



Stanford eCorner

The Cost of Doing Business

Karen Richardson, *E.piphany*

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Video URL: <http://ecorner.stanford.edu/videos/1266/The-Cost-of-Doing-Business>

Richardson talks about how a major factor when deciding whether or not to go public is the cost. Sarbanes-Oxley has affected the cost for public companies significantly.



Transcript

I want to talk about briefly about another thing that I think is worth thinking about which is the cost of being public versus being private. You know the world has changed some-- that I don't think companies will have the opportunities that Epiphany did, as an example, which is going public when you are unprofitable. I think now, it is going to be different as you saw. I think Google did just a fabulous job of how they built a company, built a franchise, the founders brought in great adult supervision in Eric, well before the IPO, by the way as we all know. And even when they did go public, have gone public, are still trying to maintain that private company philosophy. And as you all know, they have been very vocal with investors. It may be a bumpy ride. It is like buy some-- Share some Google stock and you should get a seatbelt with them. That's what we used to say at Netscape because you knew you were doing something to try to capture a dominant place in the market and you would have to make some decisions that were for the long term, not just to meet Wall Street's quarterly expectations. But I think they really did it the right way.

Now the cost of being public is much more than it used to be. I will tell you that at E.piphany, after Sarbanes-Oxley, I asked our CFO how much money it was costing us in expenses incremental per year to be public versus private if we turn around and went private tomorrow, bought back our shares, whatever. So what do you think, we are between an 80- and 100- million-dollar company. What do you think? Does anybody have a guess? What we spent annually? \$2 million was one guess. Increment of \$2 million. Anybody else got a guess? And this is again due to Sarbanes-Oxley and all the regulatory and legal issues you have to go through. It is actually \$5 million for company our size. Incremental expense. Now let me break that down for you. What is \$5 million to an entrepreneur a year? That's one and a quarter million per quarter.

What can I buy for a million and a quarter per three-month period of time? I can buy 30 engineers for that. That is a lot. When you look at it in the context of the number of engineers that I cannot have, because I am paying to public, that is painful. I mean I know very successful companies that did really well with 30 engineers, 30 really smart and talented people. So think about that. It is a real cost.