



Stanford eCorner

Recognize Limitations

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Hemant Shah, co-founder and CEO of RMS, discusses having "the humility and the self-awareness to not stand in the way of what's needed to build a real business and grow." Shah shares a powerful insight about learning when to ask for help from others, and then standing aside to let them teach you.



Transcript

By 1993, we were able to raise about \$3 million in venture capital on the basis of some of the early evidence that we had that customers would pay us money for an earthquake risk model and we had been able to upgrade our digs up from a smaller office in Palo Alto over to one on Castro Street, in Mountain View. But at this point in the journey I encountered one of the early crucibles that many young entrepreneurs encounter. And that's the recognition of one's own limitations, and to have the humility and the self-awareness to not stand in the way of what's needed to build a real business and grow. We went through the process of raising venture capital. I came to be introduced to my colleague Tom Hutton, who is sitting here in the front row. And Tom is also a Stanford grad, engineering MS and then went on to do his MBA at Harvard. Was introduced to us as a potential CEO to build the next phase of the business as part of raising capital and really starting to get more systematic about what it takes to really build a software business out of the experimentation phase. And I think one of the things that was a real learning experience for me was knowing when it's okay to ask for help, and to stand aside and let someone come in to help teach you. And over the years, Tom became a mentor and taught me pretty much everything I now know about business and helped really systematize, from those early experimental days, the company into a much more scalable business model. During this phase we not only focused of course on adding more customers and adding more employees and building the business, there were two key challenges that we really focused on.

One was articulating the product strategy and understanding what is the coherent value proposition, and the use cases that we needed to deliver against to fulfill that value proposition and develop a proper product roadmap and product development plan, to pivot from lots of experimentation, with lots of customers and lots of individual wins to something coherent and scalable. In our case we stepped back, and with Tom and Rich brought another colleague who was our first head of engineering, colleague classic '88 at Stanford as well. We built a proper product roadmap that recognized, the category isn't earthquake risk model, it's natural hazard model. It's not California, it's global. And it's not just insurance or reinsurance, but it's multiple classes of exposure. Articulated that roadmap and with the investment capital we raised, we were able to then invest in building against that roadmap. Another key challenge that we overcame at this point is what's the business model of the business? At time we had envisioned that we, being a software business, would sell our software. I think the price points at the time were \$15,000, \$25,000 and we'd charge an annual maintenance fee, 15%, 20%, 25% against that initial sale. And that's how we were going to build the business. During this phase, we came to understand that to build a scalable business, it's not just about the technology or the product, it's the business model itself.

What's the business model that is right for this kind of technology that can create a sustainable and durable source of revenue to fund the growth of the business? And we re-envisioned the business not as a software - perpetual software sale, but as an annual subscription model, which was a key innovation at the time which has led to the recurring revenue business model that has enabled us to sustain the growth year after year, to about \$300 million in revenue is what we have today. So

there was a lot of work in this phase. Raising venture capital, articulating a coherent product strategy, executing it and also being clear about what kind of business model we needed to put in place in order to sustain this business over time.