


HawaiiBusiness

SB

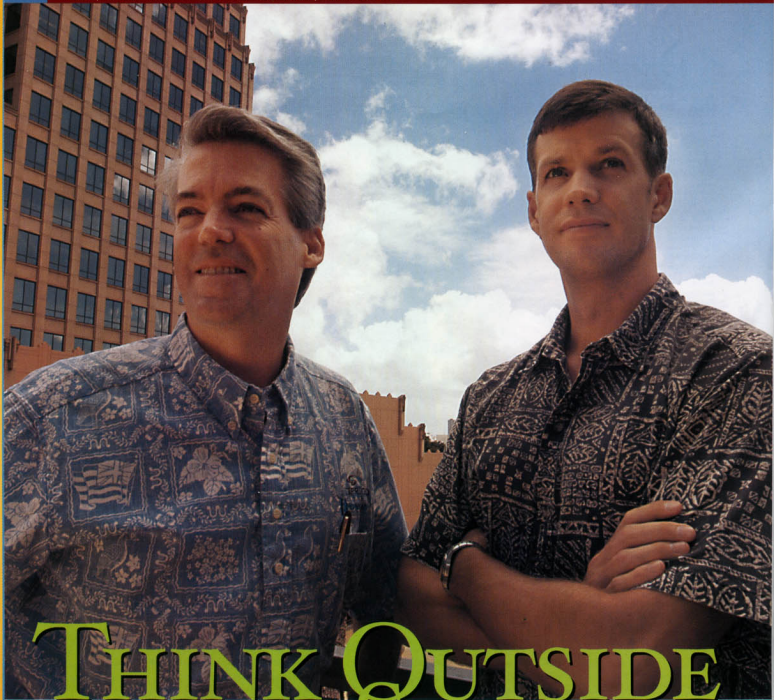
Hawaii's Small
Business Resource

A photograph of two men standing in front of a modern building with a glass facade. The man on the left is wearing a dark, patterned Hawaiian shirt. The man on the right is wearing a light blue Hawaiian shirt with a white pattern and has his arms crossed. The background shows a clear blue sky and the building's architecture.

THINK OUTSIDE OF THE SQUARE

HONCAD's serendipitous journey into Square USA's circle of vendors, and then its efforts to remake itself offer valuable lessons for any company *By DAVID K. CHOO*

SPONSORED BY  Bank of Hawaii



THINK OUTSIDE OF THE SQUARE

HONCAD's serendipitous journey into Square USA's circle of vendors, and then its efforts to remake itself offer valuable lessons for any company **By DAVID K. CHOO**

Sometimes Richard Lewis has a problem with people returning his phone calls. The chief executive officer of HONCAD Corp., a systems integrator and service provider, will speak at length with a client about such complex things as enterprise storage area systems or converged networks.

However, when he makes a follow-up

call and leaves a message, the voice-mail will often go unreturned.

"I think they are a little confused by our company's name," says Lewis. "Some clients must wonder, 'Why is someone from a CAD [computer-assisted design] company leaving a message for me?' Our CAD work comprises only about 7 percent or 8 per-

cent of our business today, but it's 50 percent of our name."

Last month, Lewis and partner Jim Hogarty, HONCAD's president and chief technology officer, took a few steps to clear up some of the confusion, reorganizing and rebranding their company by breaking out three separate divisions. DV Media Hawaii pro-

FOLLOWING THE FANTASY: When Square USA came to town, HONCAD's Jim Hogarty (left) and Richard Lewis adapted their company to service the animation giant's high-tech studio. When Square left the Islands, the partners were forced to evolve their business.

vides professional editing and animation solutions for the film, video and computer game industries. CORE Systems Hawaii, the enterprise computing division, designs, implements and supports the latest storage, networking and server technology. Finally, HONCAD will continue to be the company's CAD division, providing computer-aided design, training, software, hardware and consulting.

"We felt it was important to present ourselves to the public as what we really are and not what we were when we started this company," says Lewis. "But also, as, our general manager says, 'How do you go about renaming your 14-year-old daughter?'"

And how that daughter has grown. Started as an AutoCAD services company in 1989 with four employees, who brought in \$50,000 in revenue, HONCAD now boasts a staff of 24 and projects gross sales of \$10 million in 2003. Its current client list includes some of the largest, most technologically advanced and data-hungry organizations in the state: the Maui High Performance Computing Center, STI, Navatek Ships, Hawaii Pacific Health and COM-PACFLT, among many others.

