



**GE 234: Tom Villante on Growing
YapStone Which Is Now on Track to Do
\$20B+ in Payments by End of 2017
[podcast]**

Growth Everywhere Podcast Transcript

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Tom Villante: We don't really focus on any opportunities that are less than five million in revenue.

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Alright, everyone. Today we have Tom Villante who is the CEO of YapStone, which is a leading online payment service provider for global marketplaces and large vertical markets. They're on track to do over 20 billion in payment volume for 2017. Tom, how's it going?

Tom Villante: It's going fantastic. How are you?

Eric Siu: Doing well. Tom, first and foremost, tell us a little bit about yourself and kind of what you do.

Tom Villante: Sure, absolutely. I've been doing this, believe it or not, for 17 years. I originally thought in 1999 it would be 18 months, two years at most and I'd exit. But, you know what happened in 2000, or maybe some on the phone were not working at that time, but the internet bubble happened in March/April of 2000. It's been a great ride and it's been constantly new challenges. We've gotten into new markets and so it often feels like a new company to me and not the same old thing which is really, really exciting.

Eric Siu: Got it. How does your company work? You work with some big clients out there. Just so people have a tangible idea of kind of how you guys work. Can you give an example?

Tom Villante: Absolutely. What we primarily do now, as you mentioned, is online payments and e-commerce solutions for some of the largest marketplaces in the world. It's an incredible spot to be in. It's going to be well over a trillion dollars by 2020. Being partnered by a large marketplace gives you immediate access to hundreds of thousands of sellers and buyers and you're in the middle of transactions. For example, we don't do Uber, but when you leave the Uber, it's a frictionless transaction. The transaction just happens. When you rent a vacation home, the thousands of sellers get paid. Everything in between, we're actually doing from the onboarding of the seller. Typically do an automated onboarding where we're checking hundreds of data points on that seller to make sure it's not fraudulent, because you're dealing with anonymous buyers and sellers. So, you have to make sure there's not some coercion fraud going on. Collusion fraud on the buyer/seller front. There's a lot of things going on the back end in terms of onboarding that

merchant.

It used to be that you could only get a merchant account. You'd take three weeks and go to a bank and try to get a merchant account. You had to be a real company. In the marketplaces, you basically have individuals that are selling a product or selling a service and we have to underwrite those people as if they're businesses and make sure that they're a safe actor in the marketplace. We're basically doing that and doing the payment processing and flow of funds to make sure that everybody gets paid accordingly. There are a lot of things that happen in payments. There's fraud, charge backs and just dealing with a lot of the payment operations behind the scenes.

Eric Siu: Where did the idea come from? Payment processing strikes me as a really competitive space. I guess, where did the idea come from and why jump into something so competitive?

Tom Villante: Going way back in my 20s, I was in investment banking and private equity and then in the late '90s branched off and thought the internet would actually turn into something and I should probably get involved in it. I started angel investing. One of the companies I invested in was called Core, which was really an internet consulting firm. We built websites and did security database architecture. One of the things that kept on popping up was an easier way to get payment processing up and running. At the time, PayPal was really the only thing that was getting any sort of traction up there. We decided to take a slightly different tactic and look at vertical markets that had effectively a paper check as the primary source of payment and we wanted to go deep into the vertical. And rather than be a one size fits all, create a tailor made solution for that vertical market.

We landed on the apartment market. Apartments were almost all paper check. Even today, which is surprising. 75% of all rents are paid by paper check. We formed a company, a division of YapStone called RentPayment. We became the largest online provider of apartment rents. It sounds easy, but it wasn't we had to basically configure a new form of who would pay the merchant fees because the landlords were certainly not willing to pay 2% to 3% of \$1,000 rent. The card association didn't look too highly on convenience fees to the renter. We eventually came to a solution with the card associations. Not only that, it was even hard to sell three to these apartment owners because this is the way they had always done business, collecting a stack of paper checks and entering them manually into their software. We created a layer of automation which integrated seamlessly to their property management software, but more importantly, gave them a line item detail into who paid, what they paid for, was it rent, was it a security deposit. Those two things go into different accounts. Was it parking? Gave them that middle wear which was just not available at all. If they went to traditional payment process, they'd get a batch deposit and have a whole bunch of things deducted and have no idea what the payment was for.

