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FINANCIAL POST BUSINESS NEW VENTURES CASE SERIES



Sourcing Discontent

You've got a good business idea, but you need custom software to make it a reality. Which supplier do you pick?

The company: Founded in 2000 by George Davidson and Bob Christianson, Calgary-based RepeatSeat has become Canada's largest developer of online ticket sale systems. Its roster of clients includes sports teams, theatres and tour operators in North America and Europe. In Canada, it has 60% of the market for online movie ticket sales.

The situation: RepeatSeat wants to roll out a service that allows moviegoers to buy tickets over cellphones, but it needs software that will send bar codes to handsets to replace paper tickets. RepeatSeat is working with two firms to develop the technology. Both have failed to come up with working systems or acceptable licensing terms.

GEORGE DAVIDSON, the chief executive and co-founder of Calgary-based RepeatSeat Inc., was feeling frustrated as he settled down for lunch at his favourite restaurant. It was November 2006 and his firm – an online ticketing service for venues, tourist attractions and conference operators in North America and Europe – was doing well, and had grown quickly in the six years since its launch. But no amount of positive news could dispel his concerns over RepeatSeat's latest project, which was going nowhere fast.

For the past two years, Davidson and his partner, RepeatSeat chief operating officer Bob Christianson, had been trying bring a new service to Canada – sales of movie tickets in the form of bar codes delivered over cellphones. The duo had first encountered the technology in Europe, where its use is widespread, and had since pre-

sent the idea to Cineplex Entertainment LP, the largest motion picture exhibitor in Canada, and opened negotiations with wireless carriers to deliver the service. Everyone was enthusiastic about the technology. The problem was that RepeatSeat had so far been unsuccessful in its efforts to solve the technical problems associated with delivering bar codes to cellphones in

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Canada. Neither Davidson nor Christianson had expected the job would be so difficult. They had started out by negotiating a two-year licensing technology from a U.K.-based firm that had developed software to get the job done. But that company's technology was designed for the GSM mobile standard used throughout Europe, not for the CDMA standard most common in Canada. And its progress on developing a version that would work here was moving too slowly for RepeatSeat's founders, who were beginning to wonder whether their investment in licence fees for the technology and other costs would ever bear fruit.

Davidson and Christianson, however, weren't without alternatives. They had recently learned

"Maybe we'll just have to develop the technology ourselves," Davidson grumbled to himself as he perused the restaurant's menu. "It can't be that hard." It was a tempting thought, but Davidson also knew that his company couldn't do everything by itself. For starters, it had no experience in the "mCommerce" – mobile commerce – sector. What's more, RepeatSeat had limited resources and it would be difficult to buy the expertise it needed. But going it alone may have been the only option Davidson and his team had left.

THERE WAS LITTLE in the background of either Davidson or Christianson to suggest they'd one day team up to form an Internet commerce

up with secondary ticketing," Davidson recalls. "We'd partner with a major organization, such as an NHL team, and allow their season ticket holders to buy and sell tickets on our market."

This was a new and innovative idea, for which RepeatSeat filed method and system patent applications in Canada and the U.S. In a further reflection of the pair's belief in the Internet's ability to revolutionize the ticketing industry, their firm would do no branding of itself on its websites. That would belong entirely to the client, so that when a customer bought a ticket to game or an event, he or she would only see the team's or the venue's brand. RepeatSeat would be invisible, operating purely in the background, earning money from transaction fees.

“We invested a lot of time and money in our relationship with our partners in the U.K., but nothing was panning out. Still, we didn't want to walk away. Success could have been just around the corner”

of a tech firm right in Calgary that offered a bar-code-to-cellphone technology that worked beautifully over the CDMA standard. Davidson and Christianson quickly entered into licensing negotiations – only to hit another roadblock. To protect RepeatSeat, they wanted guarantees from the Calgary firm that its technology was wholly original and wouldn't be subject to future claims that it infringed on the intellectual property of other companies or individuals. The Calgary firm refused to include such a clause in a contract, and no amount of bargaining on RepeatSeat's part could shake its position.

company. When the duo met back in 2000 as students in an MBA program, Davidson was vice-president of operations for a major construction-materials distribution company that had \$300 million a year in sales. Christianson worked in the oil and gas services industry, spending time in Eastern Europe and China before co-founding and selling IPEC Ltd., a publicly traded oilfield services company. Their career paths started to change when they began collaborating on a project for their first-year e-business class.