One of the reasons Lewis and Hogarty have a branding problem is that for five years (from 1997 to 2001), 75 percent of their sales were from one client: Square USA, the Honolulu-based, movie-making division of Japanese video game giant Square Co. HONCAD became Square's one-stop shop for advanced computing, storage equipment and support as its animators were painstakingly putting together its first feature-length film, *Final Fantasy: The Spirits Within*.

"The first purchase order that I wrote up for Square was for \$2.25 million," says Lewis. "That was equal to our total gross sales from a year before. We had nine people working for us at the time; within a couple of years we would grow to 34."

In 1997, at the very height of the construction of Square's downtown studio, HONCAD did \$12 million in business. For the next four years, the company would average \$10 million in gross sales. In the summer of 2001, *Final Fantasy* was released. While it was a technological marvel, the film, about a world terrorized by ghostly alien creatures, was a critical and commercial dis-

appointment. After repeated attempts to keep the ultra-high-tech studio alive, Square officials in Japan decided to close up shop and stick to what they knew best, video games. In 2002, HONCAD's sales dropped to \$5.5 million.

"It was a severe adjustment," says Lewis. "We had built a very expensive staff. When we realized that Square wasn't going to get another project, we had to downsize seven positions immediately. We also had to reorient our focus to the local marketplace—banks, hospitals, insurance companies, schools—all people we didn't know, because we had been working with Square for five years straight."

These should be dark days for HONCAD. However, the nimble company with a knack for identifying and

lously. The Japanese bubble economy had just popped and plans for new resort developments were nonexistent. In addition, AutoCAD is a high-end business and there were already three dealers in town. However, one of those dealers, which represented the highly regarded graphics computer maker Silicon Graphics Inc., had recently gone out of business. HONCAD got the dealership, but also got an unexpected bonus: access to powerful, cutting-edge technology.

"We initially wanted to represent SGI, so we could become an AutoCAD dealer," says Hogarty. "But it turned out that SGI had real-time, 3-D, high-performance computing technology that we could get our hands on. It was a fantastic product line."



utilizing emerging technologies has been able to evolve, adapt and eventually grow. HONCAD's serendipitous journey into Square's circle of vendors and its subsequent efforts to remake itself offer lessons for any company.

Follow the Technology

HONCAD was founded in 1989 as a modest computer-aided design service company. Lewis, an architect, who had dabbled in computer modeling during his school years at North Carolina State, did modeling, drafting and training. Hogarty, a technology wiz-kid, operated a sister company, which sold CAD systems and computers to architects and engineers. He would funnel clients who needed help learning the technology to Lewis, who would train them or do the work himself.

The following year, Hogarty convinced his partner to give up architecture altogether and transform HONCAD into a full AutoCAD dealer. In retrospect, the pair's timing seemed

Even though in 1991 there was virtually no market for the advanced computer system and its various applications (there were only three SGI systems in the state), the partners embraced the new technology, becoming SGI's first repair center in the Islands. In addition, they eventually became the reseller of all 3-D animation software packages. For two years, HONCAD sold few SGI systems. However, business picked up when The Maui High Performance Computing Center was built in 1995, and then again as the price of the technology came down. Then in 1996, Square announced that it was going to build a huge animation studio in Honolulu. HONCAD, with its multiple product lines and expertise, was in perfect position. By that year, the company's name had already grown obsolete. Only 10 percent of the company's business was CAD related.

"We aren't a company that is top-line focused to only increase sales,"



CORE BUSINESS: CORE Systems Hawaii, storage, networking and server technology, comprises 85 percent of HONCAD's business today. (left) Jim Hogarty checks on Patrick Ortega, systems engineer, CORE Systems Hawaii. (right): Ed Valdez, system engineer, Hogarty, Scott Reynolds, CTO, Richard Lewis, CEO, and Bill Clisham review CORE issues.

says Lewis. "We have a long-term vision. We chose to follow the technology, even though it took us outside of our core business. We knew that 3-D rendering was a growing field and it was where we had to be, even though a market didn't really exist."