We realized that having that sort of industry specific knowledge was a real competitive advantage and also allowed us to have more of a profit margin than

traditional processing. This was before it was cool and called thin tech. It was just online payment processing. We really went in with more of a notion that we're a technology solution provider and more of software [inaudible 00:06:32] that happens to get paid through payments versus a SaaS model.

Eric Siu: Makes sense. You went to Yale, right?

Tom Villante: How dare you. No, I went Princeton.

Eric Siu: Oh, Princeton. My bad. I was close, somewhat. So, you went to Princeton and then you went into private equity. How does a guy from private equity and kind of financial background learn how to bring an entire team together to learn how to, from a technical standpoint, put it all together and make it all work?

Tom Villante: I didn't. I had no idea really what I was doing to tell you the truth in the beginning. When you go to a good school and go into investment banking, you have I would say an elevated view of what you can do and somewhat entitled. I'm not sure I would hire myself as a 20-something, to be honest with you. Just given the experience of, it was the late '80s, early '90s when I got out. The one thing you learn quickly when you go off on your own is that you're really not entitled to anything. You're not entitled to success. Your company is not ... It really doesn't become about you. It becomes about how can you be helpful. How can you be helpful to your customers and your partners? How can you be helpful to the people, the employees that join you?

It's funny because I was just recently listening to an interview with Harrison Ford. His advice to people wanting to enter into the film industry. He said exactly that. When you just kind of remove yourself, it's not about you, it's about how can you be helpful and provide solutions and help people grow their careers. When you remove yourself from it, it really becomes a whole different proposition.

So, to answer your question how I did it. I really learned very much on the job. I wasn't planning on operating a company. The five companies that I angel invested in, really YapStone was the only one that really started taking off. I was having fun operating. I was having fun seeing the month-to-month growth. I just kind of landed at the ... I had someone running it in the very beginning and then I ended up taking it over because I was having fun building it.

Eric Siu: How does that happen? You angel invested in something. Let's say, maybe a year into it you're like, "Hey, this looks fun. Can I just run it?" How does that work?

Tom Villante: I was the majority owner and the person that was running it just really didn't want to run it anymore. It almost evolved to the point where I was spending more time doing that than looking for new investments. It evolved over probably a period ... After the first six months, the other individual running it, I just started getting more and more involved. I really took to going out and trying to build new customers, going to conferences, really getting embedded in the industry and learning and constantly going to ... The markets that we were focused on ... We were laser

focused on the apartment market in the very beginning. We branched off into vacation rentals and now sharing economy. It wasn't one day where I just decided. It just evolved and we really only raised a very small amount of money in the beginning. Just some friends and family and didn't raise any money for 11 years and were profitable after year two. Modestly profitable. Just enough to keep the lights on and keep growing. Then we raised a significant amount of money.

Eric Siu: In the first two years, getting to that profitability right out the gate is pretty impressive. What did you guys do to grow? Was it lots of marketing? Was it heavy on sales? What did you guys do there?

Tom Villante: It was not a lot of marketing. It was heavy sales. It was really hand to hand combat. Putting up trade booths and chasing down those leads and going to every single conference we could go to. It was finding lists or finding a sales pitch. It certainly wasn't any sort of online digital marketing at all. It was really traditional war room ... I think what we did do a good job on was really being proactive. It was almost building a company the traditional way. It just happened to be an online business. I think the fact that we were really focused on the industry and the industry itself and multi families is pretty [inaudible 00:11:15], so even if you say something in the wrong term, they'll immediately shut off. If you call a renter a tenant versus a resident, they'll almost stop listening to you. It's literally those types of nuances that were really, really valuable.

