



Visio Corporation

A Visual Adventure

"There are some people who do not draw. They don't see a need for visuals, and we could tell whom they were when we were pitching our plan - their eyes actually glazed over when we spoke. Then there were the people who could see the power of visuals in presentations, and we had them from the beginning."

- Jeremy Jaech

In February of 1992, Visio had been in business for little more than a year. Visio's founders, Jeremy Jaech and Ted Johnson, had just completed a prototype of the first product, called *Mainline™*. Their goal was to make a Windows-based drawing program that allowed seamless integration of business and technical graphics with popular business-communications programs, such as spreadsheets and word processors. With the prototype successfully completed, it was time to obtain the next round of funding, which would enable them to complete their product and take it to market.

Visio was not the first software graphics firm that Ted and Jeremy had founded. They had worked together for five years at Aldus, the pioneering desktop publishing software company that they helped Paul Brainard launch in the mid-1980s. Due to the impact of Aldus PageMaker, Ted and Jeremy had created a successful business with Aldus. It was time to tackle a new challenge: how to radically expand the market for drawing software for business professionals.

Jeremy and Ted wanted Visio to create the industry standard for do-it-yourself business graphics software. If a manager or business professional wanted to illustrate a memo with a graph or picture, Visio wanted to help her to do that easily, without having to rely on a graphics department or specialist for support.

This case was prepared by Natasha Evans-Beauchamp under the supervision of Thomas J. Kosnik, Consulting Professor, Stanford School of Engineering, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The Market Environment for Visio's Products

In 1992, graphics production departments ran a variety of disparate programs. The output from these programs needed to be combined to make the final version of reports and presentations. For example, in many organizations, Aldus PageMaker was used to do page layouts. AutoCAD was used for engineering drawings. Microsoft Excel or Lotus 1-2-3 was used to make graphs, and Microsoft Word or WordPerfect was used to create text. Whatever could not be done with these programs was done the old-fashioned, inexpensive way, via pencil and paper. Most graphics production departments were staffed by people specifically employed for their skills either running these specialized programs or creating these documents by hand.

The Visio drawing program introduced drag-and-drop drawing building blocks, which enabled a user to click on an image with a mouse and then put the image in place on the page. No other program gave users the freedom to draw so intuitively. Visio's competitors required users to learn to draw "their way" before being able to produce simple graphics. For more details about competing software programs, see the *Visio Corporation Business Plan, January 31, 1992*, in the Exhibit.

Designing Visio Products to be Compatible with Microsoft Windows

At the time Visio was created, office PCs were fairly evenly divided between those running DOS with Windows and those running DOS without Windows. Visio was betting that because of its ease-of-use, Windows would become the dominant operating system. Accordingly, Visio's products were designed to be compatible with Microsoft's Windows operating environment.

Visio did not compete with any products Microsoft was offering in 1992. Ted Johnson perceived Microsoft as an informal ally:

"We want our products to fit on top of Microsoft's products. We want to be collaborators with Microsoft. We believe our physical proximity to Redmond and our positive attitude will enable this type of collaborative relationship."

Making the Case for More Money

In 1991, TVI, a venture capital firm, invested \$800,000 in Visio. That was Visio's first official round of financing - the company's seed capital of \$120,000 came directly from the founders in 1990.

After TVI invested in Visio, John Johnston, a TVI partner, became their advisor in the quest for a second round of financing from venture capitalists. Before going to Silicon Valley, Johnston scheduled several luncheons with prominent Seattle investors for Jeremy and Ted. He wanted the Visio founders to hone their pitch at these informal, local luncheons and learn what kinds of questions to anticipate from the Sand Hill Road venture capitalists (VCs) they were courting. Johnston wanted to be sure the business plan was bullet proof and that the pitch contained all the appropriate information about Ted and Jeremy's vision of the future of business computing.

The weeks prior to Ted and Jeremy's appointments with potential VC investors were spent revising the business plan and rehearsing the presentation. One week before heading down to Sand Hill Road, Ted and Jeremy went through a dry run of their presentation with John Johnston. John watched intently, listening for any rough spots in the pitch that needed to be smoothed over, or any loophole in their logic that needed to be closed. The presentation had to convince the VCs that Ted and Jeremy had accurately defined a high-potential market, designed a product with a clear advantage over competitors, and formed a team that could exploit the market opportunity.

Their presentation was smooth and well timed, each co-founder playing off of the other's delivery. Ted was an energetic technical wizard who knew what every line of code should look like; Jeremy, a thoughtful tactician who understood what kinds of applications businesses wanted. Nevertheless, the pitch didn't overwhelm John. He decided Visio needed a few more times up at bat to score, so he picked up the phone and called half a dozen more potential investors in Silicon Valley.

John began explaining Visio's business idea to a potential investor on the telephone. Ted and Jeremy listened quietly as John asked the VC to commit to a face-to-face meeting:

JOHN: I've got a couple of entrepreneurs, whose last job was co-founding Aldus with Paul Brainerd. They have developed the prototype of an easy-to-use drawing program that will allow people like sales managers and engineers to illustrate their reports, memos and proposals with diagrams, graphs and schematics.

John paused as he listened to the investor...

JOHN: OK, here's what makes their software unique. With this program, people with no graphics arts training can create professional graphics to enhance their business communications. For example, sales managers can make two-dimensional pie charts showing where their reps spent their travel and entertainment money - a small orange wedge for lunch at McDonalds, and a big blue wedge for an upgrade to first class on American Airlines.

Again, a pause while John listened...

JOHN: They call their business, Visio.

Another pause and a little grin...

JOHN: The reason that the business graphics software market is so small at the moment is because the current drawing programs all require a long learning curve for a user to come up to speed. As a result, only a select few have figured out how to use graphics in their communications. Visio's market research indicates an overwhelming demand for a mainstream drawing application that doesn't require much time to learn how to use.

John nodded vigorously ... and leaned back in his chair ...

JOHN: Currently there are only hard-core programs available. No one else is putting it all together. Visio has the chance to create a new market -- graphics software for people who can't draw. Their product will become an industry standard, with the potential of eventually finding its way on to every desktop -- just like spreadsheets and word-processing programs.