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Interview with Scott Rewick from NetBlue

Adrian Bye: So today I am here with Scott Rewick who is one of the founders of Net Blue which today has merged with Vendare and is now Connexus. So Scott is going to share a little bit of the story of how they got going and how it all happened. And also tell us about getting funding and buying companies.

Scott, do you want to give us a very brief intro and we'll get going.

Scott Rewick: Yeah, Adrian, thanks for having me. I appreciate the time. I always preface these types of things by saying how fortunate I am to be in this space. I think it's a great space that I fell into almost by accident and I was lucky enough to be on the early stage of the companies and see how the industry has progressed over the last six years, seven years or so. So I'm really happy to be part of that space.

Adrian Bye: So you guys … it was you and Ken Chan that originally got Net Blue started and it had different names before it really got going. Do you want to tell us a little bit about how you initially got started and sort of how it evolved? I mean, was it the two of you just working out of a basement?

Scott Rewick: Yeah, you know, Ken and I first got involved when I was involved with MetaReward . He was in the early stages of building a company called Your Free DVDs which was a company that was in the business of giving away DVDs for consumers taking a variety of different actions. And he had gotten that going essentially with not a lot of money out of his room in San Jose. And we met on that basis. I was lucky enough to come in very, very early in the company's development. We were very young. We had probably a total of about four or five people in the company at the time, and my first desk was an IKEA plastic desk out of his office in his bedroom and I had a three-month-old little girl and a lot of reason to succeed and so that's generally the beginning of it.

Adrian Bye: So you guys … so Ken basically started … you were working at another company called MetaReward and Ken got things going then with what became Net Blue. He came to you and said, “Hey, do you want to come on board?” And I would imagine, was that because of your media buying capability? And then so you then joined and then were working out of his office/house on the plastic table, is that correct?

Scott Rewick: Yeah, I mean something like that. In the position I was in at MetaReward , being one of the earlier affiliate networks, I was privy to a lot of successful marketing campaigns that I saw manifest themselves through the affiliates that I had and that I was working with. And so I was able to understand why people were making money, how they were doing it, as I was promoting many of the offers through them. And so I think what Ken saw in me was an ability to see what the most successful marketing techniques were at that time. MetaReward didn’t really buy media, per se, but we really had a lot of interaction with very high quality, great clients that helped us understand what was working, what wasn’t working. So I think when Ken and I met, it was the fact that I’ve always considered myself an entrepreneur and I had a lot of valuable expertise on how to make his campaigns that much more successful.

Adrian Bye: Right. So Ken had some campaigns running, you had the experience on how those work, so you jumped in and helped to make those run better.

Scott Rewick: Yeah, that’s right. I mean I think early people back in the space in 2001, 2002 were trying any number of things and so I was just fortunate enough to be able to peek behind the curtains and see what was actually working and converting. Not just because MetaReward had a site called Net Flip which in essence was doing something very similar with cash, but also I could see best practices from the thousand affiliates that we acquired over a period of time. So I could understand who was doing what and how they were doing it and get a better insight as to how Ken could be successful.

Adrian Bye: So when you came up, what were some of the sorts of things that you started helping with?

Scott Rewick: Well when we started, we didn’t have a lot of media buying. We were really doing affiliate networks’ media buying through folks like Commission Junction and really we began in earnest to get distribution for the offer which, at that point in time, we were giving away DVDs to consumers for doing a variety of actions. And so the first order of business was to expand distribution. So what we did was I took my contacts and we began to grow the business by expanding distribution. One of the key things we did – and I think we were one of the first to do it – was really get distribution through other affiliate networks by helping them promote their offers. Now that may not sound … I can rephrase that in a way that may make more sense, but the main source of distribution for us back in the day was Adteractive . Adteractive both became a place where we advertised and we also became a publisher of Adteractive . So we kind of coined the term “private offer network” where they were heavily promoting our offers to their affiliates, in return, the offers that we promoted on the page were all theirs. So it really helped them on two fronts. It helped them earn margin on a … in such a way that they were promoting our offers to other affiliates. And similarly, we were driving an awful lot of volume to their advertisers such as Columbia House, Netflix, these type of folks. So hopefully that makes sense. If not, e-mail me. Anyone can e-mail me and I'm happy to explain in more detail how that actually got off the ground. But that was our first big success in terms of distribution.

Adrian Bye: Let me see if I can get clear here … you're then, you're taking offers out of someone's network or offers for a publisher, you're running those offers as part of what you're doing for Net Blue and then you're getting them to help you drive that traffic. So they're getting commissions on you driving traffic for them as well as commissions on the offers that you're driving at the same time. Maybe that's not a very clear explanation either but … does that make sense?

