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FEATURE STORY

Dayport

May 1, 2007 Daniel Vance mankato

As the dot.com bubble burst, and 9/11 storm clouds formed, this $3 million Mankato-based Internet video pioneer persevered—and has been reaping rewards.

Photo Illustration by Kris Kathmann

Undercurrents of emotion bubbled up from within 52-year-old Glenn Miller (photo left), as he tried explaining the unyielding pressure he and his partners had felt over the course of Dayport's chaotic history, of their Herculean efforts trying to stay afloat, of contrite promises to investors, of risking their personal fortunes.

One fact in that chaotic history: This 23-employee Mankato Internet video business, with a rapidly growing list of customers ranging from CBS and Britain's Sky News to Clear Channel, owed at least a smidgen of its current success to a huge mistake made in 1999 by Miller.

The mistake? "I didn't do my due diligence when I started," said Dayport President Miller from company offices in the Northwestern Office Building. It was a mistake long-time investors and the Internet broadcast video industry now applaud because of what it helped create.

Miller had been in on the ground floor of North Mankato-based Taylor Corporation. A Mapleton High and Minnesota Technical College graduate, he was hired in 1974 as Carlson Craft's first computer programmer, back when the company was owned by founder Bill Carlson. In time, Miller inched his way up the Taylor Corporation ladder to become Vice President of Information Technology and a shareholder.

"I grew along with (Taylor Corporation), but in 1999 my role was changing and I decided it was time to look for something else," he said.

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Connect TV Video Content

Earlier in the mid- to late-'90s, Miller and Minnesota State University professor Layne Hopkins had been working together on various ways to sell computer programming to MSU, South Central College and high school students as a career. Taylor Corporation was competing with high-flying technology firms in the Twin Cities for the best and brightest. The technology sector was booming, and so were Taylor Corporation needs.

It was Layne Hopkins who introduced Miller to Gary Johnson of Edina, Minn. Johnson had a business plan and a dream to place privately owned and operated technology incubators in cities all across the nation. Mankato could be the prototype of something very big, said Johnson, and he wanted Miller, and Bill Pelton, to operate it for him. The company would be called Starthaus, and include an Internet cafe, conference rooms, and a computer training area. The company's business plan seemed to fit perfectly with a City of Mankato initiative to create such a technology incubator. Starthaus signed a lease for a vacant building on Stadium Road near MRCI without having any start-up businesses signed up to place in the incubator.

Said Miller, "Johnson made me an attractive offer. He wanted me to help open up the prototype and expand it across the nation. He had a business plan and he seemed to have funding to go with it. But two weeks after I started, in February 1999, Gary Johnson died. From then on, Bill Pelton and I were on our own with only the money we had in our Starthaus checking account, which was less then $50,000."

Miller hadn't done his due diligence: Johnson's promised follow-up funding was not much more than a mirage. And Miller was married with three children.

"We went the first nine months without any clients," said Miller of beginning with Starthaus. With what little money they had, Pelton and Miller in July 1999 hired a chief technology officer, Cory Factor, who had been on Miller's technology team at Taylor Corporation. One of Starthaus's first initiatives, and most pressing need, was harvesting potential investors to help keep the company above water. Pelton, Factor and Miller went to family and friends first, raising about $250,000 and along the way re-writing the original business plan perhaps half a dozen times. At times they felt they were grasping at straws.

Finally, a rainbow of hope appeared. In late 1999, the City of Mankato purchased an industrial park building to start what would become Technology Plus, a technology incubator launched as a City-owned equivalent of what Starthaus had been trying to accomplish. A person or persons would have to manage that facility, and Starthaus, which became a Technology Plus tenant, seemed a logical choice. “In the end, the City decided to manage the facility itself,” said Miller. “That was a huge blow, but at the same time it was probably a blessing.”

Ironically, the City named Miller’s old MSU friend Layne Hopkins to manage Technology Plus. That disappointment of losing the management contract somewhat soured the trio on operating a traditional brick-and-mortar facility, the kind their own business plan proposed. Around the same time, they were noticing the emergence of broadband technology and the long-range potential for Internet video, which had been part of the original Starthaus business plan anyway. So they began focusing on video technology and changed the company name to Dayport, a fresh name for a new beginning. All three of the partners really believed the world was fast heading toward Internet video because the Internet was evolving from dial-up modems, which couldn’t support video, to beefier cable, wireless and DSL broadband technology.