Investing in technology without a market? It sounds like a lopsided recipe for disaster. However, HONCAD's technology-first business plan is not as backward as it may sound. According to Ed Young, assistant vice president at City Banks' Small Business Investment Corp, who works with many high-tech small businesses, the pursuit of technology for its own sake may be foolhardy. However, if those acquisitions are made with an eye toward serving your current customers—whether they realize the need for the technology at the time or not—then the strategy is no different than a conventional business plan.

"Technology is just the tool that businesses need," says Young. "If the client demands the latest tools, then you have to follow the technology."

"The choice to pursue 3-D and high-end visualization was definitely calculated," says Hogarty. "When we look at a new technology, we try to anticipate what is going to make sense for us and our customer base."

Be a Maniac About Customer Service

When Lewis and Hogarty decided that they would become an AutoCAD dealer in 1990, they made the commitment to be a full-service shop for their perspective customers. Because of the complex nature of CAD technology and Hawaii's isolation from Mainland suppliers, the partners knew that a

company which offered superior customer support would be a valued player in an emerging market.

"We strove to have the highest level of technological expertise in the absence of most manufacturers in Hawaii," says Hogarty. Rather than just process orders for our systems, we took full responsibility to install them, train people to use them and fix them if they break."

Not only did the company sell and service the technology, it also was a heavy user of it. In 1995, with one hand on the computer mouse and the other holding an instruction manual, Hogarty produced the state's first computer-animated commercial, a television ad for Aloha Airlines' and First Hawaiian Bank's Visa card.

When Square came to town, the company's maniacal devotion to customer service reached new levels. The budding movie company was looking for an integrator, who could speak English, manage their subcontractors and take care of all their studio's needs. Besides being one of SGI's biggest customers, Square was also the largest user of Alias animation software, another product carried by HONCAD.

"It was a perfect match," says Lewis. "But the people at Square were looking for something more than a supplier who would service them. Japanese companies do business a little differently than American businesses. You are either with them, or you are against them. And you don't want to be against them."

Square kept HONCAD busy. When Lewis and Hogarty weren't writing up purchase orders, they were deploying technology as fast as they could wheel it into Square's studio high atop Honolulu's Harbor Court. When there was a problem with the machines, a

HONCAD technician would be there in minutes. Square officials had a phrase for their vendor's ability to quickly show up at their door with a solution. "Faster than pizza," they said.

HONCAD's service was so successful that SGI eventually closed a service office it had opened specifically to support the studio. HONCAD technicians became the de facto IT staff for Square.

Stay Flexible

When they started HONCAD in 1989, Lewis was all of 23. Hogarty was the old man of the company at 24. Even though the state's economy was reeling, HONCAD enjoyed steady revenue growth, which ranged from 35 percent to 100 percent, until Lewis and Hogarty began working with Square, after which revenues really took off. When the plug was pulled on the movie studio, the partners had no experience with a failing business and quickly righting it.

"We kept our business geared for Square longer than we should have. We were hoping that they would get another project," says Lewis of the yearlong period in which the studio was in limbo. "A year is a long time with the payroll that we had."

When the parent company announced plans to close the studio, Lewis and Hogarty sliced their staff nearly in half. Luckily, with an eye on the future, the partners began to pursue government contracts. Through their work with Square, HONCAD had become a dealer in high-performance storage technology. They had helped build Square's massive data center, which could hold 16 terabytes of information, a facility that was four times company officials' earlier estimates. At

the time, few could have envisioned the uses for such technology outside the memory-hungry animation business. However, several years later, Lewis and Hogarty realized that the technology seemed suitable for conventional businesses with reams of data.

"We had never gone out and sold these solutions to banks, hospitals, schools and insurance companies. We never approached them, because we were occupied with Square and its needs," says Lewis. "Now, they are all using the technology that Square had four or five years ago."

"It's devastating for any business to essentially lose half its revenue," says Robin Kaneshiro, branch manager for Hawaii National Bank's Bishop branch and HONCAD's banker. "When you do business in an area where things change so drastically, you've got to be flexible in a lot of different ways. But when you come right down to it, business will always be business. You mitigate risk with management skills and expertise."

Today, HONCAD's CORE Systems Hawaii, the enterprise computing and storage division, accounts for 85 percent of the company's business and will provide the bulk of its revenues for the foreseeable future. After only a year, revenues are back at the levels they were during the Square years, and the company has a smaller staff "... for now."