Scott Rewick: You've absolutely got it, Adrian. And one of the things it allowed them to do was offer … present our offer which was in those days, it was typically $1.00, $1.25 submission or e-mail submit, at little to no margin to their publishers because they were then making up the volume by us doing offers through Columbia House. So vis-à-vis the other ad networks, the offer that we promoted came out very high because Adteractive decided to take a little to no margin, quite wisely. And so we got an awful lot of distribution and in turn, we promised that any leads that came through the door would all be redirected toward their backing advertisers. So we kind of coined the term "private offer network." So that relationship really showed the way to a lot of similar type of distribution arrangements down the road.

Adrian Bye: How are you making money on that? What kind of money is in that for Net Blue?

Scott Rewick: Well … I'm sorry, do you mean when I left Net Blue or …?

Adrian Bye: I'm talking as you're getting started with this. So you're basically grouping a bunch of offers together at the same time and then driving traffic to all of them and then customers are picking out the offer they like the best. That then … because the customer selected that, that leads to an overall higher effective CPM. Is that correct?

Scott Rewick: Yeah, I mean, the model really worked. I mean we played with it quite a bit. We looked at incentives and offer types, but in general, the model worked. We were finding that we were distributing the offer for anywhere between $1.00 to $2.00 and effectuating north of $2.00 to $3.00. So when we could figure out the correct mousetrap that elicited the consumer response we wanted, the main issue at that point became scaling it. So that leads me to the secondary where we really scaled was we were one of the first guys to really embrace CPM advertising. What we found was even back in those days, there was heavy competition to these types of offers and so nobody at this point began to seriously contemplate doing CPM buying because the onus becomes on you at that point. In other words, if your creative doesn't work, you lose, not the publisher on a CPA basis. So that began a relationship of CPM buying. We started off with Microsoft probably in 2003 with a $10,000 campaign buy. And by the time we were done, they were probably spending several hundred thousand dollars a month over a period of a few years.

Adrian Bye: And so when you did that first buy, how did that work out? You spent ten grand, what did you get back?

Scott Rewick: Well you know, what's interesting about Microsoft was back in the day, they were commonly viewed as the most difficult to work with. But in this example, they had a program called P-Plus which allowed guys like us, which they believed in, to operate kind of on a modified CPA basis. So that was really surprising to us because the common perception that Microsoft and particularly Hotmail was very, very difficult to work with. I think to a large degree, our success predicated itself on having a sales rep that had been there for a number of years and knew the space and so the $10,000 ad buy, we got crushed. We got crushed for the first six months of the relationship. No, I wouldn't say six months, I'd say probably three months we got crushed. But one of the things that I appreciate what Ken did so much was he set the mandate that if we were going to succeed at the company, we had to be the ones that embraced and consumed CPM advertising or we'd die. So the entire company rallied around embracing CPM advertising, what that meant. It meant that you had to be a creative organization. You had to get banners that clicked. You had to watch the campaigns much, much differently than if you were promoting a CPA campaign. So we held hands with Microsoft early on and we lost a little and they gave us a chance and that relationship really grew quite nicely over the years.

Adrian Bye: So the fact that you guys embraced CPM early on, that was a critical thing. Had you not done that, Net Blue wouldn't have become Net Blue.

Scott Rewick: Yeah, there's no doubt in my mind, Adrian. There's any number of smaller incentive-based sites that have done okay, but our ability to really scale and change the game was predicated on the idea of buying media differently than everybody else. And it was a big risk, but what we found was once we did it successfully, predictably, other companies joined suit. If we're buying $200,000, $300,000 a month on Fast Click on a CPM basis, you can imagine that our competitors would like to jump in there as well. And they did. With everything online, most things online, the numbers are very apparent to most people and seeing how things work or don't work becomes – if you have the right eye for it – a lot easier than most people think.

Adrian Bye: And so how long after you guys started working heavily at CPM did other people come in?

Scott Rewick: You know, not too much longer. I'd say the one that came in the quickest was a gentleman named Nunu who ran Useful . So as we began to scale up on places like Fast Click and these types of places, I think he took note very quickly and began to emulate our model quite successfully, actually. So I would say that it was no more than a few months before we began to see similar campaigns and I mean similar, almost … very similar, exceedingly similar campaigns, show up alongside our campaigns on places like Fast Click, which we had really been able to scale in addition to the Microsoft campaign.

Adrian Bye: And so this was also around the time when CPM rates had dropped because of the dotcom implosion, all that sort of stuff, so you were then coming in, the publishers were saying, "No, screw this, even though we're getting low CPM rates, we don't care. We're not going to do CPA." And so there was kind of a void. Is that correct?

