VENTURES

FOR GROWING TWIN CITIES COMPANIES

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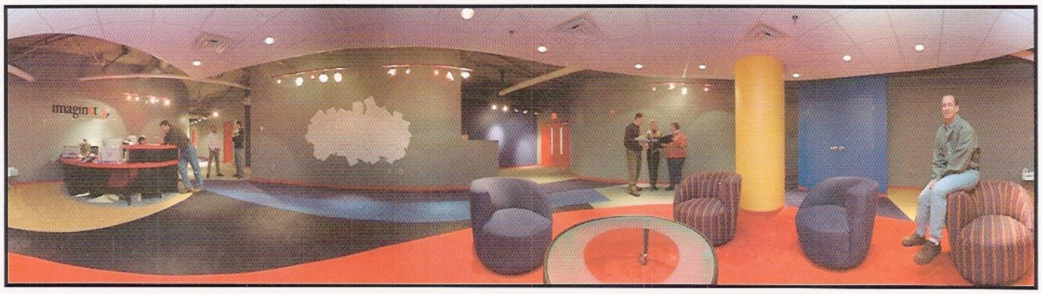
operations

TURNING POINT



With new ideas, new products, new strategies, a sale and a buyback, life — like the décor — is never dull at Imaginet.

Just say no

Imaginet asks new clients: Could we get back to you on that?

BY SHAWN REGAN

The nine-year history of Imaginet LLC is a tale of turning points. But the most profound came last fall when the Minneapolis Internet consulting, engineering and design company decided to put the brakes on new business so it could do a better job of serving existing clients and managing growth.

It was the most recent in a series of major turning points for Imaginet. For example, four years after its founding in 1991, Imaginet switched from selling desktop publishing products to Internet consulting. "Originally, our focus was on desktop publishing, but it evolved to publishing online," says Scott Litman, president and CEO. "Over 12 months, from late 1994 to early 1995, we went from having 100 percent of our revenues dependent on hardware and software to 100 percent dependent on Internet services. It was clear the world was going to need people who specialize in providing those services, where the market for computers and software is pretty saturated."

In June 1997, when it was doing about $1.25 million in annual sales, Imaginet sold itself to Imation Corp., the data storage and imaging systems company in Oakdale, for an undisclosed amount. Imaginet became part of Imation Internet Studio, the parent company's Web design division. Litman and Imation executive Dan Mallin ran Internet Studio.

"We recognized that there'd be consolidation in the market," Litman says of the sale. "We were looking for a partner who, by providing both the financial and marketing resources, could take the business to a national level. Imation, as an imaging and information company with a global reach, was a very attractive partner."

Imaginet LLC, Minneapolis

THE BUSINESS: Internet consulting, engineering and designing.

THE REVENUE: $9 million expected for 1999; could double or even triple this year.

THE TURNING POINT: Imaginet learns how to say no to new customers.

That partnership lasted just 20 months. In March 1999, Litman and Mallin bought Imaginet back from Imation, with help from Gage Marketing Group in Plymouth. Again, the fee wasn't disclosed. When the fog lifted, Imaginet had 50 employees — 38 from the Internet Studio and 12 assimilated from Gage's e-commerce staff. Litman and Mallin, now Imaginet's COO, each ended up with a 30 percent ownership stake, and Gage Marketing had the other 40 percent. Those figures have since changed because from day one, Imaginet offered all employees stock options. Now about 5 percent of the company's stock is allocated to the option pool, and the plan is to raise that to 15 percent to 20 percent.

Imaginet had to relaunch itself so it could pursue a grander design, Litman says. "The Internet Studio had been doing a great deal of internal business with Imation as a customer" and a lot of project-oriented work. "Most Internet vendors end up doing projects for clients, putting catalogues or marketing materials online. We wanted to work with Fortune 500-type companies to help them compete online by ... integrating their e-business with their business and marketing plans and their IT (information technology] systems." And Gage Marketing Group, whose clients include American Express, Coca-Cola, Ford and Miller, was ready to introduce Imaginet to some of those Fortune 500 companies.