"We were looking for ideas that would leverage the Internet's capabilities and came

Making the concept more attractive back then was the little-known fact that the ticketing industry was highly fragmented. And the more Davidson and Christianson learned about the industry, the more they became convinced that it was rich in opportunities. "Ticketmaster, of course, had tremendous mindshare," Davidson says. "Everyone would estimate their market share to be in the 60% to 70% range. But Ticketmaster owned just 15% of the market back then, and only 10% of non-season's tickets were being sold over the Internet."

INNOVATIVE IDEAS.
RELEVANT EXPERTISE.

Convinced that their idea could succeed, Davidson and Christianson launched RepeatSeat in 2000, starting with the purchase of a firm in Denver that handled ticketing for one-third of all ski hills in the U.S. Over the next three years, they signed up a further 170 clients.

By that time, RepeatSeat was already working on its entry into the Canadian movie-ticket business. Their point of entry was the Onex Corp. conglomerate – at that time the owner of the Galaxy Cinemas chain – where Christianson knew people from his days in the oil industry. Using those contacts, he arranged a meeting at which RepeatSeat could demonstrate its service. The Onex officials were impressed, and finalized a deal with RepeatSeat to sell tickets for its Galaxy chain. That deal became richer when Galaxy merged with Cineplex and even more so after the new company bought Famous Players in 2005, thus creating Cineplex Entertainment LP. Now linked up with the largest cinema chain in Canada, RepeatSeat owned 60% of the national market for online movie-theatre ticketing – and a tremendous opportunity to roll out a wireless service.

Davidson and Christianson, in fact, had begun thinking of offering a mobile ticketing service for sometime. As early as 2004, they were recognizing that mCommerce would become the way of the world in just a few years. Christianson had recently visited the U.K. and witnessed the bar-code-to-cellphone system. Impressed, he and Davidson wasted little time in negotiating a licensing deal with the U.K. provider, securing the exclusive North American rights to their technology for cash, plus sustaining payments and stock options.

Of course, they still had to overcome the obstacle of creating a system that would work on North America's CDMA phones. Davidson and Christianson were initially optimistic. "We developed personal contact with their board of

directors," Davidson says. "There was a level of trust when we began." That wouldn't last. Over the next two years, RepeatSeat's team worked with the U.K. firm's staff to try to resolve the problem, but with little success.

By 2006, Davidson and Christianson were wondering if it was time to cut their losses. "We'd invested a lot of time and money in the U.K. relationship, but nothing had panned out," Davidson says. "But we didn't want to be too quick to end the relationship because success could be just around the corner. Besides, in their defence, we had licensed their technology but hadn't had success so far securing mCommerce contracts." That, however, was about to change. Cineplex was in the process of overhauling its point-of-sale technology, creating an opportunity to introduce mobile sales.

BACK AT THE RESTAURANT, Davidson tucked into his lunch and continued to mull his options. In two days, he and Christianson would fly to London for meetings with the U.K. firm. The company was getting frustrated with RepeatSeat, which hadn't done anything with its licence in two years. It was now saying that it could demonstrate a technology that would work in North America – but would only do so if RepeatSeat signed a new licensing deal to replace the one that was coming to end.

That wasn't an easy commitment for Davidson to make, given past experience. What's more, there was the Calgary firm that had what he wanted – if only it would agree to guaranteeing the originality of the software.

The more he thought about it, the more Davidson started drifting towards the idea of having RepeatSeat try to develop its own technology. The problem was that RepeatSeat had only ever seen the bar-code-to-cellphone system in action from a user perspective. It had never actually looked at any code. What's more,

RepeatSeat's chief technology officer had no direct experience with mCommerce applications. But even with that shortcoming, the CTO had still told Davidson and Christianson that he thought a solution could be found within a few months. And that investment in time might be worthwhile, given that RepeatSeat would have full control of its software. By the time Davidson was finishing his coffee and getting ready to go back to work, he was starting to think he knew what would be RepeatSeat's best move.

The Expert View

By Michael Boyd

President, Junior Industrial Finance Corp.



