SORTLOGIC:
A STARTUP'S STORY

What is Startup Anyway?

■ An organization designed to create new products and services

■ Under conditions of extreme uncertainty

■ Goal is to figure out the right thing to build
  – *customers want and will pay for*
  – *as quickly as possible*

BACKDROP & VISION

The IBM and AT&T Antitrust Suits : Late 60's to early 80's

70's Antitrusts open Tech World

- 1970's: AT&T Unix is bedrock of computer science in universities
  - *Linux now accounts for 95% of top 1 million domains*
  - *All tablets and phones are Unix workalikes*

- IBM is forced to unbundle Mainframe "free" applications from $$$$ hardware
  - *IBM reluctantly publishes Interfaces*
  - *IBM PC changes the world with commodity hardware*

IBM Check Processing - Big Business

- US checks in 2000: 115 million checks/day => $157 billion/day
- The IBM fortress: CPCS application and 3890 Check Sorter
  - *Proprietary software and hardware*
- IBM3890 Check Sorter in 2000:
  - *About 8000 units across 1400 major bank centers*
  - *Purchase price $1.5 Million*

My Vison–Open Version of IBM Platform

- Run on any vendor's software and hardware
  - *Scale up, scale down, no problem*
- *Easy Install, free support*
- *no training needed*

Initial Strategy – Build a MVP

■ Live 180 days with minimal functionality

■ Nobody was ever fired for choosing IBM: Can we beat the odds???
  – *Will operators want to use product?*
  – *Will managers trust the product?*
  – *Is it what banks want to buy?*

THE STORY UNFOLDS

A Series of Disruptions
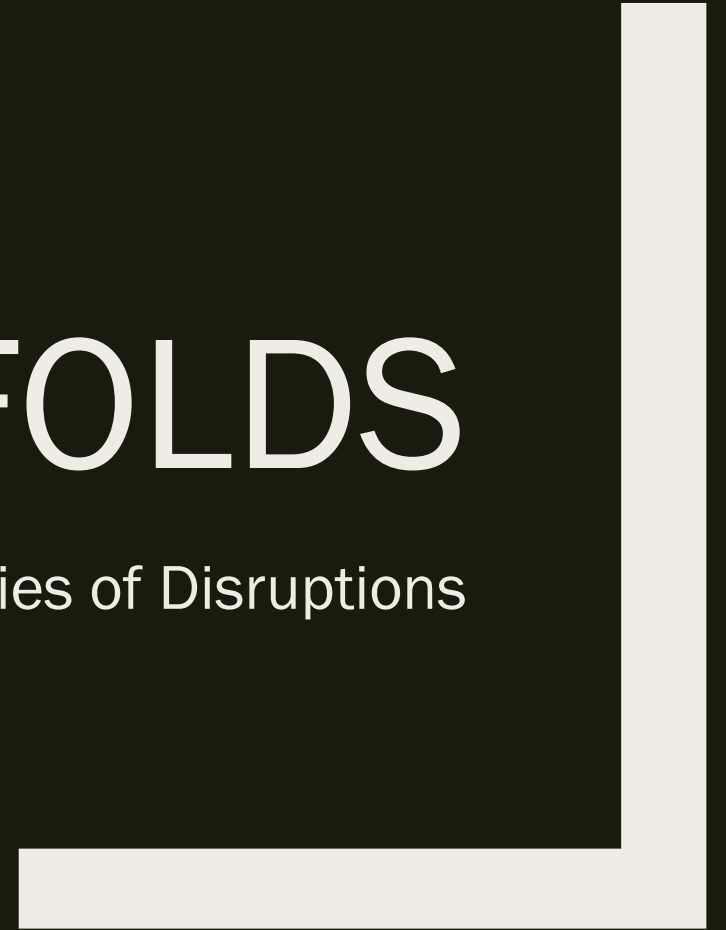
Disruption #1 –Image Processing Arrives

- Image Archives for Checks
  - *Seen as luxury for customer for additional fee*
  - *Vaguely seen as technology of the future*
- Big Vendor Mainframe Solutions
  - *Costly upgrades to devices, applications and storage*
- SortLogic Solution
  - *Archives on Commodity Servers*
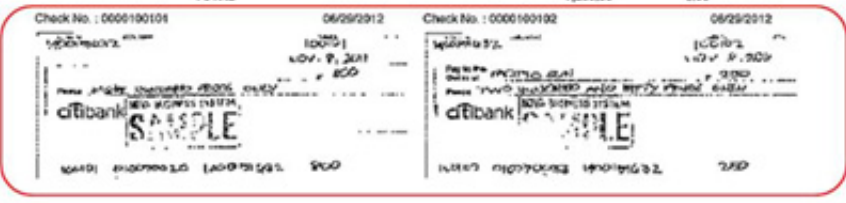 - *Zero or minimal application changes*

