Q&A: Dot-com-era icon Larry Augustin ventures into cloud software

June 20 2013, by Peter Delevett

With the possible exception of the Pets.com puppet, nobody embodied the first Internet boom more than Larry Augustin. As the founder of VA Linux, he presided over one of the most eye-popping IPOs of all time-the company's shares soared 700 percent on their first day of trading in 1999. But the company just as quickly came crashing down, as the dot-coms that bought VA's hardware and software services went out of business.

These days, Augustin's in the middle of another hot computing trend: His Cupertino, Calif.-based SugarCRM delivers customer relations management, or CRM, software over the cloud. In an interview, Augustin compared the dot-com bubble to Silicon Valley's current boom and talked about how the open-source gospel he preached in the '90s has become the underpinnings of today's cloud and mobile revolutions. The interview was edited for length and clarity.

QUESTION: You've had a lot of financial success. Why go through a startup again at this point in your career?

ANSWER: When I took this job, I was mostly doing angel investing and sitting on boards, but I was getting anxious to sort of dig into something. As an angel, you're always a little bit distant. One of the things I love about startups is that you can know a lot of the people. Everyone can know what's happening. I first came in here on an interim basis (in October 2009), and I just fell in love.

Q: VA Linux was one of the success stories of the dot-com era, and then things burst. Where are we now in the Valley's creative and economic cycle?

A: There's definitely a lot of energy right now. You can see that in the financings and in the companies going public. We had a lot of companies in '98, '99, 2000 that were valued largely on expectations, and today you've got companies with decent revenues and business models.

Especially in enterprise software - there are solid businesses there. You had a long time where there was a lack of investment in that space, and I give a lot of credit to the founders here and to Draper Fisher Jurvetson, which took a gamble and did the Series A. If you think about it, the time to invest is when people tell you it's crazy. When I was at VA Linux, people said, "Windows NT killed Unix, that world is dead."

Q: Instead, Linux ended up taking off as an alternative to Windows. Now you're once again going up against an entrenched heavyweight, this time in Salesforce.com.

A: Salesforce has done a brilliant job at taking an enterprise product in CRM and changing the delivery model by taking it out to the cloud. I see our opportunity here as changing what it really means to do CRM. Historically, it's been a tool to help management understand what happens in their sales team. It's been focused internally.

Today, the opportunity is to make CRM about the customer and the person who interfaces with the customer. Our goal is to create a dashboard that gives anybody in the company who talks to a customer the history of your conversations with them. What they've bought from you, if they've had any issues, and also what they're saying on Facebook and Twitter.

And we don't just run out of the cloud: You can install the software on-premise if you want to. I like to use the Apple vs. Google comparison: Is the whole world going to be Android? Probably not.

Q: With the market's appetite for enterprise software, your company seems to be in a sweet spot right now (no pun intended). What's your thinking about an exit?

A: I want to be a public company someday. I like really big, game-changing markets. You build to that, and all of the options are open to you.

IDC estimates $22 billion will be spent on CRM this year. An awful lot of people have customers.

Q: VA had that spectacular IPO, followed by a lot of challenges. As you look back, are there things you wish you'd done differently?

A: Obviously it was very, very painful to go through the hype and then the downturn. Our customers were going out of business faster than we could change the logos on our company pitch.

I'm very proud of the fact that we found a way to build something that's still out there. You look at cloud services today, at Amazon or IBM - they're all based on that open-source code we started developing years ago. Look at mobile: Open source drives every Android device.

Even here (at Sugar), independent software vendors can download an open-source version of our product and build on it. That gives us a scope and a scale we could not obtain just by spending marketing dollars. It gives us a developer ecosystem. It was one of the reasons I got involved with the company.

Q: Where do you stand on the "freemium" sales model? I've spoken to some other enterprise software CEOs who were around during the dot-com era, and they're very skeptical.

A: I wouldn't say I'm skeptical. Freemium attracts millions of consumers, but it's a little less compelling as you go upmarket into big enterprise. I've been lucky enough to see a lot of different business models; at some point you realize, "These are all different tools in the toolbox."

I think one of the challenges for anybody in business is to learn to be flexible. I'm a big believer in reinventing yourself and never getting stuck in one place.

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