DAVIDSON FACES an interesting dilemma to solve and a decision path probably has to be reached quickly. First, though, the odds are that it would be folly for such a young firm like his to allocate resources to develop an application. Davidson himself is aware of the issues. Clearly, the in-house route should be off the table.

In assessing whether to continue with the U.K. supplier or the new Calgary firm, the issue, as I see it, is in assessing the risks and importance of time-to-market for the bar code

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application versus the potential for litigation problems down the road. Decisions in this type of situation are often clouded by the sunk costs already paid to the U.K. firm by RepeatSeat.

I would recommend a two-pronged approach in the short term. Davidson should probably become involved in discussions with the Calgary firm to see if appropriate guarantees or indemnity can be obtained regarding the intellectual property concerns. In parallel, I would see if the U.K. firm can demonstrate the bar code application with the promise of a new agreement if it works. If the U.K. firm balks, RepeatSeat should probably turn around and negotiate the best deal it can with the Calgary firm. It will be hard to walk away from the sunk costs and the existing relationship. In this type of Internet-based marketing situation, however,

in Canada (and No. 3 in North America) speaks volumes about their capabilities. They may be catching another great wave with mobile ticketing, but there are some pitfalls that they must be careful to avoid.

GSM vs. CDMA GSM is by far the most popular wireless technology in the world, having first gained widespread adoption by European carriers. With high global volumes, GSM handset costs are typically lower than the less popular CDMA. Software developers are far more likely to develop applications for the GSM standard (to reach larger markets).

So, the fact that RepeatSeat is having some challenges getting mobile ticketing applications to work on CDMA, even though it works well on GSM, is no surprise. But even in North America, there are both GSM and CDMA carriers and

local firm that has made mobile ticketing work over CDMA. The good news is that Davidson and Christianson now know that it can work. But unless they are legally entitled to use that technology, there is simply too much risk. Unless the Calgary firm satisfies RepeatSeat that the underlying technology is really theirs to license, this option is not viable.

Next steps Davidson and Christianson may be on to something good, but only if they get it right. Forget the half-baked idea of building the solution themselves. They should have one final meeting with the Calgary firm and make it clear that discussions will end if the technology ownership issue isn't addressed. It should also work with the U.K. partner to get a solution to market that works technically, legally and economically. Meanwhile, they should investigate launching a GSM solution in North America, with GSM carriers, thus gaining early and valuable customer feedback about the application itself.

“RepeatSeat should forget about the half-baked idea of building a software solution by themselves”

I expect getting to market as quickly as possible is the more important driver than potential issues that may arise down the road later in an ownership challenge to the technology.

By Ron Close

President, Bell New Ventures



DAVIDSON AND CHRISTIANSON have demonstrated terrific entrepreneurialism with their private-label ticketing solutions. Becoming No. 1

markets. What is stopping RepeatSeat from launching their mobile ticketing application with a GSM carrier, such as Rogers Wireless or AT&T, while they work on a CDMA solution for firms like Bell Mobility or Telus?

Do it ourselves vs. Partnering While it is understandable that the CTO would like to have the software design in his own control, RepeatSeat clearly lacks the expertise to do it themselves. If their U.K. partner has not been able to get it working on CDMA after two years of trying, you can safely assume it is not easy. They are on the right track to enter this market by licensing a partner's technology.

Do it right vs. Do it fast It is interesting that RepeatSeat doesn't have many mCommerce contracts. Perhaps that points to a nascent market that has not yet reached the steep part of its growth curve. Mobile data applications often take longer than expected to gain momentum. Time might be less of an enemy than RepeatSeat fears.

Licensed vs. Unlicensed technology It certainly is a tease that RepeatSeat has found a

The Outcome

WHEN PUSH CAME to shove, Davidson and Christian decided their only option was to develop their own software. They were not prepared to wait any longer for the U.K. partner to come up with CDMA-compatible technology for the North American market. Nor were they able to reach a satisfactory agreement with the Calgary supplier. In RepeatSeat's view, the firm simply couldn't provide sufficient guarantees.

Once the decision was made, Davidson and Christianson hired software engineers with specific mCommerce experience to work on the project. Nine months later, they had their solution ready for market.

In late October 2007, RepeatSeat, in partnership with wireless carrier Bell Mobility, launched a mobile-ticketing service for Cineplex Entertainment. Davidson and Christianson are now planning to expand this mCommerce service in other industries.

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.