

Revised December 1, 2020

ANDREW HARGADON
JOE DINUNZIO
DICKSON L. LOUIE

BuildingConnected: Networking and Empowering the Commercial Construction Industry

*“Everyone knew our mission...It was never overly complicated.
...Just kept things very simple.”*

—DUSTIN DE VAN, BUILDINGCONNECTED CEO AND CO-FOUNDER

*“When we talk about BuildingConnected, it’s always in three phases:
Phase One, build a network; Phase Two, use that network as
a distribution channel to sell advanced features on; Phase Three, use the data
that goes through the network to drive and find revolutionary marketplaces.”*

—JESSE PEDERSEN, BUILDINGCONNECTED CTO AND CO-FOUNDER

In early December 2018, just weeks before the year-end holidays, Dustin DeVan (’06) and Jesse Pedersen (’08), the two thirtysomething co-founders of BuildingConnected, a San Francisco-based commercial construction networking platform, met in their company’s Mission Street headquarters and pondered whether they should sell their nearly seven-year-old business (**Exhibit 1**). A few days earlier, San Rafael-based Autodesk, a publicly traded \$2.6 billion¹ global software company that provided subscription and maintenance services for specific industries—including architecture, manufacturing, media, education, and entertainment²— had increased its offer to purchase BuildingConnected for \$275 million, net of cash.³ Autodesk’s purchase of BuildingConnected would strengthen its portfolio of software offerings for the construction industry by complementing two other recent acquisitions, PlanGrid and Assemble Systems, and make the construction industry “Autodesk’s next billion dollar business.”⁴

As DeVan and Pedersen considered the possible sale and the related discussion with their board, they also thought about the long and winding path that had taken them to this day. For DeVan and Pedersen, this moment was bittersweet. When DeVan first came up with the idea of creating a networking platform to allow owners, general contractors, and subcontractors (**Exhibit 2**) to connect online and submit bids during the pre-construction phase, he quit his full-time job at a general contractor firm in early 2012 to pursue it, but there were many nonbelievers. No one wanted to partner with him on this concept. The initial prototype then went horribly wrong. And all of DeVan’s personal savings were consumed by this early miscue. Determined, DeVan

Andrew Hargadon, Charles J. Soderquist Chair in Entrepreneurship; Joe DiNunzio, Executive Director of the Mike and Renee Child Institute for Innovation and Entrepreneurship; and Dickson L. Louie, Lecturer, all of the Graduate School of Management at University of California, Davis, prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 2020 by University of California at Davis Graduate School of Management. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means without the express written permission of The Mike and Renee Child Institute for Innovation and Entrepreneurship.

pressed on. Intrigued by the challenge, fellow UC Davis alumnus Pedersen joined DeVan in early 2013 as CTO to help reboot the prototype. Together, they put BuildingConnected on a path toward growth, but it still wasn't easy. Their seed money came mostly from family and friends. With that limited budget, they had to find dedicated employees who were willing to work below market rates at the beginning, then create a community of stakeholders—customers, employees, and investors—who believed in what they were doing. It was especially challenging in an industry that was antiquated in its ways of doing things. Complicating this further, no venture capitalist (VC) wanted to invest in BuildingConnected initially. The VCs were spooked both by the co-founders not having a product that would serve an industry traditionally unaccustomed to tech and by the co-founders' game plan of giving the company's software away for free to build a critical mass of construction-based users early on—with no incoming revenue during the first few years—as part of a longer-term “freemium” strategy. BuildingConnected was the baby that they had nurtured from scratch into a multimillion-dollar business that now had a digital network of more than 700,000 construction professionals⁵ through its three online products: BC Board Pro, TradeTapp, and BidBoard Pro.

The Initial Concept

Dustin DeVan's background. A double major in mechanical engineering and aeronautical science, DeVan (**Exhibit 3**) graduated from UC Davis in 2006. He grew up in the nearby area of Fairfield, California, where his mother and stepfather owned their own real estate brokerage and property management company. DeVan had displayed leadership skills early on, from being the captain of his prep sports teams to becoming the student body president of his high school class. His first job after UC Davis was as a scheduling engineer at San Francisco-based Bechtel, the largest construction company in the United States that is best known for the building of the Hoover Dam, the Channel Tunnel (connecting England and France), and the Narrows Bridge (in Washington State).⁶ After working for Bechtel for about a year—and not wanting to be transferred to his next assignment in Libya—he then joined Rudolph and Sletten, a major Northern California general contractor, as a senior project manager and stayed there for the next five years, with his first project being the construction of \$80 million Kaiser Hospital in Roseville, California.