Eric Siu: Got it. What tips do you have for entrepreneurs looking to build their first sales organization? It sounds like you kind of had to figure this out from the ground up, too. I'm just wondering how everything looked for you. What kind of tips do you have?

Tom Villante: I would not depend on the business just coming to you and buying Facebook ads and those sorts of things. That's always important, obviously. It's really getting your hands dirty because you, as an entrepreneur, if you don't know how to sell your product it's very difficult to impart that knowledge and motivation upon your sales team. I would very strongly suggest, even if you have a technology bent and you're mostly on the technology side as a founder entrepreneur, I would make sure you also know how to sell it as well.

Eric Siu: That's powerful. And backing up a second, I think there was, before '99, I think, from what I looked, you were running a firm that was doing really well and then everything just kind of went to crap. Can you speak to that?

Tom Villante: In terms of my own company and the angel investing?

Eric Siu: No. It was maybe some kind of consulting firm that you were running. And then maybe the dot com bust hit and then you were affected by that.

Tom Villante: Oh, right. That was the internet consulting firm. That was called Core. I invested in '97. A friend of mine was at EMI Music. He had hired these guys. I went to college with the guy at EMI. He said, "These guys are doing all of the big entertainment

companies websites and digital rights management and security database architecture." He's like, "You got to talk to these guys and see if you can invest." I invested on the premise that my friend would go in and come in as CEO. It was a ten person consulting firm and they were just killing it. We invested and we went from a little over a million in revenue to 35 million. It was insane. When people were saying not, "How much," but, "When can you build this site?" It was just really the heyday of ... It was 75 million dollars in 1999. We were just drinking our own Kool Aid. In early 2000, we had a big customer concentration. Five customers made up most of our revenue. They all pretty much canceled at the same time, so it went to zero, which was extraordinary unfortunate at the time.

Also, as they say, you learn the most through your failures. Really, what I wanted was, I took from that that I wanted a business that scaled and consulting doesn't scale. It's a great business, but you can't double revenue without significantly increasing the number of consultants you hire. You can do that [inaudible 00:14:27], we're seeing this massive growth, albeit from a small base in the beginning, without really having to hire too many more people. So, I love that component of the business. I learned a lot from the consulting side.

Eric Siu: Yep. I totally feel you on that one. You talked about something a second ago. You had five clients and then everything, they just all canceled and revenue went to zero, right?

Tom Villante: Yep.

Eric Siu: So, right now, with YapStone, do you have anything like that where you have a client that is a large percentage of your customer base?

Tom Villante: Not nearly as bad, but we certainly have certain marketplaces just because of their growth component and size, probably make up more than what we'd like. It's a good problem, but nonetheless, it's something you have to keep your eye on constantly and be in front of it. I'm more sensitive than most because I know it can happen. We are already doing a lot on our product development and road map to make sure, and also acquisition strategy to make sure that that doesn't creep up even more.

Eric Siu: Great. Okay. You've talked about sales, growing organizations. One thing I've also noticed is that you're very people focused as well. So, question for you would be how do you go about creating and developing relationships with key players in your space or just people that you want to get to know?

Tom Villante: One of the powerful things that I've done and I think other entrepreneurs should certainly do is never hesitate or be afraid to pick up the phone to just about anybody. You're always surprised at who will return your call. In fact, a lot of times CEOs of big companies will return your call more than folks below them. Always reach out if you're curious. Go to a conference. Try to contact people that you admire in your particular industry. We still deal in a world with people. At least today we do. Relationships are so paramount, especially if you're really in this for

the long term. Developing those personal relationships, not just a meeting in a board room with another company. If you can somehow parlay that into dinners or into user conferences where you have a great dinner amongst your top 20 customers. Those types of things are so powerful.