Disruption #2 – 9/11 -Check 21 Laws

- US Financial Heart stopped beating for 3 days
  - *Paper Checks do not have to be sent back to originator*

- Overnight, Image Processing has a compelling business case
  - *Federal Reserve Bank, 1/3 of all traffic, majority of transit*
  - *Unisys and IBM hope for $500 million windfall sales*

- **SortLogic adopted system wide by Federal Reserve Bank**
  - *FRB chooses SortLogic for 90% savings*
  - *Nobody was ever fired for choosing IBM:* **Yes, We beat it!!!**

Disruption #3 –Virtual Applications

- SortLogic: Paperless Reject Repair – Industry standard
  - *95% require no operator intervention*
  - *Remaining 5% require no paper, minimal keying*

- SortLogic: Virtual Entry
  - *Aggregation from checkout/back office devices*

- Over half of our sales are virtual products

Disruption #4 – The Industry engineers its own disappearance

■ 90% of capacity unneeded without returning paper to originator

■ Shoebox readers and file transfers displace big check sorters

■ Federal Reserve Bank ceases paper check operations 2013, others follow

■ In US, Big Iron Check Sorters
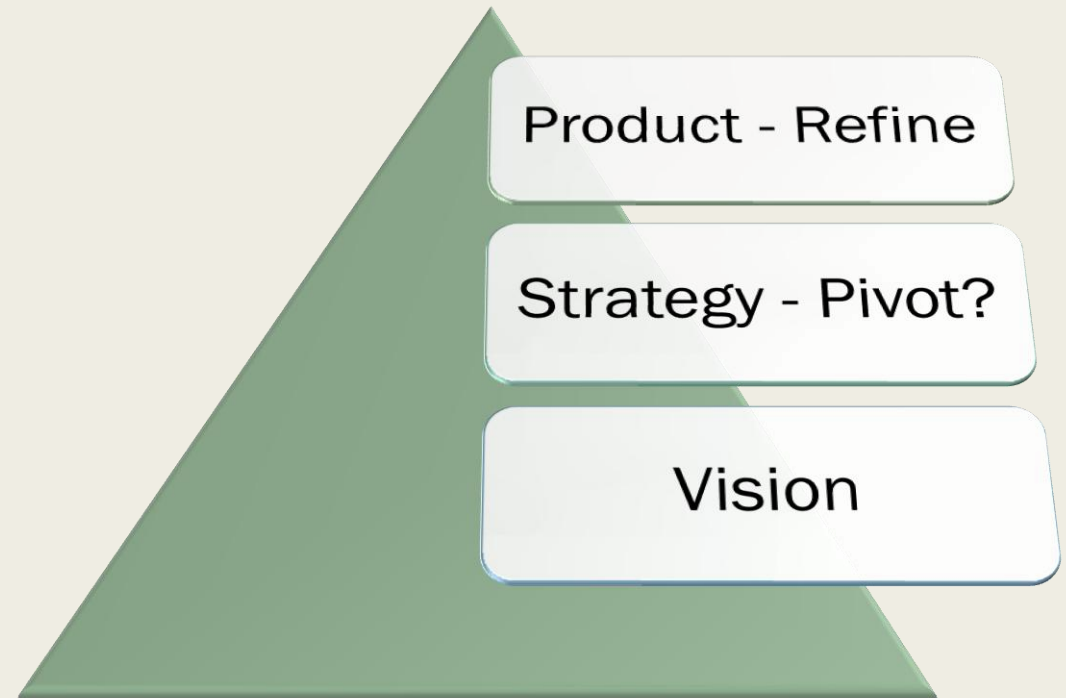
– *2004: 8400*