Scott Rewick: Yeah, I mean we became proficient I think at the three main ways that things are priced online – CPA, CPC, and CPM – we became proficient at both types of buying. But you're absolutely right, I think there weren't a lot of advertisers, quite frankly, advertising on a CPM basis. And so while these publishers had massive amounts of inventory, they were holding as steady as they could to keep their rate cards. But if you know who to talk to and you knew how to navigate yourself around organizations like Microsoft or Yahoo or any one of these places, you'll find ways to buy rented inventory exceedingly inexpensive. And so we were also … one of the things that we did was we were able to put up large dollar amounts. Many of these bigger sites we found were quite frustrated dealing with smaller ad buys such as $5,000 or $10,000, so we realized this was a defensibility position, so we were able to put up things like $50,000 or $100,000 and therefore get all that inventory and box out our competitors. So, yeah, you hit it, there was a lot of cheap inventory around back in the day, and I think I see something similar now with places like Facebook and MySpace generating massive amounts of inventory every day. A lot of cheap inventory out there.

Adrian Bye: Let's talk about … you gave an example of Yahoo. So let's say someone off the street wants to go and start buying volume on Yahoo. You're saying back then they were getting tired of getting approached with $5,000 to $10,000 buys. So your approach would be to come in and give Yahoo a $50,000 check to get started? How would you get things rolling?

Scott Rewick: Yeah, I mean I think that we were able to successfully explain to them our buying position over places like their competitor Microsoft and Hotmail, and we were willing and able to devote large dollar amounts. So we at one point struck a year deal with Yahoo for – I think it was in the neighborhood of $500,000 or $600,000 – and when you talk in terms of those amounts, you get people interested. You get people listening to you. The challenge they had was a lot of inventory and a lot of small CPM buys of $5,000 and $10,000 which really didn't move the ball. So we wanted to make a … put a stake down and say, "We're willing to invest a lot of money, but it's got to be at a price and a rate and a positioning that makes sense to us." So that was … I think that helped us quite a bit in terms of being able to scale the kind of business we were doing.

Adrian Bye: And so you'd come … what would you start with as an initial buy with Yahoo? How much would you get started with them?

Scott Rewick: You know, I think we probably started with $25,000 or $50,000. We had a good understanding of what creative worked, what sites, what campaigns worked, the type of prices we should be paying, the type of click-through rates we should expect. So we walked in with an awful lot of knowledge, and we were quickly able to ascertain based on placement, based on creative type, campaigns that work versus don't work. And so if you have built that infrastructure to be able to do that, you're able to quickly turn around and take unprofitable campaigns and make them profitable. So I think we probably started on Yahoo Mail buying 88 x 31s or 468 x 60s and then as you make those placements and those campaigns successful, you go on to other parts of Yahoo. We even purchased a one-day homepage on Yahoo buy for $20,000 or $30,000 at some point. So I think that that's how we started.

Adrian Bye: And so at that point, what percentage of your traffic was coming from CPA versus CPC versus CPM?

Scott Rewick: You know, CPC for us was always pretty light. I think more recently, we've done more volume on it, but back in 2004, 2005, I'd say that probably there was a good stretch where probably 60-70 percent of our buys were done on a CPM basis and probably 30 percent was done on a CPA basis. But we really wanted to embrace CPM advertising as a way to move forward. I think publishers take you seriously. They take care … they think you're a more serious buyer if you're doing CPM buying versus CPA, and so we wanted to be viewed in that light.

Adrian Bye: So what were you using to do all your ad serving on?

Scott Rewick: Well, you know, we didn't have a lot. I know later in the development, we used Fast Click's system, but generally put, we relied heavily on the publishers' ad serving systems, so a typical campaign would be if we had a Yahoo buy on Yahoo Mail and the placement was a 468 x 60 , we would get over to them ten pieces of creative and we would target them all and track them all separately through a proprietary service we had and they would serve them. And as they served them and the data came in, we would create these spreadsheets that looked at impressions and clicks and click-throughs and landing page submissions and how far we got in our path and to tie revenue to those various bits of the path and then back into what ended up being either a profitable or unprofitable campaign. The unprofitable ones, we had a plan of action to mitigate our losses, so we would change the creative, we would negotiate a lower price, and that was (inaudible).

Adrian Bye: And so you'd analyze it all against the numbers all the way through and then do what works. Now you said you were using some proprietary tools. Did you write your own ad server to serve this stuff and track it?

Scott Rewick: No, we didn't have so much ad serving, we had really reporting. A gentleman named John Frisbee who I consider to be quite a genius in this space, really built the reporting system that I think even probably still exists today over at Connexis . But he was able to build a system that gave us the ability to track just about any number of events as they happened. So I knew when a user hit my page, I knew where he came from, the campaign, the page, we would scroll through multiple landing pages in an effort to get higher conversions, so he basically built the tool that allowed us what we did on the media buying side.

Adrian Bye: So then you had this company, you had things going, you guys wanted to do CPM buying … that's working, money's coming in, you know you've designed a model that's scalable … At what point did you decide to go and raise money to grow the business?

