

THE GENDREAU GROUP REVENUE STRATEGISTS

Delivering revenues, not just strategies, to companies worldwide since 1989.



We are **REVENUE STRATEGISTS**.

We help clients maximize revenues and increase the value of their businesses.

We specialize in:

- Partner and channel strategies that maximize revenues and reach
- Finding untapped revenues by repurposing existing products and technologies
- Revenue Strategies to help clients prepare for merger, sale, or acquisitions

Our clients are high tech and services firms located in the US and abroad.

We have been in business since 1989.

We are located in the San Diego area.

HNC Software: *Telecommunications Division Revenue Strategy*

While engaged as CTO for Seattle's Multiple Zones in the fall of 1997, Timothy Gendreau happened to read an article written by Bob North, then CEO of HNC Software located in San Diego, CA. The article described how HNC was using neural networks to predict credit card fraud and other forms of consumer behavior. Given his background in retail point-of-sale credit processing, fraud solutions, statistical scoring, and customer service management, Timothy was surprised that he had never heard of HNC. After reading the article, Timothy sent an email to North describing his background and asking why HNC wasn't also solving similar problems in telecommunications or for prescription drug dispensing, both of which share similar attributes including high-volume real-time transactions and the need to exchange data among multiple, sometimes competing players. Within two hours, North sent a response: "If you are so smart, why don't you come do this for us."

Where are you? Three months later Timothy received a follow-up email from North asking why he had never come to work for HNC. The next morning Timothy was on a flight to San Diego to meet with North, HNC founders Robert Hecht Nielson and Todd Gutschow, HNC CFO Ray Thomas, VP Krishna Gopinathan (who later became CEO of San Diego's Global Analytics), and future HNC CEO, John Mutch. Later that day, as Timothy was walking to his car to leave, he was called back and engaged to lead the creation of HNC's Telecommunications Solutions group.

"Sell the Eggs, not the Goose": Timothy's engagement with HNC began on January 31, 1998. His first duty that day was to meet with senior management to evaluate a business plan for entering the telecommunications sector that, as it turned out, had been written by John Mutch. Timothy boldly explained that he felt the plan did not make sense because it assumed that HNC would have to grant exclusivities to its technologies for the telecom sector. When Charlie Gaylord, a board member and early investor in HNC, asked what he would do differently, Timothy responded: **"If you own the goose that lays the golden eggs, sell the eggs, not the goose."** Though he did not win the support and goodwill of John Mutch that day, Timothy nonetheless won the blessing of the leadership team to begin building the telecom solutions group.

To build the predictive models needed for telecoms, Timothy was teamed with HNC's Ted Crooks, a technologist and fraud expert Timothy now calls "a true visionary". Ted quickly assembled a team of HNC scientists and software developers, and began building and testing the initial neural network and analytics it would use to test predictability using data provided by Sprint. **Test results proved that if Sprint had been using this predictive solution during the previous quarter, it would have saved \$52M in lost revenues!** Sprint quickly signed a multi-year contract at \$10M per year plus transaction fees.

As his next step, Timothy approached AT&T and MCI/WorldCom, both of which were using ATACS, a Unix-based fraud management system developed for wireline, wireless and Internet providers. Although ATACS lacked the sophisticated predictive neural network analytics HNC offered, Timothy recommended that HNC acquire the asset for its user interface and customer base. He also recommended HNC offer its Capstone credit fraud product for telecoms clients, and that it also look at acquiring Onyx Technologies, an Atlanta-based service bureau and provider of data access and decisioning solutions for wireless providers, a deal HNC subsequently completed in March of 2000. Additionally, Timothy knew that, prior to its involvement with HNC, Onyx had been in talks with Systems/Link Corporation, a cellular roaming and billing transaction clearinghouse that had agreements with all the major wireless carriers. Systems/Link became another acquisition he recommended to HNC's Todd Gutschow, a deal that HNC concluded and announced in September of 2000.

Strategy Summary: The following summarizes the strategy that enabled HNC to become a leader in telecommunications fraud and credit management solutions:

- Sign an initial client (Sprint) who will provide input data; build and test the initial neural network model
- Demonstrate results in order to land additional major clients and quickly become the dominant player in the market
- Implement a consortium business model to get competing companies to collaborate
- After major clients are signed, seek out and acquire additional data sources – the more data the better
- Add value using other HNC applications (e.g., Capstone) to enable telecoms customers to apply for credit
- Evaluate the business case for expanding into wireless telecoms services and pursue accordingly

The Strategy Payoff: In 1999, HNC hired a full-time professional CEO, Tony Patterson, to run the telecommunications group. By the end of its first full year of operations (following the acquisitions of ATACS, Onyx, and Systems/Link), the telecoms group had captured an **80% market share and generated \$35.2M in new revenues for HNC**. From 1986 to 2002, HNC was the major contributor to the development and growth of analytics capabilities and expertise in San Diego. In 2002, HNC was acquired by Fair Isaac Corporation in a deal valued at \$810M.

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