



Stanford eCorner

Market Selection

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Video URL: <http://ecorner.stanford.edu/videos/1633/Market-Selection>

Scott describes his experience at Stratacom where for the first 5 years the company lost a lot of money and had modest revenue growth, and then after some refocusing of resources, the company did really well and was eventually bought out for 5 billion dollars. He explains that what changed was their target market, and not the people in the company. He states that identifying markets with high growth and attaching oneself to such markets is very valuable.



Transcript

I was at a company called Stratacom before Juniper for 10 years, actually from '85 to '95. It was a venture-backed company. From '85 to '90, we brought a product into the market. I'll spare you the details of the product and market examples. The company did \$5 or \$10 million in the first year and then \$15 and then \$17 and then \$14 and then \$18 million, and basically never turned a profit and used up all the venture capital money. And we had a board meeting around 1990, so '85 to '90, and said, "We have this one idea, which, if you want to let us use the rest of the money in the bank, which is about a couple million dollars, we'll try that. Or you can just shut it down." And the venture guy said, "Well, if we shut it down, we have to go to our investors today and say we lost all the money. And if we let you do this, we're going to lose all the money anyway if it doesn't work, but at least we don't have to tell the investors today." Assuming it doesn't work. Well, it turned out to be an idea that did work. And the company grew from 1990 to '95 from \$30 million or so to almost \$500 million, and then SISCO bought the company for almost \$5 billion.

The point is, there was almost no turnover. It was the same management team for the 10 years. I was there for 10 years and most of my colleagues that worked for the same CEO that was there for 10 years. For the first five years, we were stupid, and for the next five years we were geniuses. And it was the same people. So what changed? What changed--you need to go back to an earlier point--was the market. We got ourselves attached to a market where something was happening, and it made it a lot easier to look smart. So people will talk correctly about the importance of people and brilliant technology, and I don't mean to take away anything from that, but you've got to, got to, got to find the market. And I don't know how to invent one. And actually, if Steve Jobs were standing here, he could probably tell you how to do that.

I don't know how to do that. But if you find one, I have had the good luck of being in a couple situations to be able to capitalize on it, and the degree of difficulty is much lower.