"Enterprise storage and technical computing will be a major part of our future," says Lewis. "But you never know what can happen. Square just showed up on our doorstep, and we adapted. It left and we evolved." ■

BANZAI PIPELINE

It was a case of making the best out of a bad situation.

After Square USA closed down its massive Honolulu animation studio, HONCAD was tasked with liquidating the company's considerable computer assets. During the slow and sometimes painful process, HONCAD co-founders Richard Lewis and Jim Hogarty realized that Square's most valuable property among the detritus wasn't one of the super computers that the partners had sold to the company just a few years before, but a software package developed by Square's own technicians. Known as a render farm management system or "glue," the infrastructure software managed and gathered the work of

Square's nearly 200 animators.

In the absence of an industry standard for this type of software, most animation studios choose to build their own, cobbling things together. Since the scale and scope of Square's animation effort with *Final Fantasy: The Spirits Within*, was and continues to be unprecedented, their glue software was super.

"I got to be good friends with Troy Brook, Square's production systems supervisor, who developed the software," says Lewis. "We were pushing around carts filled with computer equipment to the

very end. We got to talking, and realized that they were just going to turn off this incredible software. We couldn't let it die."

After several months of negotiations, Lewis, Hogarty, Brook and former Square lead programmer Anthony Higa, purchased the intellectual property from Square and commercialized the software, naming it Pipelinefx. In January of this year, Sprite Entertainment, an animation company mainly comprised

Pipeline *fx*

of former Square employees, purchased a license for the software. Shortly thereafter the partners signed up video game manufacturers Electronic Arts and Lucas Art Entertainment. Lewis estimates that Pipelinefx's sales will top \$500,000 for 2003, quite a sum for software.

"Our current plan is to expand beyond the entertainment and game industries and into the automotive and aerospace sectors, big users of 3-D animation," says Lewis. "However, we don't want to get ahead of ourselves. The game industry is huge and largely untapped."

aid station

HAWAII SMALL BUSINESS
DEVELOPMENT CENTER NETWORK
(State Office)
330 Kamehameha Ave., Suite 201
Hilo, Hawaii 96720
(808) 974-7515

www.hawaii-sbdc.org
East Hawaii (Hilo): (808) 933-0776
Kauai: (808) 246-1748
Maui: (808) 875-2402
Oahu: (808) 522-8131
West Hawaii (Kona): (808) 327-3686

SMALL BUSINESS RESOURCE CENTER
1041 Nuuanu Ave., Suite A
Honolulu, Hawaii 96817

HAWAII WOMEN'S BUSINESS
CENTER
(808) 522-8136
www.hwbc.org

SERVICE CORP OF RETIRED
EXECUTIVES
(808) 522-8132
www.score.org

BUSINESS INFORMATION &
CONSULTING CENTER
(808) 522-8130
www.sbahawaii.org

SBDC OAHU CENTER
(808) 522-8131
www.hawaii-sbdc.org

CITY & COUNTY OF HONOLULU
OFFICE OF ECONOMIC
DEVELOPMENT
(808) 547-7878
www.co.honolulu.hi.us/menu/
ecodev/

U.S. SMALL BUSINESS
ADMINISTRATION
300 Ala Moana Blvd.
Room 2-235 Box 50207
Honolulu, HI 96850
(808) 541-2990
www.sba.gov/hf/

DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT
& TOURISM
No. 1 Capitol District Building
250 S. Hotel St.
Honolulu, HI 96813
(808) 586-2423

HAWAII EMERGENCY LOAN
Program hotline
(808) 586-2577
www.hawaii.gov/dbedt

BUSINESS ACTION CENTER
1130 N. Nimitz Highway
Second Level, Suite A-254
Honolulu, HI 96817
(808) 586-2545

BUSINESS RESOURCE
CENTER LIBRARY
No. 1 Capitol District Building
250 S. Hotel St., 4th floor,
Ewa Wing Honolulu, HI
96813 (808) 586-2423

SMALL BUSINESS HAWAII
6600 Kalamazoo Highway #212,
Honolulu, HI 96825-1
(808) 956-1724
www.smallbusinesshawaii.org

PACIFIC BUSINESS CENTER
COLLEGE OF BUSINESS
ADMINISTRATION
UNIVERSITY OF HAWAII AT MANOA
2404 Māhele Way, A-413
Honolulu, HI 96822
(808) 956-6286
http://www.cba.hawaii.edu/pbcp/
home.htm