Scott Rewick: Well it was interesting, Adrian, because it seemed like there was a shift in the venture community where many of them all of a sudden began to look at lead generation and realized how much money we were all making. But it was odd, you know. In the course of a week, we probably had three different venture capitalists knock on our door where before we hadn't seen or heard from anybody. So the space all of a sudden got very, very hot and we looked around and we interviewed a number of different venture capitalists and tried to figure out what we could do with money and where we could expand to and I credit Ken with really being able to tell the story of what Net Blue did and where it was going. And so at some point through a period of time, we decided to take venture capital and scale the business accordingly.

Adrian Bye: So why did you decide to do it that way? Why not just … I mean, it's lead generation, there's money in it, it's a profitable business right from the start. Why not just scale it up and then own the entire business yourselves? Why did you make the decision to raise funds?

Scott Rewick: Well I think there's a long tradition in the Valley of companies raising money and being able to do much, much larger things outside of just a couple entrepreneurs working out of their … out of an office. We, like many entrepreneurs, bought in on the idea that venture allows you to scale much, much quicker than your competitors, so you're in a very competitive spot. You can choose to end up being 100 percent owner of a $5 million a year business or a 20 percent owner of a $50 million a year business. So we believed that by taking venture capital, we could both attract the kind of talent we thought we needed to expand the business, we would have cash in the bank to make purchases or make key acquisitions or invest in projects we thought were worthwhile, we were able to attract a different type of talent. Venture-backed companies tend to … let's just say, get more serious attention. And also the belief that the venture guys are out there actively trying to help your company, so they bring a Rolodex of people that they think would benefit your company and they're thinking of exits and all types of interesting things while you're building the business. So it helped from a lot of different angles.

Adrian Bye: Do you think in hindsight that you needed it?

Scott Rewick: You know, we didn't need it, right? I mean, we were running a successful, profitable small business. We probably had at that time about 20 or 30 employees, so we clearly didn't need it. I think we wanted it, though. We took a look at what was being offered to us, and we decided that that was the best way to go. We clearly could have made the decision to run our company in a way that we thought was best and keep it small and grow that business, but I think Ken, myself, and a gentleman named Derrick Pils decided that we were going to make a bigger run of it and try to do something bigger than just the three of us. So that was the bet we made.

Adrian Bye: How much money did you raise?

Scott Rewick: We raised $20 million from Oak Investment Partners, which was quite a bit of money back in the day. I think in the space that we were in, we were one of the first guys to raise that kind of money.

Adrian Bye: So you and Nunu a competitor were around about the same time. I don't think he took any money. He scaled everything himself, didn't he?

Scott Rewick: I'm sorry, I didn't hear the name that you mentioned.

Adrian Bye: Nunu ?

Scott Rewick: Yes, that's right, he didn't. He chose a little bit different path. I think he was more intent on running the business himself and without raising money and … but that's correct, yeah.

Adrian Bye: And so in hindsight, what do you think were the key benefits you got from having raised the money?

Scott Rewick: Well, like I say, I think we were able to attract a level of talent that we may not have had before. I think we were able to scale the business so if you could only afford this month to do $100,000 buy on Yahoo but it was profitable, now you had the resources to do a $500,000 buy because you had money in the bank. The venture firm offered us some liquidity, so we were able to take some cash off the table, which played a role in our decision. So the money got put to good use. It allowed us to get more great people, it allowed us to scale the business, it allowed us to do any number of things that we probably wouldn't have been able to do or would have taken us quite a bit longer to do had we self-funded the entire thing.

Adrian Bye: Do you think that Net Blue would have reached the scale that it reached without funding?

Scott Rewick: Without funding. You know, it probably would have. It probably would have taken us a bit longer to do, but I think we probably would have gotten there eventually, sure. And Nunu is an example, a useful example of someone who I think rivaled us in terms of size, but virtually did it self-funded. So I'd like to think that we were as good as Nunu in the mutual so I think we probably would have gotten there over time.

Adrian Bye: I'm really interested then as you took the money in, and then you were able to start doing these $500,000 buys through Yahoo and some of these others, did the look at that? I mean, were they like, "Oh man, these guys in Silicon Valley are kicking our ass," or, I mean, were you able to go and beat them out in a lot of stuff? Did it make a big noticeable difference to the need and scale that you got at that time?

Scott Rewick: Well it's a really great question. It's … I think in hindsight it did good and it did bad. In other words, what it allowed Nunu to do was probably more visibly see what we were doing and copy us. Things that I think that any company that struggles past 10 or 20 people faces is that you at some point take your eye off the ball and this is where I think Nunu was able to do quite well was he was able to stay intimately involved in the business as this thing scaled. So the challenge in any growing business is taking your eye off the ball and working on other initiatives. I think Nunu was very, very good at seeing what we were doing and being able to take advantage of the fact that now we had 70 employees and was that 65th employee that was now in charge of media buying as good as Nunu ? And the answer is no. So I think we provided a pretty good roadmap for him to copy us and to do quite well. And again, I don't say "copying" in a negative way. I think we in the direct marketing space look for what works, and if we can find a competitor that does what works, I think we'll be the first ones lined up to try it as well.