Eric Siu: Yep. 100%. I talk about this all the time, dinners with customers or dinners with just other entrepreneurs or marketers that you want to meet. That takes it 10,000 'x' beyond what you can deal with online. I love that you say that. I preach it all the time. Building on people even more, it's something I've been talking about even when I speak at conferences. More and more about people. Guess what? You hired a Chief People Officer. Can you tell us about that?

Tom Villante: She's amazing. I'm not going to say her name because I don't want people to recruit her. She is amazing. Deb Tenenbaum is incredible. I realized that when we got to ... Right now, we have a little over 500 people. When we got to 100 in multiple offices, it's really the time where you can start, the culture can get away from you. There are people that are being hired that are potentially not in ... That's not someone that you would hire, which is not a comfortable place to be. I saw that we were starting to creep into that area. Particularly, most of our folks are in San Francisco and East Bay and Walnut Creek. I'm in Santa Monica, but I'm up there all the time. Now, we have 150 people in Ireland. How do you do that? It all comes down to having amazing, functional leads of each particular area. Your CTO, CFO, chief product. Also, having someone that is on a daily basis making sure that the culture and the people are being taken care of.

That's why I wanted to hire a Chief People Officer. Someone that was more than just pushing benefit plans and dealing with inbound complaints to someone that was really focused on the people and developing careers and online learning systems and breakout sessions. She was head of HR for Andreessen's, some of his companies, Netscape and Loudcloud, and was head of HR for Charles Schwab. She was ... When you talk to someone and meet them in an interview and within a couple of minutes you know want to hire them, she was very much like that. Really, really got to the heart of it, which is culture, is more than pizza parties and ping pong. What people really want is how can they feel good about where they go to work? How can they develop their careers? How can they develop personally? We really implemented a lot of those types of programs. Also, transparency and visibility, doing monthly all hands, bi-monthly all hands. And the months that we don't do an all hands, we do breakout sessions. I do new hands.

So in between our all hands every 60 days, I will sit down with the new Yapster's, YapStone employees that have joined, and really go through the history, kind of like what we're doing right now. [inaudible 00:19:56] amongst ourselves and if we detect that a functional leader, whoever is not, they could be incredibly talented, but there's no room for anything but treating people with respect. Just going through the story. Looking your new folks in the eye. Luckily, still as a founder and we're not 10,000 people, but it's getting to be pretty big and I think as a founder, I think it's helpful to continue to do that.

Eric Siu: Great. Thinking about it, where do you go to find a Chief People Officer? You know what you want already. What was your process?

Tom Villante: She actually came to us, which was interesting. We were taking a bit of a hit on Glass Door and some others. We had hired a functional lead, but as I said, was not necessarily treating people with the type of respect that we would have liked. That trickled through the organization. She almost took it as a contrarian play, like as a challenge because she met the management team, it was pretty close to where she lived in East Bay and she had been doing some outside, really kind of outside consulting, being head of HR for hire and really wanted to nestle back into a company. She did a lot of research, a ton of research before she met and said, "Look, I can help you." We doubled our Glass Door rating from, it was at like a 3.5, it went to a 2 during that time and now it's back at 4. Glass Door said they've never seen that kind of recovery. We have an amazing intranet through Jive. It's an incredible, it's like a Facebook, but it's also got learning management systems on it. We celebrate wins on it and have a lot of fun on our intranet. We get a lot of engagement on it.

Eric Siu: Love it. Great. Just a couple more questions here while we work towards wrapping up. A while back, you raised \$60 million in debt financing. When should a company take on debt and what have you done with that so far?

Tom Villante: A little bit earlier than that, in 2011 we raised \$50 million equity from Excel Partners and from Meritech Capital. They both have been incredible partners. Unbelievably supportive. Opened up their network. Interview and help recruit people. Really amazing. In 2013, we raised debt and it just happened to be a really, really good time, super low cost to capital and almost no dilution. We felt that it was a really good time to tap the debt markets. One thing that I would say entrepreneurs need to be cautious about are the covenants around debt and what they allow you to do, what they allow you don't do in terms of capital expenditures, and your platform. They definitely keep a close eye on ... [inaudible 00:23:03] or earnings covenants as well. You can't dip below a certain amount of earnings or loss, for that matter. I would be super wary, not wary, but just aware that those types of things exist that come with debt. They become ... Since we had a covenant light deal, since then they're definitely watching things more closely and the covenants have tightened up since 2013.

