



the chilli

# THE CHILLI

Empowering another generation of entrepreneurs and investors

## Victor Malachard, co-founder : Adfonic

Adfonic is a fast expanding, high growth, ambitious, London headquartered mobile advertising platform company that spans 8000 publishers, with offices in Europe, America and Asia. Its current staff of 40 is expected to expand to 100 by 2012.



### **The starting out vision. What gave you the idea to start a company and how did you validate your idea?**

I have been working in the mobile industry for over ten years, primarily focused on mobile operators. As an industry insider, it became clear - especially with the introduction of the iPhone - that the market was going to be shaken up and that there was soon going to be an explosion in the number of people surfing the mobile web. We saw that there was going to be a shift from what was a closed 'on portal' market to something much more open and we took advantage of that. Our vision was to make it easy for publishers to monetise their mobile presence, and for advertisers to reach their target audiences through mobile phones and tablets in a cost effective and measurable way.

### **How did you convince your founding partners (how many were there) to join you?**

My two founding partners are Wes Biggs and Paul Childs. We were all working together at the time so we could all see, and we frequently discussed, what was happening in the market. To all three of us it was becoming clear that businesses that were solely reliant on mobile operators were going to struggle. We looked at the market and saw that there was no single global performance ad network that was based in Europe. Our idea and our vision grew from there and we were lucky enough that the timing, professionally, financially and personally was good for us all.

### **Did you write a business plan and develop a prototype before seeking funding?**

Yes: we set up the company in 2008 and writing a business plan was our first priority. We then used our own funds (bootstrapped) to develop the code and launch the first platform service. This went live in July 2009 and we got our first round of (Chilli R1 £300K) external funding in November 2009. We started out at the Hospital Club, in Covent Garden, London. It was a good place to network, meet people, make calls and get introductions. The place is frequented by media professional, which was very handy. For the first 18 months we didn't take any pay, and got lot of developers from our network to help out.

### **Who funded the seed round? Was it difficult? Was lessons did you learn?**

Gordon Shields, [of](#) Shields Environmental (a green tech business, recycling telecom gear), is also a

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professional angel investor. He was one of the first investors to lend us his support. Gordon saw a fast growing market and, in us, founders who worked well together and complemented each other's skills and strengths.

Unsurprisingly, back in 2009 it was difficult to find investors. In the midst of a global recession many were extra cautious, especially about investing in a new and rapidly changing industry. However, we were convinced of the potential of mobile and managed to persuade others to feel the same.

### **Did you have a funding strategy at the beginning, or did you adjust, as time and markets changed? i.e. in terms of how much you needed to raise ?**

Our strategy was always to self-fund the development of the platform. We believed very much in getting the service live, getting some traction and getting some clients so that we were dealing with investors from a position of strength and with a proven track record.

### **Did you use advisors? What kind? Lawyers, previous start up CEOs?**

I found it incredibly surprising and encouraging how so many people were prepared to lend advice to people setting up a new business. I think it might be that wonderfully British trait of rooting for the underdog and wanting to back the people taking on the big boys. All three of us tapped into our network of contacts across entrepreneurs, established businesses etc. and they offered their assistance free of charge. Although we didn't use any formal advisors, we did of course use lawyers to negotiate our first round of funding.

### **How and when did you raise subsequent rounds of funding? Was it difficult?**

On top of the our R1 of £300k in Nov 2009, We raised an R2 £1.0 million round in August 2010. Subsequently, we raised another round, R3 of £4.2 million in Sep 2011. Whilst there was considerable interest from the some of the VCs funds (one of them with megabucks, wanted to put in around £20m), we decided to do another angel round through Gordon Shields. We did this as we felt that the demands venture capital imposes on a business are much more stringent and we wanted to maintain the board set-up and retain the flexibility that had been such key ingredients to our growth and success thus far.

A total funding of under £6.0 million may sound small, compared to others, but as Adfonic came in at the right time, we didn't have to spend as much as others who came before us. Those that started much earlier used up a considerable amount of capital waiting for the market to materialize.

### **Who was your first customer, and what were they like to do business with?**

One of our first publishers was the market leading music recognition service, Shazam. Shazam are great to work with because they are a pure mobile publisher and ergo very much understand the market. The Shazam service is available across all mobile operating systems and their audience is truly global so they were looking for a partner that could not only provide access to global campaigns but also a platform that gave them real-time reporting and analytics across all their applications and in all countries.