Coming Up With the Idea. Assigned to Rudolph and Sletten's business development area during the 2008 Great Recession to help the firm find more additional work during the economic slow-down, DeVan became more familiar with how the pre-construction process of bidding on new projects worked, especially the vital interplay between general contractors and subcontractors. From this experience, DeVan discovered:

At the end of the day, you have to communicate with a lot of subcontractors in order for a general contractor to win work. I started realizing, this is a complex problem. It resembles a network, because you have these nodes: You have these GCs all over the place; you have all these projects all over the place; and you're communicating with a bunch of different people. There's all this cross-channel communication going on. I'm thinking, “Wow, this is a fragmented industry. It's highly collaborative. This communication needs to move to a network. No one's built that.” And I thought, “What a cool concept, if you could connect every business and professional involved in commercial construction—we're talking about a trillion-dollar U.S. economy—that makes you an important company.” And from there, what else can you do? You can do a lot of things.

The Status Quo. Without an online platform available for the construction industry—and LinkedIn wasn't considered an option since it's a horizontal network based upon individuals, not a vertical one focused on a specific industry—many firms had to maintain their own individual business contact databases of everyone they knew, usually in the tens of thousands of contacts, the old-fashioned way: On Excel spreadsheets on their own individual computers. “These are massive—think of everything you can do in construction and there's hundreds of things—and its infinite,” DeVan added. “You have vendors that specialize in everything, so you have to maintain all that information in order to do business with them.”

But having all this isolated database information presented additional challenges—easily outdated and often missing new contacts. DeVan explained:

What would happen is, as a project would come up, you'd use your static contact database and all the information's outdated, because people would often move from company to company. It also means that you're always sourcing new businesses, because new businesses are always being created [and] you want to stay competitive.... And then there's discovery—if you go to a market you don't know that well, how do you reach out to those people? All of these things are super-solved, if you create a network to facilitate all this communication.

2012: Launching BuildingConnected

Taking the Plunge. After working as a senior project engineer at XL Construction, another Bay Area general contractor, for less than a year, DeVan began thinking about starting his own company around this platform idea and building a prototype that he could show potential investors as a proof of concept. Years earlier, as a UC Davis undergraduate, he had enrolled in the 23-week Sacramento Entrepreneurial Academy, so starting his own business was always a goal. BuildingConnected—the best domain name then available that reflected DeVan's goal of connecting builders in commercial construction—was incorporated in January 2012. DeVan recalled the challenges of creating a prototype and his initial fundraising experience:

Towards the end of 2011, I was trying to find someone to join me as a partner. And I really couldn't find anyone that wanted to build software for construction. There were no startups that were raising capital at the time for construction. So, I made a good decision, but then a bad decision. I found a [contract] team of Latvian engineers [to help build the prototype for \$225,000 [via a Craigslist intermediary].... I had about five grand in my bank. So, I signed the [prototype] contract. I quit my job [in March 2012]. I got a buddy to put in 50K. And then from there I was, “OK, I got the first month's installment.” With six months payments scheduled, I just thought I was going to go fundraise. I'd never done it before. I wrote an executive summary, and I had a few people lined up that I thought I could raise capital from. And then I actually started connecting with a bunch of angel investors. One of the things I did, which people always thought was funny, is about half the money came from me just going from coffee shop to coffee shop and pitching every random person. And then the rest of it came from just network connections. But I wasn't from Silicon Valley. I didn't come from Google, Apple, or Facebook. So, getting meetings [with venture capitalists] was very difficult, because I had no track record, and I was coming from construction. I was constantly being asked: “Why are you using an outsourced team? You couldn't get a CTO?”

The prototype ended up being a disaster, making it almost impossible for the platform to create a “two-sided” market of construction project providers and service suppliers. DeVan continued:

I was able to pull the capital together at that time, and we got a product to market towards the end of the Q3 [2012]. But even before the end of Q3, I knew it wasn't going to work. I learned a lot about product development: The thesis was if you could get people to use the software to invite people to bid, you could grow a network. We spent a lot of time focused [instead] on what you would do after you joined the network. And we built a very shitty invitation-to-bid tool. Your core MVP [Minimum Viable Product] is all you should own—[but] if that doesn't work, then what's the point?

We had to make it as frictionless as possible, because you need [customers] to join. So that's the trick. But we didn't solve that problem. We made a really shitty tool from both sides, both the people with the projects—so the demand side had a shitty experience—and the supply side, the people with the services. We needed to eliminate all friction for both sides to communicate in a better experience than they could get from any other place and then we could really grow quickly. When we ended Q3 [2012], I couldn't get anyone to use the software [from the Latvians] to invite people to bid on projects, so I couldn't grow. I really was in a bad spot at the end of 2012.

2013: Rebooting BuildingConnected

Meeting Jesse Pedersen. With an unusable prototype, DeVan had no choice but to hire a CTO who would “reboot” the entire project. Despite the prototype setback, DeVan was still determined to pursue the idea. “So, about that time, I sold my car, I borrowed ten grand from my old boss [Eric Riff from XL Construction], and I realized I needed a CTO in order to be successful. What's more, if you want to be a technology company, you have to develop the technology yourself, because that's your IP [intellectual property].”

