# Menta Software Case Study

**Redwood City, California USA / Tel Aviv, Israel**

## Company Background

Menta Software was an Israeli venture capital funded startup company founded in 1997 that had developed a Microsoft Windows server based application that provided remote access to centrally hosted applications via a web browser. During the first three years the company had built prototypes and was able to demonstrate the technology but it was having problems productizing the software and making it suitable for sale. The company had survived by secured initial funding from the founder's friends and family along with angel investors and small local venture capitalists, but had been struggling to get the business off the ground and create revenue.

## The Need-The Solution

The Menta Software board of directors recognized that while the local Israeli market could produce some initial customers a U.S. presence was needed to access the world's largest technology market. Having such a presence in the U.S. would result in either a successful self sustaining business resulting in an initial public offering (IPO), finding a source for new growth funding or it would gain sufficient company exposure for a possible merger or acquisition. The board of directors hired Mike Skelton a successful technology executive (who later founded **EstablishUS**) as President and CEO to lead the commercialization of the software and launch the business into the U.S. market.

While Mr. Skelton initially focused his efforts on the Israeli development team to deliver a salable product within a short period of time, he also wrote a new business plan which allowed him to secure a small round of venture capital in Israel to fund the initial expansion of the company into the U.S. market. Mr. Skelton worked with a U.S. law firm to incorporate the company in the U.S. and establish it as the company headquarters, while leaving the software development team in Israel. The Menta Software board of directors (a majority of which were its biggest investors) believed that it was important to quickly build a U.S. organization and jump start sales and revenue in hopes of riding the wave of technology IPOs and high valued acquisitions that had been taking place.

Once the U.S. entity was formed, Mr. Skelton began hiring the management team including a VP of Marketing, VP of Finance, VP of Business Development, and a VP of Sales (several of whom are now members of the **EstablishUS** team). Once the management team was in place sales representatives and sales engineering personnel were hired. Beta test customers were selected and the sales and engineering teams worked with the beta sites to identify last minute bugs to be fixed and garner customer input regarding new features that could be added and tested prior to generating the production ready version of the software.

Within a few months the initial release of software was done and the sales and marketing organizations were ready to commence the product launch and begin revenue generation. The management team worked with a public relations firm to craft the media and industry analyst coverage for the company and initiate the product launch into the U.S. market. These activities resulted in numerous articles being written about the company's "cutting edge" technology. Sales leads were obtained by this media exposure, exhibiting at strategic industry trade shows and conferences and from the website. The sales team went to work on these leads and immediately generated the company's initial sales. Business development initiatives established strategic partnerships with computer industry vendors and independent software vendors (ISVs) and the marketing team then created customer success stories and case studies as a result of sales successes. Company revenue and expenses were on track with the business plan and the sales pipeline was growing.

## Dot-com Bust

After about six months of operation, the future looked bright for Menta Software, but the business plan called for another round of investment to continue to grow the business. However, the "dot-com bust" was now in full swing and startup companies found it difficult to secure financing for the next phase of their businesses growth. Venture capitalists were trying to recover financially from bad investments and many did not have the resources to back their existing portfolio companies, even those that had a good chance of becoming a viable business. Menta Software found itself gaining traction, growing its customer base of satisfied customers, but having few avenues to pursue for growth capital. Its investors in Israel were strapped for cash and could not fund the next round on their own. Venture capitalists in Silicon Valley were not answering their telephone or looking at new investment opportunities. The Menta board of directors decided to focus on a merger or acquisition strategy instead of trying to find new capital in a down turning economic environment. The Mr. Skelton proceeded to package the company for an acquisition, then identified target acquirers and was able to find a buyer for Menta Software within a few months.

## Back – Lessons Learned

While the acquisition of Menta Software had a positive outcome for the investors and the personnel that stayed on with the acquiring firm, many valuable lessons were learned from the experience by the management team regarding the use of valuable resources. The Menta Software team was successful in quickly taking the software from a prototype stage to a commercially acceptable product in a reasonably short period of time. It was also successful in establishing a business entity in the U.S., launching that business and gaining a high degree of company and product visibility, as well as obtaining several strategic partners. Most importantly the team was successful in securing initial sales of its product and services and growing a sizeable sales pipeline for future sales. However, the lack of sufficient funding to sustain operations for a long enough period in which to establish positive cash flow for the business caused management to have to change its strategy just when the operation was ready to really take off.

Like many startup companies trying to survive during the economic decline that was fostered by the dot-com bust, the Menta Software board of directors, which were primarily it larger investors, had believed that allocating resources (cash) to quickly build a company infrastructure and launch its products into the U.S. market would precipitate rapid revenue growth and a possible early exit via an IPO or high value acquisition. Unfortunately timing was bad and the economic consequences of the dot-com bust did not allow Menta Software's revenue to grow quickly enough to position the company for an IPO before that window of opportunity closed. The rush to an exit was the wrong strategy. Better resource utilization would have better served the company and the investors.

## Expansion in Today's Economic Environment

In today's economic environment, the U.S. market still provides a foreign technology firm a tremendous opportunity to grow its business substantially, but the approach to launching a business in the U.S. should be done with clear foresight as to how to stage such expansion and minimize the cost to do so. Taking a slower, more measured approach by adding resources at the appropriate time to minimize costs and maximize revenue and profits is paramount. Menta Software's board of directors clearly knew they needed a management team of experienced U.S. executive to quickly build a business in the U.S. versus sending Israeli personnel to launch the business. The board knew that using local U.S. resources was faster than training company employees regarding the nuances of doing business in the U.S. and that the ramp up time would be exponentially faster to hire U.S. employee than transferring Israeli employees to the U.S. However, during the early stage of the process when the dot-com bubble was in full swing there were few alternative to hiring staff in the U.S. The technology market was hot and hiring personnel in all business disciplines was difficult. Even independent contractors were fully booked and not taking on additional work, so outsourcing did not seem to be a viable option then.

## EstablishUS – The Right Resources and the Right Time

Jump forward to today and outsourcing some or all of the functions needed to launch a business in a new geographic location is a more viable through firms like **EstablishUS**. Independent consultants are also available, but trying to find the right person willing to work with overseas clients is like looking for a needle in a haystack. They also tend to be one-person shops with a single skill, like marketing or sales in a specific technology domain, which may not be directly applicable to the needs of the client. Many independent consultants do not have a network of other competent resources to solve your other business needs and if they do you have to contract with each consultant or service firm independently.

Based on experiences like Menta Software and other foreign company consulting assignments **EstablishUS** was formed to address the issues that foreign companies experience when expanding into the U.S. market. We offer a one-stop solution to outsourcing any foreign technology firm's U.S. expansion. We take a conservative approach and have a methodology to step our client through the expansion process, based on their goals and capital resources. We provide more flexibility to our client companies than other expansion options, in terms of breadth of resources, having a single point of contact and responsibility for the effort, along with the best return on their investment. **EstablishUS** can quickly and easily increase or decrease resources for our clients based on business dynamics. We can easily find new or replace existing resources without the hassles and costs of that experienced by a client with employees.

Once our client's business has been established and running smoothly and mutually agreed to milestones have been met, transitioning the operations from an outsourced relationship into a formal business entity for the client, such as a subsidiary, or converting our consultants (including key management or functional staff) into client employees is an easy process. We've thought it all through and we'll show you the path up front before we engage.