Adrian Bye: And so you went from 20 employees to 70 employees in a pretty short period of time after you got funded. Is that right?

Scott Rewick: Yeah, that's right. So rather than looking at the minutiae of successful media buying, your attention turns to hiring and HR policy and any number of small things that burden down entrepreneurs as they scale a business. And so that's, again, it's a good thing and it's a bad thing, right?

Adrian Bye: You actually had to spend time figuring out HR policies?

Scott Rewick: I'm sorry?

Adrian Bye: You actually had to spend time figuring out HR policies?

Scott Rewick: Yeah, I mean, I think that you scale a company to a sufficient size and/or you take money from a third party and they in essence become your partner because they now own part of your company. You begin to create the company as they'd like to have it set up, which is I guess standard in many of these examples. So you begin to create companies that venture capitalists find are either easy to sell or fit their model or standardize things quite a bit. So rather than doing more media buying, perhaps you're buying an HR manager and you're doing … you're hiring recruiters to actively recruit for you. So you begin to kind of take the shape of what a venture company wants you to look like … which is a good thing, not a bad thing.

Adrian Bye: So they were helping prepare you to be sold and grooming the company in a way so that if you're going to be sold or you're going to IPO or whatever is going to happen, that you're set up and you have all the things already in place.

Scott Rewick: That's right. So I think we probably for the first time in our history were audited. When you run a small business and you're running in this space, you don't think too much about financials outside of "Are we making money or not?" So we began to organize our books a lot differently. We had accountants and financial planners and CFOs and started to organize our books in such a way that became industry standard or became more palatable to someone who wants to buy you. So a lot of time was spent on changing not just the culture of the company, because you've now gone from – you may know everyone intimately and are friends to everyone there – to a company of 70 where you don't know everybody and things are moving pretty quickly. So a lot of … scaling a company is really difficult because entrepreneurs spend an awful lot of time in areas that they may not be good at, number one, but number two, they don't like to do.

Adrian Bye: So that was one of the other key benefits then, the money came in and it helped get the company groomed to be sold.

Scott Rewick: Yeah. And I don't guarantee … you don't consciously build a company to get it sold. I mean, I don't think that's the first thing you talk about. But I think you do begin to create a company that looks like any other great company and is standardized and so people understand what they're dealing with.

Adrian Bye: You mentioned about focusing, do you feel that that defocused the company once you brought the money on?

Scott Rewick: Oh no question, and that's definitely not a unique problem, but no question. I mentioned earlier I believe that's how Nunu was able to compete quite successfully with us because you do lose focus. Again, rather than staring at spreadsheets all day and figuring out click-through differences on a particular campaign with a placement, you spend time hiring new people or you spend time in meetings with boards or trying to report numbers or such. So it is terribly … it does defocus you and all you can hope for is that you can train a set of people underneath you that think and act and do what you do or had done successful to get to that point. And some cases you are able to and some cases you're not, but it does require an awful lot of work to be able to scale past yourself.

Adrian Bye: That sort of stuff at the same time is also good, isn't it? I mean a lot of companies have successfully come out of Silicon Valley. They have a system in place regarding companies. It can't be all bad.

Scott Rewick: No, no. It's great. When it's done right, you get to scale in ways that your competitors can't hope to scale. You begin to build defensibility. You begin to get the great things about a quickly growing company that you don't get if you're two guys in a bedroom. So when done correctly, absolutely, it makes a ton of sense. Successful companies have done it for … long before we did it. So, yeah, by all means, if you do it well, you do it right, you definitely reap the benefits of it.

Adrian Bye: And so in hindsight, would you have still taken money or no money at all or would you have maybe taken a smaller amount like $5 million instead of $20 million?

Scott Rewick: Boy, that's a great question. I think … let me just say this. I think at the time we did it, it made the most sense. Would I do it today? Hard to say. Really, really hard to say. I don't like to second guess these things. But at the time we made the decision, I think we all felt comfortable that it was the right thing to do. In hindsight, I can't say. I don't know whether I'd do it again or not.

Adrian Bye: All right. So now we've talked a little bit about what you went through in getting funding, do you want to tell us a little bit about how someone does go out and get funding? I mean, in this case, you had guys coming to you. Let's say if you're a start-up or you've got things going reasonably well, revenues are working and the company has decided that they really do want more money, have made the decision that they do want money to grow faster, how should the go about raising it?