Even though they had known each other informally while at UC Davis, a mutual friend told Pedersen of DeVan's need for a CTO. Like DeVan, Pedersen had also been a double major in mechanical engineering and aeronautical science, grown up in Northern California, and was the captain of his sports team—in this case, the nationally ranked UC Davis men's volleyball team. The son of two UC science college professors, Pedersen was then working as an engineer at a local start-up and had online marketing experience. They met at a Vietnamese sandwich eatery in early 2013. “I sat down with Dustin,” recalled Pedersen. “[I said] ‘I'd love to try and help you find someone.’ and Dustin walked me through the idea. Afterwards, I remember getting home and thinking about it. And I thought: ‘I don't want to tell anyone else this. I want to go do this.’”

The respect was mutual. Jim Corbett, founder of the Sacramento Entrepreneurial Academy and one of the first family and friends investors in Building Connected, remembers, after meeting both of them in San Francisco: “Dustin walked me out of the building and he put his arm around me and said ‘Jim, Jesse's the smartest person I've ever met in my life and he's going to help us get across the goal line.’”

Initial Reaction from the VCs. With Pedersen on board by March 2013, the first thing both of them agreed to do was to raise a new round of funds. “I was super broke by that point,” said DeVan. “So, the first thing Jesse and I did was we put together decks.” And we agreed that “we needed to finance this right. Let's raise it on an idea, because VCs do that, right?”

None of the VCs they pitched to were interested primarily because BuildingConnected had not yet proven that they could even build the software that users would employ for project bidding or that users would be willing to pay for any premium enhancements, even if they did use the free communication layer for networking. Coming from the construction industry—which was slow to adapt to tech—made their idea even less appealing.

Their business model also focused on creating a “freemium-based” site in three steps. Pedersen explained:

When we talked about BuildingConnected, it’s always in three phases: Phase One, build a network; Phase Two, use that network as a distribution channel to sell advanced features on; Phase Three, use the data that goes through the network to drive and find revolutionary marketplaces.

DeVan added:

I had one VC that told me you cannot possibly build a business this way. Flat out. ...But we were pre-product, unproven founders [with] a crazy idea for a business— that you want to give free software to businesses to communicate. [They asked,] “Why are you doing that?” I get now why the VCs sent us away.

Building the Actual Product. After getting nowhere by pursuing the initial fundraising based simply on an idea, they then decided to focus on building an actual product instead. Pedersen said:

I remember there was a distinct day in May where we were just like: “Fuck it! We're not talking to VCs anymore. We're just going to go heads down and go build a product and prove it with the numbers.” Fortunately, we found a few more angels [and raised \$430K from their network of family and friends to help finance the initial product development].

Signing up the First Customer. Renting a two-seat WeWork office—nicknamed The Fishbowl because of its glass interior walls—in San Francisco’s SOMA district for about \$300 a month, DeVan and Pedersen then worked from May to October of 2013 on building the product with the goal of signing up general contractors by 4Q 2013 as their initial proof of concept. Sacramento-based MarketOne Builders, who needed bids from subcontractors on a specific construction project, became the first general contractor to sign up for their service in October 2013.

The Network Effect. On BuildingConnected’s potential value proposition, DeVan—who did sales himself then—said to get general contractors to sign up, he made the argument that BuildingConnected’s “network effect” would benefit them in the long run:

If you think you're super competitive because you know your circle is this size. If our circle’s the combination of everyone, we have more knowledge than you. So, if you want to stay competitive, then you have to join. A lot of them still didn't understand that.

Late 2013 and 2014: Reengaging the VCs

Reengaging the VCs. With the product development underway during the summer of 2013, DeVan looked ahead and decided that BuildingConnected would need an additional seed round that went beyond his and Pedersen’s initial network of family and friends. From his past dealings with VCs, DeVan now realized that he needed to set milestones to win their interest. DeVan said:

We were going to have to raise a legit seed round. Because we had this freemium model, we were not going to have revenue for quite some time. In fact, we were not projecting for revenue for the first two years, at least. We wanted to grow the network and just make communication and engagement our core focus for a long time. So, in [the summer of] 2013, I started emailing VCs. We had known we weren't going to be able to raise capital until we had some proof points that [showed] the network could grow, and that people would use the product.

Connecting with Homebrew. One tactic that DeVan decided to utilize this time was to cold call the VCs via email and simply let them know what BuildingConnected was aiming to achieve without asking for a meeting right away—a less direct approach. This proved successful. DeVan recalled:

One of the VCs I emailed, this gentleman's name is Hunter Walk [who was a former Google product management director]. The firm is called Homebrew. I emailed him, basically saying, “Hey Hunter, you don't know me, I know VCs don't like cold emails. But working on a startup, here's our thesis: We're going to go out and do these things over the next few months. When we accomplish them, will you take a meeting with us?” And to Hunter’s credit, he wrote back, and he said, “This is one of the best ways I've ever been approached. Everyone wants a meeting now; you just told me what you believe and what you're going to go do. If you do these things, I will meet with you.”