– *2018: 10*

SCIENCE OF A STARTUP

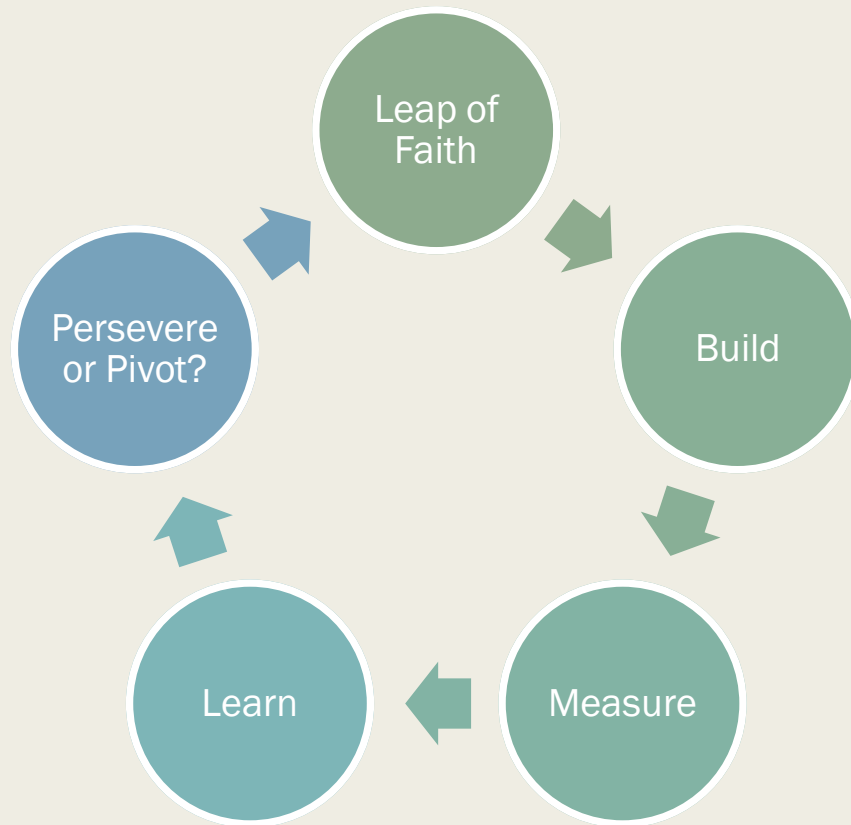Retrospections and learning from "The Lean Startup" by Eric Ries

It takes a Vision
-a Disruptive Idea

- A New product or service

- A twist that unlocks hidden value

- Repurposing existing product

- Delivering the familiar in a new way

Product - Refine

Strategy - Pivot?

Vision

Build, Measure and Learn Cycle
-*Persevere or Pivot?*

- Strategy may pivot completely based on Learning
- Product may start over based on Strategy
- Success - Do we know what to build?

Customers can't tell you what they want– Experiments tell you what they do!

What's your Engine of Growth?

- Sticky Engine – *Customer Retention*
  - *Continuing to Delight existing customers*

- Viral Engine - *Customer Referrals*
  - *Existing customers attract new customers*

- Paid Engine – *Customer Purchase*
  - *Advertising and marketing*

- ***Pick your Engine(s) and Experiment/Measure***

Who gets a share of the Pie?

- **Your % share of the equity equal to your share of at-risk contributions. (non-compensated)**
  - 1 slice = 1 normalized at-risk contribution
- **Cash Contributions**
  - *VC, Angel, Crowd funding*
- **Non-Cash Contributions**
  - *time, ideas, relationships, supplies, equipment, facilities*

Can Big Companies be Startups?

- Remember: Extreme Uncertainty? What does customer wants? Will pay for?

- Google. Facebook. Taco Bell. Intuit. All are still *Startups*
  - *New ideas. Low fidelity experiments, does customer want it?*

- **Has a disruptive idea made your big company a Startup?**
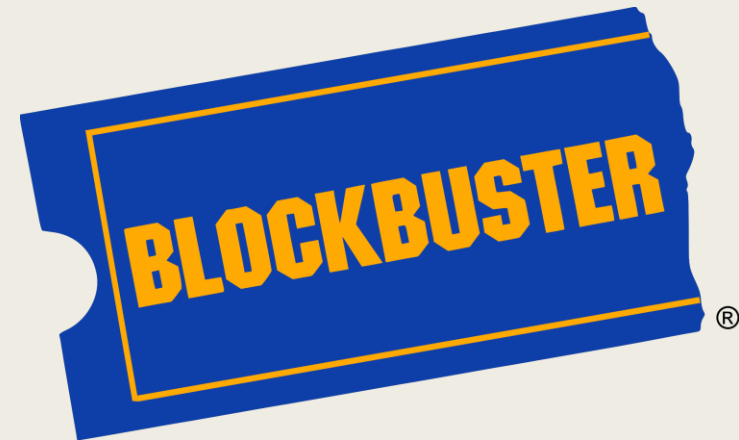
References

- "The Lean Startup", Eric Reis, 2011

- "Slicing Pie", Mike Moyer, 2016