Scott Rewick: Well I mean I guess your first point is what I'd say initially is, focus on building a great company, number one, which you've kind of just hit on. You've got to basically build them something that is of interest, and it tends to revolve around being able to tell a big story in a particular vertical that happens to be growing and you've got revenues attached to it and you're profitable. These are the basics I think you need to do before you can actually look seriously about raising money, in my opinion, or at least raising money in a manner that protects the entrepreneur's interest. I think once you've done that, there is really no shortage of ways you can go. There are, sure, venture guys everywhere. It's sometimes as simple as picking up a phone and setting up a meeting. There are investment banks that will represent you and shop your deal around. I even understand there are ways you can do that online. A friend of mine was showing me a website, that unfortunately escapes me now, which lists Internet businesses for sale in the range of $3-5 million. So there's really no shortage of money out there. It really comes down to what you think the money is going to be used for, what you want to do with it, and then how you think it's going to affect your business. So, boy, there's lots of ways to go for money. It really depends on what you want to do with it and the types of people that you feel comfortable working with, the types of conditions that you think are appropriate for you or your partner, types of things.

Adrian Bye: So what would you look for … let's say you want to raise $5 million or $10 million. What do you look for in a VC? You look for a match in terms of the style of the VC and the kinds of investments they have. You look for a personality match. What kind of things would be red flags to you that would make you say, "Hey, these are not the right guys. Even though they're offering us money, we're not going to take it."

Scott Rewick: I think if they didn't have a history in the sector would be the first thing. If they're a bank that does … or there's a venture fund that does biotech deals and solar energy and you're in the lead gen space, that ought to be a big, big red flag for you. I think personality wise, are these people that you feel understand the space – maybe not as good as you – but certainly understand and appreciate the space and the dynamic nature of it would be the second thing. Is the investment either too big or too large for them? Are they making an investment of $5 million when their normal deal size is $100 million and once that ink is dry, you'll never see that venture capital again. Or conversely, are you a huge play for them? So does your deal look like deals they've done in the past would be something I'd look for as well. Even past successes – is it a venture firm that has shown over time they can shepherd entrepreneurs who selling his company or going public or eliciting some type of liquidity event . So any number of things that I think one ought to consider when raising money. When you raise money, you basically … somebody hops in bed with you and they're your new partner, so I would just say choose that partner well because that will dictate to some degree the success of your company.

Adrian Bye: All right. Anything else you want to add on the topic of raising money? I mean I know it's a topic you know a lot about. I'm trying to think of things to ask you that are good questions.

Scott Rewick: Yeah, I wouldn't … that's kind of you, Adrian, I don't know that I know a lot about it. I've been a part of seeing money being raised for a couple of different companies and I was part of money being raised fairly recently, but I'd say take your time. It's a big decision to make. It's a lifestyle decision. Do you want to have 100 employees or are you pretty happy with 10? Do you want to have board meetings where you're basically reporting financials or do you want to run it on Quicken and not worry about it? So it's an important decision to make. I would just say that if you're blessed with having a successful, profitable company, it's a good problem to have. I'd say approach it carefully.

Adrian Bye: Maybe that also illustrates an interesting difference between you and then some other companies. You mentioned examples of people being late sending checks and you getting checks for like $1 million that were … it sounded like some of the other companies in the space were a little disorganized whereas I guess you guys got very corporate and organized and on top of all that stuff.

Scott Rewick: Yeah, we sure did. We definitely got a lot more corporate which … I don't know if it's a good thing or a bad thing. Did it take some of the fire out of it? I think so. I mean, we … a lot of crazy, fun stuff went on when you're a small company. We would get checks … you know, I gave you the story earlier of getting a check for I think about $750,000 from a particular partner where it was written out of his mother's checking account. So I mean, really fun, weird stories like that tend to slowly disappear as you begin to get more corporate and you begin to standardize a lot of this stuff.

Adrian Bye: Did you find that that changed? Did your work hours decrease as it became less fun?

Scott Rewick: I'm sorry, would you repeat that?

Adrian Bye: Did that change how you approached work? I mean, did you work less hours as you became more corporate like that?

Scott Rewick: No, I don't think so. I think you just … the roles changed. I think that the roles just changed. I think you kind of … you maybe even work even harder, to be honest, because you've made a bigger bet. You've really … the pressure's on at that point because no longer that you new partner that you have to please, you've got outside money that you have to please, so I think if anything, it probably ups the ante a little bit and makes it that much more stressful, to be honest. And so I think it definitely, that was the case with what we did, for sure.

Adrian Bye: Did things like dress codes change? Did you have … were you coming to work in T-shirt and jeans and then all this became suits and stuff?

Scott Rewick: You know, I don't think that was the case. I mean, it is still Silicon Valley, you know, for God's sake and that didn't change a whole lot. Did it get a little bit more corporate? Sure it did. No question about it. But I mean, could you wear flip-flops and a T-shirt and shorts? Probably not. But you could certainly wear jeans and a T-shirt and you wouldn't get too many strange looks. So you think that it's not a lot of that changed but we had formalized sexual harassment training and you'd get these different types of training that you have to be a part of, and that was not great and fun, but it's just one of the things that has to happen.