At the end of 2013, we had three or four general contractors using our software, maybe a couple hundred people registered, but at least like the seeds were planted. You could see some sprouts coming through the soil. And so, Hunter took the meeting. We [then] got contacted by a different seed company [Freestyle] that had turned us down when we had no product. And he just called us up and said, “Hey, I heard good things!” Well, what had happened was Hunter had back-channeled with a friend at another firm, because they knew that they might want to do this deal, and it might take more capital than what they were comfortable doing on their own. So, they wanted to do a joint investment. We were able to raise a seed round there, by telling the story of “look, this is our go-to-market.” We're going to focus on network growth; our core KPI [Key Performance Indicator] is projects, and we get a GMV [Gross Merchandise Volume] of what's going through the system.

Second Seed Round. By March 2014, BuildingConnected had raised its second seed round of \$2.2 million that was led by Homebrew and Freestyle. Initially, the seed round was supposed to be only \$1.5 million. Both Homebrew and Freestyle had committed \$650K each, with \$200K left for strategic investors. Another firm, Bee Partners, then put in an additional \$300K—their first investment ever anywhere—and Brick and Mortar Ventures—run by Darren Bechtel of the Bechtel construction family—wrote a check for \$250K, after meeting DeVan over coffee for just 30 minutes (Bechtel also subsequently arranged for DeVan to live rent-free in a dorm of foreign exchange students in the Mission District, then in exchange for managing it on nights and

weekends). The balance of \$430K represented the initial money that they had raised in early 2013 when Pedersen came on board that was now being reclassified from convertible debt into equity. “We got oversubscribed,” noted DeVan, “which was weird.”

2014: Building the Team and Customer Base

Hiring the Team and Expanding the Customer Base. With this infusion of cash from this second seed round, BuildingConnected could now begin to hire a team. DeVan recalled:

For the next year, all Jesse and I focused on was hiring a team, getting general contractors to use us to bid out work and just showing that we could grow this network. What we determined was “all right, let's get as many GCs as we can in San Francisco.” But to raise a Series A, we figured we needed to go to a couple of different markets to show that this concept applies elsewhere besides San Francisco. And we thought we could raise a Series A on the story, “Look, they know how to go to different markets, they can build this network.”...So we built up the team to nine or 10.

Among the first key hires were Bradford Cook, an engineer and former banker, in March 2014, who they found through a hacker school to help with improving the platform, and Nate Mihalovich, who had previously launched an unsuccessful startup of his own, but never had been in sales, in August 2014 to help with business development. Even though they were paying everyone below market rates, DeVan and Pedersen were searching for “diamonds in the rough” that would be a good fit, looking then at unconventional places to hire—such as hacker schools—and seeking people with high career ambitions.

Making Product Improvements. In recalling BuildingConnected’s early days during 2014, improvements were made to the initial products and the adding of new premium services, such as NDAs and sealed bids. Cook recalled:

We had some customers, but an exciting day back then was when 10 people were on the site at the same time. So very low usage and still sort of a product market fit, but it wasn't the level of being really an entrenched product market fit. The first year was spent on making small incremental features to the product that Jesse had built. Dustin, having come from the commercial construction side, intuitively knew the weaknesses of the current product and where we needed to get to and where the gaps were.

By year-end 2014, about 100 general contractors were on the site.

2015: Aiming for 1,000 Active General Contractors

Series A Financing. In March 2015, BuildingConnected then raised \$13.5 million of Series A funding, with Crosslink Capital being the lead investor, putting in \$8.5 million. DeVan said:

Series A financing was very easy. At that time, people were starting to realize that building networks that engage and capture customers is inherently valuable. Our cohort retention, for example, once we got people to use us, they stayed on board. The projects—it's repeatable—and the user logins were going up. So, Series A was actually just relatively great conversations. People liked the story. They liked construction. [People began to realize] it was a huge market that has all these businesses, which is

really antiquated.... So, we had a couple options for financing, and we went with Crosslink Capital. We were 10 to 11 employees at the time. We closed it just almost exactly one year after we raised our seed round.

Goal of 1,000 Active Contract Users. Once Series A closed, a goal was then set so that, by the end of 2016, there would be 1,000 general contractors actively using BuildingConnected. DeVan explained how setting this goal came about:

We set this 21-month goal and that became our North Star for managing the business. What's really great about giving your company just this one thing to shoot for is it can align everyone in the business, and everyone can rally behind that. One of the things that Jesse and I did particularly well with BuildingConnected is that everyone knew our mission. Everyone always knew that this is the KPI we're going after. It was never overly complicated. Just kept things very simple.

Expanding Geographically. Another key strategic decision was to expand outside of the Bay Area and Los Angeles—not going step-by-step, market to market as the VCs initially wanted—but going after all of the easy-to-find general contractors nationwide instead. Pedersen said:

We had totally saturated the Bay Area. Maybe out of 35 GCs, maybe five weren't using us, or something like that. We had very good penetration in the Bay Area and we were starting to make inroads, some in LA. We picked two or three markets because our VCs wanted to do this market-by-market. This was kind of [the] way they liked to grow these things at the time. And I remember Dustin one day in a board meeting finally [saying], "You know what guys, I'm done doing this market-by-market shit. Our product works extremely well for a certain type of GC at the time." And these were what are called TI, or tenant improvements GCs, that weren't necessarily doing like ground-up construction. They were just doing a lot of rapid remodeling—a floor or a couple of floors.... They had the same amount of value, whether you were doing a \$500 million project or a \$10 million project. So, Dustin said, "Rather than go market-by-market, I'm just going to go get all the low-hanging fruit in America. I'm going to go get every single GC."