Eric Siu: Got it. Makes sense. Final couple questions here. How is your day structured?

Tom Villante: I typically get up at 6:00. I'll do some yoga and meditate, which I've just recently within the last year started to do. That's really helped me focus more during the day. I know it's getting to be a lot more popular, but it actually works. I have a few direct reports that I speak to on a daily basis.

Eric Siu: How many?

Tom Villante: I have three. I have a president and most of the leads report to him. Some of them report to me but with dotted lines to him. Because he is up in Walnut Creek, it just

from a practical standpoint, it just makes sense. I don't want too many, but I also talk to all the functional leads on a very regular basis. I just think that communication line is very important. I'm also out talking to my customers and partners and trying to constantly challenge my own conviction and my own Kool Aid. Try to poke holes, talk to people that are in the industry. That's something we talked about earlier. Talking to your competitor. I'm friends with some of my competitors. It's just helpful to talk to folks like that. I'm really involved in new business, new partnerships with new marketplaces. We also integrate with software companies that provide software for particular vertical markets where there's medical payments or non-profit donor software. I love going out on the pitches. That's something that I really enjoy.

Eric Siu: I want to get your take on something. I was actually listening to a podcast the other day. This guy is a guy that works with Gary Keller of Keller Williams. I believe that's the company. What Gary said was that the [inaudible 00:25:34] reports the CEO would have. They only have up to five. You have three in your case. He said there's three things that matter. One, that person needs to be damn good at recruiting. He needs to be a talent magnet. Number two, that person, the first 90 days needs to be able to materialize \$100,000 out of thin air, whether it's closed deals or saved revenue. Whatever it is. Third thing is they need to be really good at having a vision in terms of what their team is going to be in the future. Do you agree or disagree with that?

Tom Villante: I absolutely agree with all of that. The 90 days, sometimes in our case, we have longer sale cycles just because we're dealing with very large partners, multiple millions in revenue. We don't really focus on any opportunities that are less than \$5 million in revenue to us. We're kind of out there elephant hunting. The only piece of that that I would say in our case is give us 180 or 360 for some of our revenue opportunities.

Eric Siu: Got it. Final question for you. What's one must read book that you recommend to everyone?

Tom Villante: I always refer back to Tony Hsieh's Delivering Happiness. The head founder of Zappos.com. Everything starts with making sure that your employees are happy and fulfilled and if that's happening, then everything good flows out from that. Treating people as people and not as a cog in the organization. I actually did a tour of his offices in Las Vegas. I highly recommend, folks, if you have a chance to go out and do that. It's quite something. All of the cubicles are very individually decorated. There's a button in the lobby that says, "Don't touch this," like a red button. Of course, you touch it and a disco ball comes down, confetti, it's just fantastic. Very, very highly recommend the books. It's called Delivering Happiness, The Path to Profits, Passion, Purpose. It's very inspiring.

Eric Siu: It sounds like you have a lot of these processes around people, culture and everything. Do you have anything online that people might be able to download or view?

Tom Villante: That's a great question. I don't know what's available. I can certainly, if I can post something to you if there is. I know our intranet is an internal piece, but if there is anything, I'm happy to do it.

Eric Siu: Great. Tom, this has been really good. What's the best way for our people to find you online?

Tom Villante: I have a website. I think our internal PR person, Molly Reynolds, has done a great job with us. I think I'm at tomvillante.com or at Yapstone.com. My email address, if anyone wants to email me, is tv@yapstone.com.

Eric Siu: Alright. Tom, thanks so much for doing this.

Tom Villante: Thank you.

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