Adrian Bye: Right. And so how long were you guys running before you got funding?

Scott Rewick: Boy … I think we were probably going for at least … I'm trying to think back … a year or two before we actually took money.

Adrian Bye: And what were your revenues before and then what were your revenues, like, a year before and then a year after?

Scott Rewick: I'm trying to think if I recall the amounts. I mean, we showed pretty steady and consistent growth, not just before we took money, but afterwards. So … but I would just say that the time that we started versus the time that we left, we showed pretty consistent growth in revenue. And let's leave it at that. I don't know the exact amounts, but I do know that we were able to successfully kind of continue to grow the company.

Adrian Bye: I mean, was there a big upward spike after you took the money that you were able to grow more quickly, or did the growth slow?

Scott Rewick: You know, I don't see that it slowed. I think it kind of just steadily rose, and it rose steadily, it didn't rise dramatically for the reasons we spoke about. At some point it rose because we were able to scale more. Maybe it declined a little bit or profit declined because we had to focus on other areas of the business. So I wouldn't say that it was explosive growth as a result of raising money, but it does some things for you that I think are important, so I wouldn't say the revenues changed all that much. The revenues may have gone up. Did the profit go up? Maybe not, because now you've hired more people. So I can't say that there was really a dramatic difference that we saw by virtue of just raising money, you know what I mean?

Adrian Bye: Right. All right. Any points you want to add on either the topics of getting Net Blue going or raising money?

Scott Rewick: No, I think if you're lucky enough to be a part of either starting a great company in a space or raising money, you've succeeded. I mean, you've got what most people will never do in their life and their career and so I think you ought to take a lot of pride in that. I mean, it's a lot of work and some hardship but if you're able to do that, I commend you because it's not easy.

Adrian Bye: All right, okay. All right, so the next topic I'd like to pick your brain on a little bit is buying companies or buying into companies. And in our conversations offline, you've expressed some strong opinions in that area that there's a lot of opportunity there. You want to maybe talk a little bit about that?

Scott Rewick: Yeah, I think the current state of affairs of types of companies is that there's a lot of … it's a very disjointed marketplace. I think a lot of companies are wondering what to do and I think that there are a lot of undervalued assets out there, people that are running very successful companies, and I think it's a great time. I take maybe a contrarian's view. Some people think that Google's won and the ad space is still hot or not hot, but I think if you look around, there are a lot of companies doing very interesting things. There continues to be a lot of M&A activity in the space and people raising money and I think that just proves the fact that there are a lot of assets out there that were either overlooked or people don't really pay attention to. So I think that there's a lot of opportunity out there if this is a space that you want to stay in.

Adrian Bye: So what do you mean by "overlooked"? In real estate, you can say a property has been let run down and you can go in and paint the walls and fix the roof and mow the lawn and turn it around and sell it. It's obviously not the same with a website. So what do you mean by turning it around or overlooked?

Scott Rewick: Well I think a lot of times you can look at a company and if you've got experience in the space, probably pick up 10 or 20 things you could do differently that would raise revenue. I think if you can find a set of people that are willing to work hard and you've got the basis of a good company, I think if you come from having experience or seeing things that have worked in the past, I don't think it's very dissimilar to real estate. I think you go in, you paint the walls, you check out the neighborhood, you do a lot of things that you'd probably do with real estate that would be able to make the company look more interesting than when you first got there. So I don't know that it's very dissimilar to any undervalued asset that you come across whether it be in business or any other facet, that you would just figure out what needs to get fixed and assuming you have the tools to do so, you would just go out and start doing it. And … go ahead.

Adrian Bye: An example might be you … as your skill is, or one of your skills is buying CPM, you could go and look at companies that aren't doing a very … either are not doing that at all or aren't doing a very good job with it. And you could go in and buy them or invest in them and then go and start buying media properly for them.

Scott Rewick: Yeah, that's exactly right, Adrian. A lot of times people don't know what they don't know. In other words, you get caught up in a certain way of doing things with your business, and you've only known that way and when you can come from a different perspective on things and realize there's lots of different ways to do it, you can immediately add value because the people that you're buying it from have never seen it that way. And I've just been fortunate enough to see things done in very interesting ways and immediately see where I can apply those same principles to businesses and I think make them worth a lot more money than they are today. So I think that's kind of what I'm speaking about.

Adrian Bye: That's interesting. And you've gone and basically done this with your own money. Do you want to talk about the investment you've made?