Demonstrating the Power of the Platform's Network. Ultimately, BuildingConnected could demonstrate the power of its network to convince builders to adapt their service. Pedersen added:

There was a threshold: When you got about four or five GCs in a major metropolitan area, their combined contact databases covered about 90% of all subcontractors in an area. [In any geographic area], you are always going to get some slow adopters. [Then Dustin would] go back to those slower GCs. "And they'd say, 'Oh, well, you don't know about Joe's Plumbing.'" And then we would literally just bring it up in our search interface. We would say, "Oh! There's Joe's Plumbing, give us another one!" We'd play whack-a-mole with them. And they would get over that objection really quickly.

Among the major general contractors that BuildingConnected signed up included Turner Construction Company, McCarthy Building Companies, Inc., Webcor Builders, and Skanska USA⁷.

Going Rogue. Another way that BuildingConnected gained entry was to encourage insiders within potential clients to go ahead and use their software by "going rogue." Pedersen explained:

The other thing we coined in 2015 was this term “go rogue.” And Dustin would never take “no” for an answer at these companies. He’d talk to an individual estimator and they would say, “Oh, I love BuildingConnected! I want to use this for my project!” And then their boss would say “no,” and he would say, “Are you really going to take ‘no’ for an answer?” to this estimator. “We’re giving you free software that is literally better than your alternative, and you’re getting your job done faster. Is your boss really going to say ‘no’ in the long run, to this?” And so, we’d get these estimators to go rogue and just be kind of off the grid a little bit. And then it was a little bit easier to force our way in.

DeVan added:

I would be very persistent. And I taught my [sales] team to be very persistent. Overall, it was highly effective. There were a few bridges that are still burned, because the IT department got so mad that we hit up so many people.

Establishing a Customer Service Culture. In order to reach the 1,000 active general contractors at year-end 2016 and to move beyond being perceived only as a regional entity, DeVan and his executive team also went through an exercise in 2015 with a consulting firm to define BuildingConnected’s “DNA-based” culture and its market positioning with its customers. This not only helped codify the company’s mission—“We are a growing team committed to crafting the best product our customers have ever seen. We value communication, encourage frequent collaboration, and are committed to building beautiful, modern user-friendly software”—and values (**Exhibit 4**) but also identified customer service as its primary focus. As a result, BuildingConnected’s engineers made it a priority to respond to every single customer feedback when issuing a new software release, fixing glitches, or adding new tools. “Everyone gets the same message,” said DeVan. “We’re a customer company, and this is what that means to us. This is our culture. This is our philosophy.”⁸

2016: New Focus on Revenue

A Sudden Shift to a Revenue Focus. By 2016, the investment economics had quickly changed. Instead of focusing on network-related growth, many of the VCs were now demanding monetary growth as well, alarmed by several IPOs in late 2015, such as Square,⁹ which saw their initial market price of shares cut by their bankers just prior to the first day of trading. DeVan recalled:

At that time, now companies needed revenue to raise capital, and we had not focused on revenue. We had just focused on: “Let’s get great network dynamics; we’ll keep increasing the GMV, we’ll raise a Series B in order to go after monetization.” So, it was kind of awkward. They were saying we needed to show monetization, but also go raise capital before Armageddon. So, we started talking to VCs, and no one really wanted to touch us, because they didn’t want to invest. And what sucks was that we had executed per plan to everything that we had been advised to. I actually blame myself for not giving myself some more forethought on what fundraising would have looked like. But it was really good times in all of 2015 for financing—[it was] network growth, that’s all that matters. Then all of a sudden—almost on a flip of the switch—the entire industry changed on how they valued companies. And that’s very hard for a startup to adjust to. So now we’re being told to focus on revenue. I’m thinking, “You realize what you’re asking? We need to build premium services that we can sell.”

Surveying the Network. As the market changed, BuildingConnected ultimately decided to turn down an offer from one VC and then see how likely its customers would pay for premium services. DeVan said:

So, we started talking to VCs, and we got a term sheet [from one] and it was actually for a down round, said Devan. This venture firm wanted to bring us down [in its valuation], which is just killing it for everyone at the company [by diluting the value of their shares]. We're going to get shellacked as far as employee equity.... We started with going through the diligence to close the deal and never felt good about it. Jesse and I probably had our most heated conversations ever—both of us going back and forth about what's right. There was one day that I came back to the office and I said, "The power is in the network we built. Let's survey the network and ask them, "If we build these features, would you buy them? Would you pay for [a] premium solution?"

The responses showed that people wanted additional services on BuildingConnected.