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### Team

#### How did you build your team? What qualities did you seek?

Initially the focus was around developing and delivering the platform so we recruited senior software developers that we had worked with previously. We knew that they were good and that we could trust them to deliver work of the highest standard. Once we had launched the product, our focus turned to selling it, so we concentrated on recruiting sales people we knew had specific experience in the digital space with established relationships within the media buying world and publishers.

#### How did the team evolve and how did you keep them motivated?

We like to maintain an open management style and approach things collaboratively, meaning everyone feels valued. Adfonic is a fast growing business in a fast growing market and this is very exciting for the team. We are a young executive team running a new company and I believe that people want to be part of a business that is taking on the goliaths of the industry with the potential to become a huge success story.

### The outside players

#### What are your views on the current funding climate, especially early stage?

I think that the USA is in a bit of a bubble – it is much easier to get early stage funding, especially in the technology sector, over there. Starting a business in the current economic climate is not easy. You have to be able to prove yourself to very cautious investors. Fortunately, with our experience in and knowledge of the industry we were able to do that.

#### What are your criteria for selecting angels, VCs, to work with?

Beyond alignment on valuation and strategic goals the key criteria for us are personal chemistry, sector expertise and portfolios that contain businesses that complement what we do as a business.

#### How did you pick your non-executive advisors?

Adfonic has no non-executive advisors although we are currently looking for a non-exec chairman.

#### What kind of advice did you expect, but didn't get?

I was really quite overwhelmed by the amount of people who were willing to give up their time to help us - we actually didn't struggle to get the advice that we needed! We approached Gordon Shields as an adviser but he subsequently became an investor. He gave us the kind of invaluable advice that every new business needs and I would thoroughly recommend him.

#### Did you use mentoring at all? Was it useful? Would you recommend it?

I have a number of mentors or close advisers that I regularly contact for advice. It's really useful to be able to bounce ideas off people that aren't necessarily close to the business and who can provide a fresh perspective. Also I've always felt that recognising one's weaknesses is a key strength and one should never be afraid of asking for advice or help. I'm very fortunate to have access to some very bright and successful people; their support has been instrumental in helping us develop what was first a business idea into the fast growing global business that Adfonic is today.



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### **The industry you are in now and the opportunities**

#### **Characterize your market (size, growth, the key drivers etc)?**

Mobile advertising is a rapidly growing industry. Recent research from the IAB and PwC shows UK mobile advertising market grew 116% to £83 million in 2010. Display advertising (which Adfonic facilitates) experienced a rise of 62% to £23.7 million, from £14.6 million in 2009. Analysts predict that the global market will exceed \$10billion by 2014. The key driver to growth at the moment is of course the penetration of smartphone and tablet devices which are outselling PCs and TVs worldwide and consequently the increasing number of people using mobile to surf the web and various app stores. As prices continue to fall and data delivery improves with 4G, this is only set to continue.

#### **Your views on emerging opportunities within your industry?**

Geo targeting is shaping up to be a huge opportunity for our industry: mobile advertising offers advertisers a host of opportunities that traditional print and online advertising have historically been unable to fulfil. One of these unique advantages is the ability to pinpoint the consumer's geographical location, even when they are on the move – so advertisers can ensure that the nomadic consumer is presented with the advertising that is relevant to their geographical location, even as this location changes. This flexibility and capability to tailor the relevance of advertising to a geographical location increases the effectiveness of the advertiser's campaign, and provides publishers with a hook to drive direct response. It also opens up new possibilities for advertisers such as couponing and hyper – local campaigns.

### **Have you started addressing, the BRIC market yet? What are your plans, expectation?**

We are fast expanding internationally. We are setting-up an office on the West Coast USA (we already have offices in New York). In Europe, we have offices in the UK, Spain and France and are looking to open offices in Italy and Germany by the end of the year. We're also setting up an office in Singapore to drive our business in South East Asia. The great thing about our platform, however, is that it is self-service meaning that we can expand into markets even where we don't have a physical presence. Today we have many campaigns targeting the BRIC market.

