the road constantly, seeking to entice early adopters to the InSites software. The move to drum up sales for InSites sparked the second round of fundraising in December 2000 of \$8 million.

### Verizon Wireless Became First Customer

Verizon Wireless became the company's first customer. But it took many more months to land its second. And that also coincided with Shekhawat's efforts to start raising his third round of financing. "I started fundraising in August 2001 when we had 4-5 months of cash still available. But the market had become really bad, then the 9/11 terrorist attacks occurred and everything seemed to shut down," he remembers. "Prospects weren't taking meetings, venture firms were pushing out dates."

#### *What Private Investment Provides*

**Prism Partner Steve Vivian on Fieldglass:** "We have always tried to make client or business-development introductions where we can, and we also try to work on making sure that the team is focused on prudent use of capital and strong functional leadership in the areas critical at that point in its development.

At Fieldglass, we were early pushers of both a strong CFO and a strong VP of sales. Often in our experience, CEOs may be leery of spending the dollars or the time top-grading in these functions. However, inevitably, if you find the right people, the lift, progress, and value creation can be extraordinary."

Three weeks later, he tore his Achilles tendon playing squash and it required surgery to reattach it. It was a week before a big customer pitch and the team was also trying to raise money before they ran out of cash. He soon realized, however, that he could go through the handicapped security line at the airports in a wheelchair. With his marketing EVP pushing him, they sped past the long lines. "I've never been past airport security quite that fast since", he adds. "That gave us hope." Still, he suffered through 90 venture-capital presentations on crutches, flying all over the country, and he was rejected in all but two of them. "With my crutches and asking for money, I looked like a beggar. So before a presentation, I would get to the room early, shove my crutches under the table and lean against a chair to make my pitch," he explains.

#### More Tribulations

Other trials followed. In the summer of 2001, Fieldglass was in the final stages of securing American General Insurance Co. as its second customer. But in August 2001, American International Group Inc. suddenly acquired the insurer. It took awhile to sort things out, but Shekhawat and his team arranged a meeting with AIG procurement officials "and they put us through the wringer." But they came through as a customer in 2002. Other customers followed, including Allstate, GlaxoSmithKline and Johnson & Johnson.

In addition, new venture capital partners came aboard, including Bluestream Ventures of Minneapolis, HLM Ventures of Boston, and Starvest Partners of New York, which was found through Prism's Vivian. By June 2003, Fieldglass had raised \$17 million in its third round of funding. In the two-and-a-half years between his second and third fundings, Shekhawat says he learned several things. "If there is the slightest hint of an opportunity, you chase it like a maniac. If a VC firm or a prospect showed any interest at all, we would drive seven hours to Dayton or to some obscure upstate New York location. You haven't had a road trip until you stay in a \$19-a-night motel made entirely of aluminum siding and moulded plastic."

He also believes in the importance of the key gesture to land an opportunity, like agreeing to underwrite a pilot program. "The gesture is underrated in business," Shekhawat contends. "Deals are done on emotion, and to make sure that emotions are on your side, bet on your ability to deliver and trust that the customer will be fair at the end of the day."

And, as far as venture capital firms are concerned, he finds it practically useless as a Chicago-based company, to seek funding on the West Coast. "I made hundreds of trips to Silicon Valley and Los Angeles and, ultimately, nothing came of them," he says. "You seldom get a straight 'no'. What you get is 'maybe,' which is a slow 'no.' He believes West Coast investors prefer high-risk Brave New World-type ideas like Google where the risks are high but so are the rewards. Fieldglass' investors are from the East Coast, Minneapolis and Chicago.

### Better Days Arrived

Those three years took its toll, although Shekhawat says he "never doubted" Fieldglass would endure. Monies from the third round of funding went for sales and marketing activities to grow revenues. The \$11 million in fourth-round funding in June 2005 also was to be used for expansion. That round introduced Fieldglass to its fifth major investor, Grotech Partners of Vienna, Va.

Most start ups aren't designed to be venture-backed as long as Fieldglass was backed. But it achieved a milestone in 2006 when it stopped consuming cash as revenues climbed. Shekhawat says those formative experiences shape a company. "We stayed as cheap as we could and did things to save a buck that sound funny now—we used shower paneling from Home Depot for white board that cost \$9 instead of a \$100 white board from Office Depot. That was our mindset," he told an interviewer in 2010.

### Midwest's Advantages for Start Ups

Shekhawat sees advantages in being based in the Chicago area, where the vast majority of its 170 employees work. The Midwest, he says, "offers a nice stable employment environment. It offers a group of people who are dependable, loyal and work as hard as anyone."

As for his initial tribulations, Shekhawat endured another early one: the purchase of the fieldglass.com Web site. When Bluestream first became an investor, its partners urged him to change the company's name from b2bpeople, contending that the business-to-business tag was outdated. Shekhawat and Chou had connections to the military, and they liked the symbolism of Fieldglass, one of the more presentable names to come out of a beer-and-pizza brainstorming session.

But a 12-year-old New York boy owned the rights to the fieldglass.com website. "I figured I was Mister Negotiator, so I called the boy and told him that since he had paid \$75 for the Web-site name, I would be glad to give him \$500. He said he would think about it," says Shekhawat. "Well, the boy conferred with his uncle, who just happened to be a lawyer at a big name firm. By the time the negotiations were over, I had sent the young lad a check for \$6,000 to get the name". Such is the life of an entrepreneur...

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The **IVCA Private Equity Profiles**, a continuing series of portraits of Illinois venture capital and private equity investments, spotlights companies that are emerging or proven successes. Each account furnishes information about the company and the private equity firm or firms that invested in it, illuminating the important role they play in nurturing the companies.

**IVCA** is a non-profit trade association that serves the Midwest venture and buyout community. It focuses on expanding the size of the industry in Illinois and the Midwest by improving the local ecosystem for investors, entrepreneurs and limited partners. On behalf of its members, IVCA advocates pro-growth government policies, provides a virtual community, via [www.illinoisVC.org](http://www.illinoisVC.org), for deal flow and networking, and hosts educational and entrepreneurial events that offer networking opportunities for local investors, entrepreneurs, governmental stakeholders and tech-transfer groups.

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