At that point, DeVan and Pedersen realized that while there was money to be made from the GCs, the bigger news was the potential market size of the subcontractors, who had outnumbered the general contractors by a 50-to-1 ratio. The subcontractors were also queried. Ross Collinson, director of business operations, who oversaw all of the company's support system functions—CRM, HR, and analytics—noted the subcontractors' multiplier effect:

If you have 1,000 general contractors, you could feasibly have something close to a million subcontractors [since each general contractor had an average list of 1,000 subcontractors]. And that's a pretty cool way of growing. Obviously, someone's list of 1,000 will have some overlap with somebody else's, so it's not always unique as that. I think by the time we were at 1,000 General Contractors, we maybe had 200,000 subcontractors and that was pretty cool. The belief being that in the future we would build tools for the subcontractors and start to make money from them as well.

Extended Series A Round. DeVan and Pedersen then decided that backing out of the term sheet with the VC—which is something frowned upon in Silicon Valley—was their only option. DeVan remembered:

We took the data and went to the board and said, "Look, we executed perfectly, we have all these subs, we have these indicators of things that they would like, and things that we could build. So, let's do a financing round. Let's do a Series A extension instead of a down round, where everyone doesn't get shellacked [or have their ownership diluted]" And Darren [Bechtel stepped up and] said he would lead the round.

Even though BuildingConnected only generated \$756K in revenue in 2016, it did hit its year-end goal of 1,000 active general contractor subscribers—1,056 to be exact. The company also now had 30 employees.

2017: Hiring the Sales SVP and Series B Funding

Hiring an SVP for Sales. With the new emphasis on bringing in revenue, BuildingConnected hired Rich Maiers, who had been previously been at Salesforce, Topsy, and Kitman Labs, as its senior vice president of sales in January 2017. "Part of the deal," said DeVan of the Series A extension, "is that we wanted to build a true sales team. So, we hired Rich. He started putting

some processes in place and building out the sales infrastructure to move us from focusing on free to focusing on a culture of ‘we need to make money.’” Maiers noted:

If you're trying to grow a B2B company, you gotta show growth right. There were always fantastic numbers on those active users and stickiness, which is all great and important, but without ARR (annual repeatable revenue), they are sort of like vanity numbers.

When I joined, it was all about how we build this [sales] structure. There was absolutely no structure. The territories were wide open. No quotas. We got that stuff in place pretty quickly. We hired a few more people. Made sure we had enough coverage [nationwide], which is usually where you start to make sure that all your bases are covered. Build some processes. Add certifications¹⁰ [for the sales team to enhance their knowledge about the construction industry].

Another thing that Maiers did was to advocate making the premium products more distinct from the free ones. “When I joined, there were two products on the BC [product] side: There’s a free version, which had limited capabilities, and there was a paid version,” added Maiers. “The difference between the two [back in January 2017 was] pretty minimal. But we spent the next 24 months really stuffing capabilities into the paid version to drive more of those free users to pay.”

With Maiers putting together regional sales teams, creating sales quotas, and putting additional sales processes in place, BuildingConnected was able to grow its AAR from \$756K in 2017 to \$3.8 million in 2018. “We actually started showing we could monetize the subcontractors—the much larger opportunity, said DeVan. A product called BidBoard for subcontractors was launched in August 2017, with its own dedicated sales force headed up by Mihalovich.

Lightspeed and Brookfield. BuildingConnected was now able to prove that they were able to make money from both the GCs and the subcontractors. Lightspeed, a venture capital firm, showed a renewed interest. “Once we showed we had a product that subcontractors wanted to buy, LightSpeed stepped in and said, ‘We want to do a [Series B] round,’” said DeVan. A year earlier, Lightspeed had told DeVan: “We really like this. But you’re asking us to make two bets. You’re first saying you can make money off the GCs; you’re barely scratching that surface. And then you’re saying you can go make money off the subs as well. You need to come back to us with at least one of those bets secured. And hopefully two.”

Another strategic partner—introduced to DeVan by Darren Bechtel—was Brookfield Property Partners, one of the world’s largest real estate asset management companies. Brookfield had one office that had started using BuildingConnected’s software, but they were also opening up their first venture fund [totaling \$300 million]. DeVan recalled:

Our plan was to raise [another round of] capital in the summer of 2018, but [Brookfield] came in early, and wanted to participate very quickly [in March 2017]. And so what we did was we structured the financing on convertible debt.¹¹ That was going to extend our runway to increase our valuation; they’d convert with a cap or a discount, but they just wanted to get in. It was really great.

By year end 2017, BuildingConnected had tripled in size from the previous year to 110 employees, reflecting the increased staffing for sales and engineering product development.