### **How do you stay on top of tracking developments whilst running day-to-day operations?**

We've been very successful with our recruitment. At Adfonic we now have a bright and experienced management team that look after the functional areas of the business. Having such a strong management team allows us as founders the luxury of being able to step back and look at what is going on in the market in general.

### **The personal side**

#### **Where did you go to school, college, university etc? What did you study first? What was your first job?**

My mother is French and she married an Englishman. I went to Tonbridge School in Kent and then studied French and Politics at the University of Bristol. My first job was as a Press Officer for an international IT business called Bull.

#### **What support did you get from your family and friends, while starting out?**

The support I have had from wife and immediate family has been essential. Starting a business is such a massive



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commitment – your working hours are 24/7 – and they have understood and supported that.

### **What sacrifices did you and your family make? Which sacrifices are you still making?**

Time and money. When you start a business you pay yourself little if anything and of course the hours mean that you have far less time for family and the leisure activities I enjoy such as golf and diving.

### **Toughest business moment & proudest moment**

My proudest moment with Adfonic was when we first served 1 billion ad impressions in 1 month, early last year. This is a key industry milestone and confirmed to me that we were here to stay.

The fact that we achieved it so quickly was a testament to the talent, skill and hard work of the entire team.

I can't single out the toughest moment. The brutal truth is that building a start-up is tough. Doing so during a global recession makes it even tougher. You have to be totally committed to the cause and probably need a little luck on the way too.

### **What do you miss from the old days, when you were small?**

There's no time to miss anything! We're still a relatively small operation but one that is executing on a global stage. Today is even more exciting than when we started and the opportunities out there are still huge. In the mobile advertising industry there is still all to play for which means that every day is different.

### **What would be your ideal exit, IPO, M & A?**

There are and will continue to be plenty of M & A opportunities as the market continues to grow and consolidate. Right now we're focused on growing the business. If we continue to execute on our plan the rest should take care of itself.

### **What do you enjoy the most about your job?**

Hiring new talent and bringing them into the team, expanding into new markets and hitting new milestones.

### **What do you hate most about it?**

Hate is probably the wrong word to associate with any aspect of the job as I'm genuinely having a great time but I'd certainly like to spend more time with my family.

### **What's next?**

### **What are the challenges to be addressed now? Exit?**

The biggest challenge is growing from the 40 man operation we are today to 100+ whilst maintaining the team spirit and general work ethic that has served the business so well. Getting the right corporate culture is key to any business success but particularly a young organisation. Adfonic is growing at a tremendous pace and expanding into new markets so the challenge is to grow whilst preserving our values.

### **Are you encouraging other start-ups? Do you participate in new ventures via mentoring, connection via angel, seed, or VC?**

I will always put some time aside to give people advice. I learnt from my own experience just how essential this is. There is a lot of entrepreneurial talent in the UK and it needs to be nurtured and encouraged.



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### **If you had to start again, what would you do differently? In hindsight what would you have done differently, in terms of management team, company goals, investors, IPO etc?**

In all honesty I don't think we have done an awful lot wrong. We have of course been very lucky in a number of areas – for example, we didn't need external funding to develop the platform and get it to market. The only real thing I can think of is timing. Part of me wishes I'd taken the plunge into entrepreneurialism sooner but then I probably wouldn't have been as well equipped to do so.

### **What helps you stay ahead of the competition?**

We developed the platform from the ground up with mobile in mind. We are faster and we are more flexible. We are in a hot space and we already have scale. There are five global mobile advertising platforms, Adfonic is one of them. On top there are a lot of small niche players and aggregators. Our advantage is that we act local, which enables us to have face to face contact with our partners. We have build up a trusted network here and abroad.

### **What is the most important ingredient for your business success?**

I think that ultimately it is about having the right people working to a clear business strategy...and having fun in the process.

### **Advice to would-be entrepreneurs? Top 3 rules, in terms of business focus, relationship with investors, VCs, 1st few customers, managing cash flow, things and type of people to avoid? Etc**

1. Don't oversell yourself – it may sound clichéd but over deliver don't under deliver. Be honest and realistic about your capabilities.
2. Get the best people involved that you can. Have the right balance of skill sets.
3. Constantly review how you are performing – be honest about the failings/weaknesses of your business and the market.
4. Manage cash flow – so many small businesses collapse because they run out of money early on. You need to get the right balance between going for it and prudence.