# Stanford eCorner

## The Three Circle Strategy

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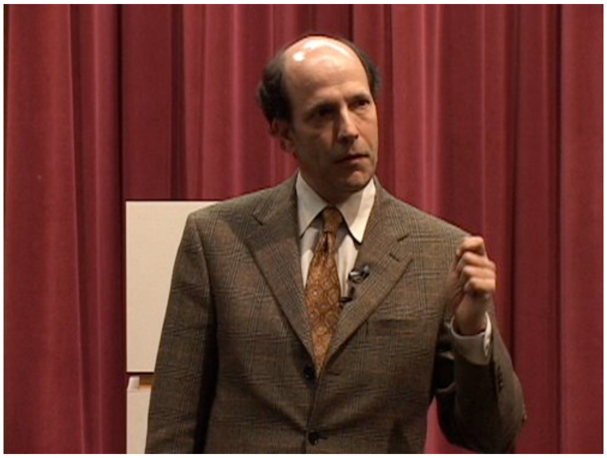
**Video URL:** http://ecorner.stanford.edu/videos/1459/The-Three-Circle-Strategy

Roos shares the Three Circle Strategy used at Wilson Sonsini. He says it is important for all great companies to start out and keep to fairly straightforward strategies yet remain flexible with the moving times.



**Transcript**

We also have a very simple strategy. And after 20 years in the business of representing these companies, I find it incredible that when you cut right through it, the greatest companies start out and keep to fairly straightforward strategies. They're flexible, they move with the times, but they are pretty straightforward strategies. And I will tell you what we had at Wilson Sonsini. Again, you've seen a lot of these Silicon Valley companies that talk about strategies and companies starting on the back of a napkin. Well, Wilson Sonsini, believe it or not, our strategy started on the back of a napkin, or at least that's what our founders have told us so that we could get with the flow of what was going on in the Valley. So we have a pretty simple strategy, and we call it the Three Circle Strategy. We want to represent the companies from Day 1 from when the entrepreneur first comes up with the idea to becoming a multi-billion-dollar company. And we break it down into what we call Three Circles. The First Circle is the small private company, typically the venture-backed company.

And what we do is we work with the companies. We advise the companies. We work with them in finding the venture capitalists. We represent them when the venture capitalists or the other money people are financing the company. And we do all their auction work and all that kind of stuff that goes into representing the start-up private company. And probably the most important role we play with respect to that company is a non-legal role. Because people like me and my partners and others in the industry have seen so many companies in so many successes and so many failures, the most important role that we can play with respect to that start-up company is telling them what works, what doesn't work, and giving them our best judgment on how they should approach particular issues in the industry, in addition to the fact that--and I'll talk about this in a few minutes--the network that we have and the relationships that we have that can be of tremendous benefit to what we call our First Circle start-up companies. The next part of that napkin is the Second Circle. When a company grows up, it has typically two exit mechanisms. Actually, three exit mechanisms.

One, you don't want. One is going out of business and bankruptcy and whatever, and that's probably the most likely exit mechanism for most companies. But the other two can lead to tremendous success. One of them is the sale of the company and the other is going public. With respect to the sale of the company, interestingly, what's going on in the industry right now is, because of Sarbanes-Oxley and the incredible regulations that have come into being because of all the fraud and everything else that was going on in the Enrons of the world, because we have this big regulatory structure that has been put in place, it's now more difficult to go public. And there are various other reasons why it's more difficult to go public. Analysts at investment banks cover the small companies a lot less so than they used to do. It's things like that that have made the hurdle for going public harder. So an exit mechanism for a lot of companies in this day and age is to sell to typically a bigger company and, oftentimes, a public company that will buy them. But the mechanism that you guys probably typically hear about and what most people dream about is going public.

And so when you got that First Circle venture-backed company, they will either sell or they will go public. And once they go public, then they get into what we call our Second Circle. And that is the young public company, what we typically call the company that goes from anywhere $50 million in value to a billion dollars in value. And, again, the strategy of our firm is simple. Because we have developed these intense and deep relationships with the companies as they grow up, we want to, after we bring them public, be in a position to do all of their high-margin legal work. Now what's going on in this day and age is a lot of these companies bring in general counsels and they want to go out and get the best lawyers they can for any particular subject. So we spend a lot of time developing the deep expertise that are high-tech or biotech or other emerging growth companies need so we will not give up that piece of the business. And then, the Third Circle, what we call the Third Circle, is the billion-dollar-plus companies: the Hewlett-Packards of the world, the Sun Microsystems of the world, those types of companies that are just mammoth companies with huge amounts of legal work that, again, our strategy is to service them in the high-margin work because that is where our law firm makes its biggest economic gain.