Scott Rewick: Yeah, I mean I think that I've more recently gotten involved with a company that I think fits the profile that is of great interest to me. It's a company that's been around for a while – Lucky Surf – and I've been able to take resources and invest them in that and I'm seeing if I'm right. And I hope I am, because a lot of time, investment, money goes into making these things work and so I'm trying to find – I believe I've found – an asset that is undervalued that I can take my expertise and make something better than it was when I found it. And so I'm testing the theory right now. And it's a humbling experience. The revenues are not what I was used to, but they're a profitable company and exhibit a lot of the things that I think are important in a company that ultimately becomes something greater than what it is right now. So I've been involved now for about three months at an operational level and I think we're making a lot of really great progress and making the company something better than it was when I found it.

Adrian Bye: Have you taken them through sexual harassment training yet?

Scott Rewick: No, not quite yet! We're doing things like formatting spreadsheets and changing macros on spreadsheets and really fun and exciting stuff like that. I hope I never have to go through that training again!

Adrian Bye: The way you were describing that before, it sounds like an episode from the TV show "The Office."

Scott Rewick: Yeah, no doubt. No doubt. It's pretty interesting stuff. I don't particularly enjoy it.

Adrian Bye: So in terms of this – in Lucky Surf – in terms of the investment you've made in Lucky Surf, and you've come on I guess … are you the CEO now?

Scott Rewick: Yes. There are two divisions. There's an interactive division and there's a publishing division. And so Daniel Laury is a gentleman that I've known for years and years that started the business Lucky Surf in '99, is now focused on the agency business which is doing quite well and I'm now CEO of the publishing business. And those are really the collection of assets they've built up to this point, so I'm taking over a lot of the great work that Daniel has done up to this point and trying to make it something bigger than it is.

Adrian Bye: And so when you were looking around for companies, is that what you were looking for – companies that you could help them buy media or what was the … tell me if you can, obviously, and if you can't, no problem, but what was the profile of undervalued companies that you were looking for that you felt Lucky Surf fit the profile?

Scott Rewick: Well I think the first and foremost thing is: is it a profitable company? Or if it's not, do you have specific plans in place to make it profitable in a short amount of time? And so the thing that I saw in Lucky Surf is despite the fact that it's gone through quite a bit in the space and the time it's been doing, it's remained profitable, which I think is … you're 90 percent there if you can find that particular quality. So that was probably the first thing that interested me. And for me, it's really a challenge. I've always either been an employee somewhere or had the chance to start something with people and I've never really taken something over from somebody and so I wanted to take that on as a challenge professionally to see if I can take something that fits a certain profile, is profitable but small, maybe struggling. And it seemed like a fun challenge for me to take something and make it something bigger than it is and take this asset that's been not doing a whole lot over the years and see if I can apply what I know and make it better. And I hope I'm right! I could be wrong, but I'm hoping that at the end of this, I'm right.

Adrian Bye: I guess we'll check back in six months or a year and we'll find out.

Scott Rewick: Yeah, I think we will.

Adrian Bye: Cool. Is there anything else then on buying companies you'd like to talk about? How do you do it and make sure that the money goes in the right place? Obviously in your instance, you stepped in. You haven't been an investor … yes, you're investing, but you're investing and managing your own money. So therefore you're controlling the spend, aren't you ?

Scott Rewick: Yeah, I mean I think that you proceed with caution. You look at the scene, you try to structure it in a way that makes sure there's no ambiguity in the deal. You know, you do all your homework to make sure that what you're buying is what you think it is and the initial investors feel good about your involvement there and they'll all be behind you and so I think that's how you proceed.

Adrian Bye: So I was talking with one of my friends about this topic actually of investing and his comment was that it can be … he likes real estate because when you buy real estate you're buying something and you actually have something to hold and you can see that over time in general, real estate is a pretty solid investment. But investing in something like an Internet company, who knows? The guys might be just out there drinking bottles of Dom Perignon.

Scott Rewick: Well I slightly disagree with that assessment. Real estate is … I just say that it's what you buy. I mean, real estate can be a great investment if you buy it at the right price. I think if you buy it at the wrong price, real estate can be an absolutely horrific investment, as many people are finding out right now. So I think the same applies to any business. It's what you buy it at. It's what you're buying and the price you're buying it at and it can be equally, if not much, much, much more lucrative than real estate. With real estate, you've got tenants. So you've got to deal with tenants. I guess there's no easy answer. There's no easy way to just come up with a great investment strategy. I think it's all about finding what works for you, whether it is real estate or it's stocks or bonds or running companies. For me, I think running companies and being involved in a space that I love is far more interesting than real estate. So I guess it's, you know, to each their own.

Adrian Bye: Do you have any points then you'd like to add in closing or anything else we should talk about?

Scott Rewick: No. I think hopefully I've been able to hopefully give people my perspective on things. It could be right, it could be wrong, it's just my perspective I appreciate the time and the effort that you spend on these things. So, yeah, that's probably it for me .

Adrian Bye: Cool. Well thank you very much, Scott.

Scott Rewick: Okay Adrian. Take care.