2018: TradeTapp Acquisition

TradeTapp. In August 2018, BuildingConnected acquired TradeTapp, which focused on the verification of subcontractor qualifications that general contractors would use to mitigate their risk in using them. This would become BuildingConnected’s third product. DeVan said:

The Brookfield deal came in as part of a supplier named TradeTapp. Going into 2018, I started talking with [its founder], Justin Levine. Like myself, he came from construction and was a risk manager. [BuildingConnected also had its own qualification service then as an upgrade,] but Justin had just launched a company and his product was solely focused on qualification. And he was really a domain expert and had just built a better tool. We were focused on subcontractors at the time, so we had stopped development on our qualification service. It was half-complete of what it should be. Justin had taken TradeTapp to the next level. To Justin's credit—and he could not have beat us [as]; we could move into his space much easier than he could move into ours. So, we had some very serious conversations. [I told him,] “Justin, you can’t survive on your own. Why don’t you come join us? We’ll acquire you, you guys make money, you’ve raised no capital, and we’ll give you equity in BuildingConnected. And us together is going to be far more formidable than us apart.” So, he joined.

Late 2018: Offer by AutoDesk

By late 2018, BuildingConnected was already planning another round of financing, but was also getting some unsolicited acquisition offers. DeVan let his contacts at Autodesk’s corporate development department know that his company was receiving interest from outsiders. A meeting was then quickly set up with AutoDesk’s CEO, Andrew Anagost, and they had extended an offer within the next few days, eventually being \$275 million, plus a \$40 million employee retention pool. Building Connected would end 2018 with an AAR of \$10.8 million.

Both Devan and Pederson now had to weigh the offer.

On the one hand, they thought about staying as an independent company with the dream of perhaps an IPO several years down the road. DeVan noted:

You always build a business—we had always wanted to build a big business into an IPO, at least that was my dream, and I think most entrepreneurs’ dream. And I think you have to operate on building the company to go that direction. Because the people who optimize to get acquired, I don’t think they build good businesses.

On the other hand, there were other factors. Pedersen added:

You want to keep doing the things you’re doing, but your mind is just like—we would have to thread the needle perfectly, assume no economic downturn. Everything had to go right for us in order to get the same level of outcome that Autodesk was promising.

In addition, Dustin would no longer have to fundraise and could now focus on building the third phase of BuildingConnected’s business model with Autodesk’s resources: Create new specialized marketplaces within the network—such as job listings or provide retailing services—by using the data they had collected on its members.

What should they do?

Case and Supplement Discussion Questions:

1. What problem was DeVan seeking to solve with BuildingConnected? What in his experience helped him understand it, and how did he define an approach to address it?
2. What went wrong with BuildingConnected's early efforts? How did potential investors, partners, and employees react? What did DeVan do to address these challenges?
3. What steps did BuildingConnected take to identify and prioritize needed team skills and capabilities? What impact did this have on their ability to grow and evolve the company?
4. What were the organizational capabilities BuildingConnected needed to shift from building their user base to driving sales revenue? How would you characterize the key skills and characteristics needed for the job of SVP for Sales?
5. What kind of culture did DeVan seek to build within BuildingConnected? What steps did he and Pedersen take to reinforce this? How was this reflected in their approach to customers and the market?

Exhibit 1. BuildingConnected Timeline (2012–18)

| | |
|-------------------------|--|
| June 2006 | DeVan graduates from UC Davis; joins Bechtel as scheduling engineer |
| June 2008 | Pedersen graduates from UC Davis |
| 2010 | DeVan joins XL Construction; hired by Eric Riff |
| January 2012 | BuildingConnected founded |
| 2Q–3Q 2012 | Latvian team puts together initial prototype; it fails |
| March 2013 | Pedersen teams up with DeVan |
| 2Q–3Q 2013 | Pedersen reworks prototype; first seed funding of \$430K secured |
| October 2013 | Sacramento-based Market One Builders, first GC customer |
| 2014 | Second seed funding of \$1.3 million secured, with Homebrew, Freestyle, Brick & Mortar, and Bee Partners |
| 2015 | Series A financing of \$15 million secured |
| March 2015 | Sets goal of 1,000 active GC users by year-end 2016 |
| October 19, 2015 | First premium GC customer signed |
| Late 2015 | DNA-positioning workshop with Cunningham Collective to define organizational culture and customer focus |
| 2016 | Extended Series A financing, led by Darren Bechtel & Crosslink; focus on revenue, premium services, and subcontractors |
| Year-end 2016 | Reaches goal of 1,000 active GC users by year-end 2016 |
| January 2017 | Rich Maiers joins as SVP sales; focus continues to shift to AAR (annual recurring revenue) and subcontractors |
| June 2017 | A second product, BidBoard, launched for subcontractors |
| September 2017 | Series B financing of \$152.5 million completed, including Brookfield and Lightspeed |
| Year-end 2017 | \$3.8 million in revenue for 2017 |
| August 2018 | A third product, TradeTapp, acquired |
| December 2018 | AutoDesk offers to acquire BuildingConnected for \$275 million, net of cash |

Sources: LinkedIn, press releases, news articles

Exhibit 2. BuildingConnected’s Product Line

NETWORK SOLUTIONS

3 tools that simplify preconstruction.

