

## Follow the leader

The \$220 million price tag put on John O'Connell's Staffware plc in 2004 belied a difficult deal, but in his new role at Ariadne Capital he plans to help other companies grow with fewer pains. By Tim Burke



Business owners should be grateful that John O'Connell is a bad golfer. If he was any good, he might still be retired.

As it is, the founder of software company Staffware plc spent less than four weeks on the course before getting back to business. And that's good news for those directors standing to benefit from his latest role as chairman of technology-focused advisory firm Ariadne Capital. "I want to help companies achieve their potential," O'Connell says of his new post.

After running Staffware for more than 20 years, he sold it to US group Tibco Software Inc for \$220 million in 2004, so has plenty of advice to give when it comes to building a successful business. He has already taught these lessons to a handful of public and private companies since stepping down as executive vice president of Tibco. At Ariadne, he wants to enlighten some more.

## Sell therapy

When O'Connell founded Staffware in 1980, he planned to overhaul traditional financial planning methods by creating a modelling software package, a precursor of spreadsheets. It was a hard slog – as the company salesman, O'Connell drew no salary but kept half of the proceeds from licence sales when the company could afford it. It often couldn't.

But O'Connell and his team persevered. By the time the company joined the Alternative Investment Market in 1996, it had a market capitalisation of £12 million, and used its heightened profile on a public market to move to the Official List in 2000. At this stage it had turned its focus to what industry jargon called 'business process management solutions'; software used to automate particular business procedures.

O'Connell is refreshingly candid in discussing his development of Staffware. While he was always passionate about the company, he admits today to having had some concerns about the narrow business model of concentrating on a single technology.

"Inevitably we were always coming up against the other major platform providers – the IBMs, SAPs of the world – who could offset one product against another and afford to cross-subsidise products," he says.

Furthermore, half of the company's revenues came from software licenses, which O'Connell describes as "a pretty challenging place to be" on a public market. "You're looking for predictability," he adds. "I had this concern that if we missed our numbers in one period, the share price would implode a bit and it would take us a year or two to recover our ground."

Nevertheless, record revenues and profits in 2003 attracted Tibco's attention. "We were definitely at the top of our game, which is always a nice place to be when you get an unsolicited approach," O'Connell says. Indeed, Tibco's bid prompted two competitors to make offers of their own.

The Staffware board was preparing to buy a US business as part of its expansion plan, so selling wasn't a decision to be taken lightly. O'Connell and his board eventually reached a unanimous decision that a sale to Tibco was the right move. At a premium of some 46% to the market price pre-announcement, the consideration was an impressive return for shareholders. There were also sound business reasons for the deal – Staffware had suffered a couple of failed attempts to boost its US operation, and American ownership would put it on the right track.

But O'Connell is still haunted by thoughts of what could have been if the business remained independent. "Personally, I benefited clearly from the acquisition of the company, but I had mixed feelings," he says. "I did my role as the chairman of a public company, which is to reflect shareholders' views. But I felt it a shame that we couldn't see how far we might have got given there are so few software companies of any substance in the UK."

### **Up all night**

It was a tough deal. O'Connell got on well with his counterpart in Tibco and both executive teams were adamant the acquisition should go through amicably. But once lawyers, bankers and accountants were involved, O'Connell found events took a turn for the worse.

"Frankly, the atmosphere between the respective advisers deteriorated badly, which almost derailed the deal. It all got very hairy and quite heated and emotional."

O'Connell blames a "tremendous cultural mismatch", with the US advisers "trying to flex their muscles". When the deal was announced at seven o'clock one morning, shareholders had little idea that O'Connell and the Staffware board had held four meetings between midnight and six just to sort out the conflicts.

"I had to remind my team that we had to pretend we had all the shareholders in the room and what their views would be if we were to terminate because of this particular point," O'Connell says. "We stepped back and took a mature view of things."

Unfortunately, early conflicts between advisers illustrated further cultural differences that would arise between Staffware and Tibco post-acquisition. O'Connell had developed a semi-autonomous environment at Staffware, with country managers encouraged to have a sense of ownership. Tibco, on the other hand, took a different approach.

"Most of the [Staffware] functions were highly decentralised apart from the obvious ones like central finance and product development," O'Connell recalls. "To my surprise, I realised that is not the case particularly with US-owned international businesses. As much as possible, everything's centralised and effectively the countries are sales outfits. Country managers aren't really country managers at all in the sense of being a manager."

Despite this discrepancy in management styles, O'Connell is quick to point out that his retirement in late 2004 was "quite amicable and quite logical". After the acquisition completed, Staffware had been run as a separate entity to the main Tibco group. O'Connell believed the situation caused unnecessary duplication, and recommended the businesses were merged, stepping down as part of the move.

### **Sowing seeds**

After a brief retirement, O'Connell returned to his roots, taking on boardroom roles at several growing technology companies. He is currently chairman of two AIM-listed companies, chairman of another private business and a non-exec for a spinout from Imperial College.

At the tail-end of 2004 he met Julie Meyer, Ariadne's founder and chief executive. Like O'Connell, Meyer had built and sold her own business – she sold her online entrepreneur network First Tuesday for \$50 million in 2000, shortly before she established Ariadne.

O'Connell believes Ariadne reflects his own ambition to help growing businesses achieve their potential; little wonder, then, that he agreed to invest in the project shortly after he was introduced to Meyer. "I liked what she was doing – the seed capital, emerging company end of the market, lots of bright young companies with fresh ideas," he says. "[It] actually refreshed my knowledge of technology."

When Meyer asked O'Connell to join Ariadne as chairman earlier this year, it was an easy decision. "I've found it very invigorating, challenging," he says of the first few weeks in the job.

"It's in quite a difficult end of the market to run a profitable advisory business, but we're getting there... We're getting between 40 and 50 opportunities a month, which itself is a challenge to try to filter those out."

Ariadne's next aim is to finalise its Capital Seed Fund, which it will use to invest in technology, communication and media businesses. If the plan comes off, O'Connell adds, the group enters the next phase of development. "I think Ariadne has every potential to be a real powerhouse in the seed capital and emerging company market."

Tim Burke

[http://www.mandamag.com/regular.asp?s\\_keyword=o%27connell&articlesPageSize=&ArticleID=10580](http://www.mandamag.com/regular.asp?s_keyword=o%27connell&articlesPageSize=&ArticleID=10580)