Stanford eCorner

Challenges in Cracking Big Markets

Dominic Orr, *Aruba Networks*

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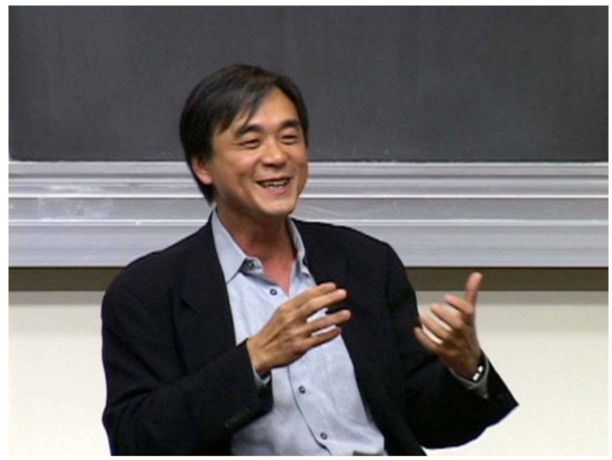
Dominic Orr, CEO of Aruba Networks, responds to a question about whether startups have a chance of cracking markets owned by big competitors. Orr suggests that startups often can find niches in big markets because they have greater speed to execution. However, Orr argues that success in a big market may be more than simply creating a niche but rather success is creating a large, sustainable business. Orr argues that the challenge of creating a large business is that you attract the attention of large competitors who try to destroy you. At the same time, as a company grows, it too eventually becomes vulnerable to smaller startups with even greater relative speed to execution.



Transcript

Okay, the first question, if I understand it is: Is it, in general, a hopeful case that because the incumbents are so busy with the inertia, that is, keeping the success, that the small company should rightfully have a hope to get a crack in some of the business that they either architecturally, or the business momentum don't allow them to address? Is that the gist of the first question? So I would say, the most important thing is to define success. Because of our transaction oriented nature, the short-term oriented nature, because we are in America, in Silicon Valley, sometimes we focus too much on initial success. Because a hundred companies get funded, maybe four get IPO, so that when you IPO, you feel like you had success. But you think about it. Aruba reported $41.7 million the last quarter. Cisco reported $9.3 billion? So is this something to celebrate, that you can find a $41.7 million crack in a $20 billion environment? To find that crack, there would be many many ideas that are available for you to get those cracks. Which points to one fact: good ideas are not difficult to find. It is execution, the operation excellence to get through to production and marketing and supporting your product. That is important. So a lot of companies fail, not because they didn't find those cracks.

The four or five companies that get IPO out of the hundred companies funded is not because they got the four or five best ideas. I think probably a lot of them get the good idea. It's just that four or five of them have the tenacity and the operation management skill to carry it through. Now, the fact that you carry it through and form a bit of initial success is by no means assurance of longevity of a company, which is kind of tied to the second question you asked, which is, "What keeps me awake at night for Aruba?" So, in my view, in my space of enterprise, classed network infrastructure for the large companies, the Fortune 500 and Global 2000 companies, a critical mass company in this space is roughly annualized $400-500 million, half a billion dollars. And then you can claim that you have established a franchise of some sort, you have created a niche in this, and it can be ongoing. Or else, like I said, the only reason that the big guys let the small guys move along is because they're too busy doing the big things. But when you're big enough, then they no longer ignore you because you're not small enough for them to ignore. So they will come in, and they try to really point a gun at you, and then if you're not careful, you did not create your differentiated position, your customer loyalty, that is when companies start faltering. They came out, and they become $200, $300 million a year, and then they go away, because now they're getting the attention of the big guys. So I think people should define what success it, then don't declare a rival too soon.

Which is, for both of my companies that I took public, one of my biggest concern is, I keep reminding people that basically, by going IPO, we have passed the qualifying round. Now we get to play. And don't walk around feeling that we have arrived. And don't put your stock price and your net worth on the screen saver, tied with stock price and so on. That is equally remaining vigilant and continuing to innovate, and continuing not to let that space, the initial success slow you down. Because you think about it, we have now 3,500 customers worldwide. Competitors, Cisco, I don't know, have half a million customers. Now, there's a startup behind us that I could tell you that, as I know of, another bold company that went around saying they have a business plan that's called Aruba killer, Aruba 2.0, or whatever, all the nice names. They do not have the inertia of the 3,500 customers. So at that scale, my blessing is my curse.

So how do I not lose my speed relative to the guy who has half a million customers, but continue to use speed and agility to innovate. But how do I not let the other guy who has only 50 customers do one to me like I did to the other guy? So, that, really, is the job that I believe that the board pays me to do.