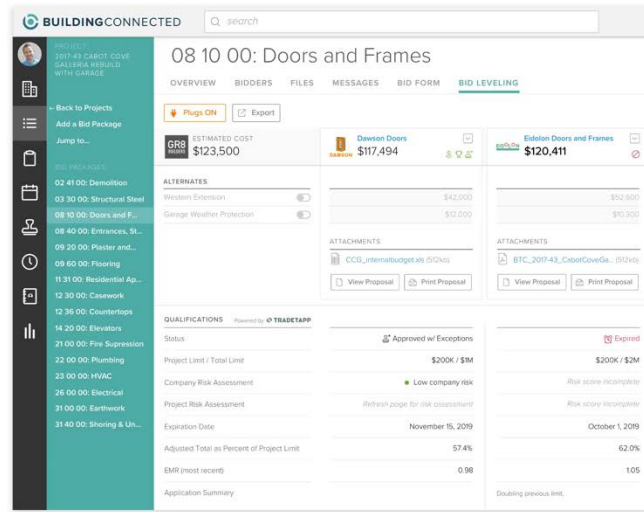
- ✓ **BC Pro** for general contractors and owners
 Centralize bid management and increase ROI.

Use the most up-to-date construction network to invite the right subcontractors, manage proposals and award the best bids.

[Learn more](#)

- ▲ **TradeTapp** for risk teams
 Mitigate risk right from the start.

- ▲ **Bid Board Pro** for subcontractors
 Centralize your bids and collaborate in real time.



| BID MANAGEMENT | RISK MANAGEMENT | OPPORTUNITY TRACKING |
|---|---|---|
| <p>BC Pro » Leverage the largest network in N.A. to invite the right vendors, manage proposals, and award the best bids.</p> <ul style="list-style-type: none"> Subcontractor Network Bid Analytics Risk Mitigation with TradeTapp Invitations to Bid Bid Leveling Plans & Pricing ROI Calculator | <p>TradeTapp » Qualify subs through automated analysis and recommendations so you can mitigate risks sooner.</p> <ul style="list-style-type: none"> Risk Analysis Risk Mitigation Vendor Management BC Pro + TradeTapp Integration | <p>Bid Board Pro » Manage all your bid invites with our online bid board so you can win the right jobs.</p> <ul style="list-style-type: none"> Automated Bid Tracking Bid Calendar Bid Analytics Plans & Pricing |


Sources: BuildingConnected

Exhibit 3. BuildingConnected Co-founders, Jesse Pedersen (L) and Dustin DeVan (R)



Source: BuildingConnected

Exhibit 4. BuildingConnected’s Corporate Values

 BUILDINGCONNECTED
AN AUTODESK COMPANY

[Products](#) [Network](#) [General Contractors](#) [Subcontractors](#) [Owners](#) [Resources](#) [Login](#)

Solving real problems for real people

We are a growing team committed to crafting the best product our customers have ever seen. We value communication, encourage frequent collaboration, and are committed to building beautiful, modern, and user-friendly software.



We're creating a vibrant, open-minded community.

Refreshingly different

We do things differently. We're all unique, we're all a little weird, and that's what makes us awesome.

In each other, we trust

We trust each other to execute on our goals. We believe success is based on honesty, accountability, and willingness to ask for help.

Passion with a purpose

We are passionate about problems that matter. We strive to strengthen the lives, jobs, and relationships of the world's millions of hardworking construction professionals, and our work is never done.

Mastery through mistakes

We openly own our mistakes. We treat them as opportunities to learn, grow, and master our craft.



Diversity is our norm

We reject the status quo. We challenge the norms of tech and construction, and we believe that both industries benefit from a more diverse workplace that includes talented women, people of color, and the LGBTQ community.

Source: *BuildingConnected*.

Endnotes

¹ Based on Autodesk net revenue for fiscal year 2018, ending January 1, 2019

² Autodesk home page

³ (2018, December 20). *Autodesk to acquire BuildingConnected, a leading construction bid-management platform*. Autodesk. <https://investors.autodesk.com/news-releases/news-release-details/autodesk-acquire-buildingconnected-leading-construction-bid>

⁴ (2018, December 20). *Autodesk to acquire BuildingConnected, a leading construction bid-management platform*. Autodesk. <https://investors.autodesk.com/news-releases/news-release-details/autodesk-acquire-buildingconnected-leading-construction-bid>

⁵ (2018, December 20). *Autodesk to acquire BuildingConnected, a leading construction bid-management platform*. Autodesk. <https://investors.autodesk.com/news-releases/news-release-details/autodesk-acquire-buildingconnected-leading-construction-bid>

⁶ <https://www.companieshistory.com/bechtel/>

⁷ Cunningham, A. (2018). *Get to aha!: Discover your positioning DNA and dominate your competition* (p. 181). McGraw-Hill.

⁸ Cunningham, A. (2018). *Get to aha!: Discover your positioning DNA and dominate your competition* (p. 187). McGraw-Hill.

⁹ Lapowsky, I. (2015). Square's low IPO price could signal hard times for unicorns. *Wired*.

¹⁰ Sales certification refers to being "certified" after completing a training program to obtain a certain set of skills or knowledge.

¹¹ Convertible debt is a financing instrument where the lender initially provides capital to a company as a loan and has the option to convert it into equity ownership in stock later on.