"Our clients are seeking guidance in integrating the Internet with their marketing systems," Skip Gage, chairman and CEO of Gage Marketing Group, said when Imaginet's purchase from Imation was announced. "With this investment in Imaginet, we can do it on a bigger scale."

Litman says Imaginet needed to strike off on its own so it could hire and motivate the people who would get it where it wanted to go. "We felt we needed to be independent to recruit and retain the right people by sharing the ownership with them," he says. "Everybody here owns a piece of the business. That makes a huge difference in their commitment and how they perform. You can't do that when you're a very small part of a multibillion-dollar public company."

Satisfying customers

One of the relaunched Imaginet's first customers was DirectAg.com, a St. Paul e-business that links suppliers of agricultural products to farmers. Kip Pendleton, president, CEO and chairman, praised Imaginet's ability to design a site that satisfies players on both sides of the virtual negotiating table.

"Imaginet manages the experience, look, feel and message of our site," Pendleton says. "On the one hand, our customers are the very large, global agricultural companies. Imaginet knows how our trading partners want to be presented on the site. And Imaginet also understands the one-to-one customer relationship we have with the leading farms across the United States. You have to have both of these skill sets to be successful as an e-commerce provider."

By late 1999, Imaginet was on a run rate to hit $9 million in annual sales — roughly twice the revenue it raised in 1998 as the Internet Studio. Now its sales are divided equally between designing systems for business-to-business and business-to-consumer commerce. Litman projects sales in 2000 will be two to three times 1999's figures.

So last September, in perhaps its most far-reaching change in strategy to date, Imaginet decided that if it is to manage its phenomenal growth, it must periodically turn down business from new clients. The company's first breather lasted 60 days, into early November.

"We did not want to put ourselves in a position where our goal of aggressive growth would dilute how we could serve our current customers," Litman says. "We need to make sure that the core customers get the greatest quality product and great service. We'd say to those new, potential customers that we couldn't get to until the end of the year, 'When you are our customer, you know we will cherish that relationship and handle it in the same manner as the companies we're already working with.' Some companies had to move on, but others decided to wait for us."

The 60-day hiatus did not mean that revenue growth was on hold, too. Imaginet's sales reps were encouraged to build on their relationships with existing customers and sell more to them.

"From our developers to our producers, everybody had as many clients as they could manage, and they were all working full tilt," Litman says. "But because they knew there would be no new clients coming in the door for a while, they could take the time to make their current clients' projects great. Rather than facing an endless sea of work, they were invigorated."

Nor was there a hiring freeze: Imaginet has now grown to a staff of 70. "During that 60-day window, we didn't slow our hiring," Litman says. "We have to continue to develop infrastructure — such as recruiters — so we can scale the company up, so we can go out and get two of these kinds of people and three of those."

Tell us about it

Other players in Imaginet's field are also developing strategies to deal with high demand. For example, VISI.com (Vector Internet Services Inc.) in Minneapolis is using the "just say no" approach as it grows from $5.2 million in sales in 1999 to an expected $9 million this year.

"In the face of a booming industry offering endless opportunities, we've had to learn to be a little bit wiser about what kind of things we'll agree to do," says Francis Keys, VISI.com's marketing director. "If a customer who's buying Internet access from us or we're building their Web site asks us to optimize their internal network, we may very well decline to expand into new areas."

But Litman doesn't downplay the significance of not answering when opportunity knocks. "It's a very hard thing turning down a $1 million opportunity," he says. "But we knew if we passed on those it would be OK because our success at serving our existing customers would provide us with opportunities to have multiples of that in 2000, which is exactly what's happening."

And it's a strategy Imaginet will use again from time to time. "There are going to be multiple plateaus as we grow from the $9 million run rate today to doing two or three times that a year from now," Litman says. "I can almost guarantee that somewhere late in the first quarter or early in the second quarter we are going to put the same message out there: 'We're just going to focus on the customers we're working with.' We need to make sure that people have a manageable level of work, that they — and our customers — are set up to succeed."

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