

IVCA Private Equity Profile



Ifbyphone, Inc.

Management: Irv Shapiro, chief executive officer and founder

Venture Capital Partners: Apex Venture Partners, Origin Ventures, i2A, Spring Mill Ventures

Headquarters: Skokie, Ill.

Irv Shapiro, the founder, chief executive officer and chief technical officer of Ifbyphone Inc., is a serial entrepreneur. "I build technology companies," he says, simply. "My idea for Ifbyphone developed after thinking about HAL, the computer from 2001: A Space Odyssey. With the changes occurring in the telephone industry, it is now possible to add HAL like "intelligence" to any phone conversation."

Since 1985, Shapiro has founded and nurtured three tech companies. First, he started Metamor Technologies Ltd., a computer consulting firm that grew to more than 500 consultants. It was sold in 1997 to Corestaff Inc., a large national provider of information-technology services and staffing. Two years later, he began Edventions Inc., which integrated elementary schools' in-school technology systems with the flexibility of Internet connectivity and support. Edison Schools Inc. bought it in 2001.

Ifbyphone followed in January 2005 after the 53-year-old Chicago native served a stint as chief operating officer of a \$500 million hedge fund. Ifbyphone employs advanced telephony applications that turn Web-site visits into phone calls; provide intelligently routed local and toll-free numbers; and deliver voice broadcast services that let small- and medium-sized businesses connect with potential customers online or off.

Telephone "Rodney Dangerfield" of Tech

"We recognized that the telephone is the Rodney Dangerfield of technology – it gets no respect," says Shapiro. "But if I say I'm going to take away your computer or your phone, most business owners won't

A Snapshot of Ifbyphone

- ✓ Its Web-integrated voice applications turn the telephone into a powerful tool for small- and medium-sized businesses.
- ✓ Companies pay \$15 to \$40 a month for various packages of 100 minutes of calls per month, or prepay for a lower call-per-minute fee.
- ✓ It's CEO Shapiro's third start up.
- ✓ Employs 20 in Skokie, mostly in sales and marketing.

give up the phone. So we recognized an opportunity to make the telephone a more powerful component of business of any size.

“Fortune 500 companies routinely do it. But that technology has been priced out of the range of SMBs,” he adds. “We spent about 18 months developing an entire suite of Web-integrated voice applications that turn the phone into a powerful tool that generates sales leads, improves sales conversions and enhances customer service.”

And the company’s revenue model applies a blend of Software as a Service (SaaS) and mobile phone usage plans. The fees are all affordable without major upfront costs. For example, a customer would license a set of applications together with purchasing a bundle of usage money and be billed monthly. Ifbyphone’s Web site, www.ifbyphone.com, offers a demonstration of the technology.

The Skokie, Ill., company’s blending of voice technology and the Internet has been described as “a lot like the Wild West” because Ifbyphone’s applications are so new. Its entire suite is much broader than that of competitors. Shapiro maintains that Ifbyphone provides, “in essence, the Microsoft Office of telephone applications.”

Those applications are expanding every day and are available from the company Web site, on the iTunes App Store, and for Facebook, Salesforce.com and an expanding roster of others.

Partnered with Venture Capital Firms

Shapiro initially bankrolled the first \$1.5 million for two years during development of Ifbyphone technology. But in July 2007, he raised his first institutional money of \$2.25 million from two Chicago-area venture capital funds, Origin Ventures and Apex Venture Partners, and himself. Shapiro contributed \$500,000. Within two months, a second close of that funding occurred to accommodate a \$250,000 investment in the company by 12A Investment Fund of Chicago.

“The first thing that attracted us to Ifbyphone was a sound go-to-market strategy targeting SMBs that have a need to make Web sites more interactive to accelerate their e-commerce strategies,” said Wayne Boulais, a partner of Apex Venture Partners. Added Bruce Barron, a partner with Origin Ventures, “We have great confidence that Ifbyphone’s strong and experienced management team will be able to achieve the goals they have set.”

The investors furnished a diverse set of skills to Ifbyphone. Origin has helped it establish a good financial structure, find the correct auditors and source financial talent to help it grow. Apex has provided technical and product guidance, strategic business-model advice and broad market intelligence about competitors

and customer needs. 12A has provided strategic guidance and also helps source local critical employee talent.

This summer, Ifbyphone raised another \$3.5 million, primarily for use in marketing and sales, from existing partners and from Spring Mill Venture Partners of Indianapolis and Village Ventures based in the East.

Ifbyphone's "Early Adopters"

With 20 employees, Ifbyphone has about 4,500 customers that Shapiro calls "early adopters." They are small businesses or divisions of large businesses and they understand how they can use the telephone and the Internet to their advantage. Of its customers, about 1,000 pay a monthly minimum fee.

Ifbyphone didn't releases its suite of products actively until about a year ago. Sales, which were nonexistent in October 2007, have grown at what Shapiro terms "a pretty good clip," compounding month over month by about 20 percent.

The weak economy has hurt a bit with the company's churn rate a bit higher than expected as some small businesses go out of business. "Our sales to small businesses haven't slowed in growth, but there's a little more churn," he explains.

Shapiro says he is "an advocate for entrepreneurial endeavors for Illinois." His Skokie base gives him a "balanced" lifestyle, and there, he says, "I have access to really smart people with a sterling work ethic and access to transportation is excellent with the airport only 20 minutes away." But, he notes that only a handful of early-stage funding partners exist in the Chicago area compared to 60-to-70 such early-stage investors on the West Coast.

Future Plans are Large

Shapiro says is plans for Ifbyphone "are large." He expects "at a minimum" that the company will become the leading provider of portable telephone applications in North America.

"At this stage we have to execute, and that really comes down to sales and marketing. In today's economy, you build a really good product and then merchandise it very well, like Starbucks has done," he says. For Ifbyphone, that translates into an employee count that's 65 percent in sales and marketing.'

And he specifically focuses on hiring "swans," people that are S(marter) than average, hard W(orking), A(ssertive) and N(ice).

As for his future plans, Shapiro says he's "generally agnostic about what my exit strategy is."

But he has told his children, including his 19-year-old son who considers him a “serial workaholic,” that lfbypnone is his last entrepreneurial venture. “I would like to teach and write and stay intellectually engaged,” he says.

And what about the name “lfbypnone”? He maintains it simply connotes the concept of a Web site that can be used as a phone to contact customers. “It’s *not* a takeoff of Paul Revere’s famous ride to warn his neighbors that the British were coming,” he says. “It’s not one if by land, two if by sea and three lfbypnone.”

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, 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.