And besides, given the lack of interest from the local business community concerning Starthaus’s original mission, and with the investment funds of friends and family dwindling, the trio had to do something—fast. “So we started dabbling in video, even though the Internet wasn’t ready for it,” said Miller. “Broadband was being used by only 10 percent of the population. At first we concentrated on putting video on DVDs, and did it for Chrysler and Radisson Seven Seas Cruises, and pitched it to John Deere, Ranger Boats, and Oldsmobile. We were targeting companies that had products costing a lot of money. We created these DVDs to help these customers market their product. But we were just ahead of our time.”

None of these heavy hitters had been paying customers—they were only allowing Dayport the opportunity to demonstrate its technology on speculation. Though not hired, the work provided Dayport with valuable video technology experience in manipulating and managing video clips—it was a resumé builder. Encouraged by that experience, Mankato, North Mankato, and the Greater Mankato Chamber of Commerce soon hired Dayport to produce a DVD tour of the two cities. Miraculously, Dayport had its first client after eighteen months in business. And the company earned less than $10,000.

In early 2000, with the company still seeking investors to keep the pump primed, Cory Factor had carried along samples of Dayport-produced DVDs to the National Association of Broadcasting (NAB) trade show. He had been pondering the idea of marrying the company’s limited video knowledge with software technology to allow a television broadcaster to show newscast video clips on its website. At the show, Factor found Comprompter of LaCrosse, Wisconsin, which had unique broadcasting technology, and the seminal idea of Dayport was born.

So Dayport and Comprompter combined forces at NAB’s April 2001 show. “And I remember this vividly,” said Miller, his eyes locking on to the memory, “at the time our only customers had been Mankato, North Mankato, and the Chamber of Commerce. We had found further money to move forward. We pulled every trick in the book to get the proper equipment to this trade show. We borrowed a van from Factor Motors of Le Center, which was owned by Cory’s father. And we loaded up everything we owned in that van and Cory and I drove to Las Vegas.”

The pair had never been to a trade show. They arrived on Thursday, found Comprompter's booth, and worked non-stop until the show opened on Monday. It was the first time Dayport and Comprompter had ever co-demonstrated its new video software. They were running by the seat of their pants.

Said Miller, "We somehow pulled it off and were the hit of the trade show. There were a couple thousand booths at that convention. There were people dabbling in what we were doing, but no one but Comprompter and Dayport had an interconnected piece of software for television broadcasting. Along with Comprompter, we won a "best of show" award for our video streaming technology."

So they had a "best of show" award and a timely product with potential to exploit a building trend. And they had been in business more than two years with less than $10,000 in revenue to show for it.

"Cory and I were driving back from Las Vegas, and we were pumped because we had a couple pending investors and had just received a best of show award for some of the best technology in broadcasting," said Miller. "And we didn't yet have a single customer for it. We thought, What's wrong with this picture?"

The answer came from their own backyard. At the trade show, Dayport had continued an ongoing relationship with Denny Wahlstrom, general manager of CBS affiliate KEYC-TV in Mankato. Earlier, Wahlstrom had allowed Dayport access to KEYC, to help the company learn more about video in general. Soon after the show KEYC became Dayport's first Internet video customer, with product installation occurring over the Fourth of July weekend 2001. In the months and years following, KEYC became a beta customer, meaning it would be the first to try out Dayport's ever-improving technology.

"After each of their three newscasts at KEYC ended, we would take the electronically recorded 30-minute newscasts and transfer them to our server using an Internet connection," said Miller. "Then we could manage the video and decide what stories to manage and publish on their website for them, which might include a weather forecast, city council meeting or a car accident." During the first month, the Dayport team worked countless hours at KEYC and many on weekends publishing video to the KEYC website. Doing the publishing helped Dayport to determine major enhancements needed for its software to make video publishing more efficient.

After working out a number of bugs, and with KEYC-TV locked in as a solid customer and beginning to self-publish its website, Dayport began actively searching out other potential customers. The next was KSTP of Minneapolis, and that was happening just as Dayport was scheduled to demonstrate its technology at another huge trade show, this one in Nashville. Dayport had high hopes for the show. It had a customer, and KEYC's website to demonstrate, and was beginning to hit on all eight cylinders. The product was being refined, and nothing could stop them now.

Then the morning prior to their long-awaited day, three packed jetliners literally exploded into our living rooms, ramming America—and piercing Dayport's aspirations. "That trade show was supposed to start on September 12, 2001," said Miller. "We were sitting in a hotel room the day before, getting ready to set up our booth at the convention center, when we watched the one airplane fly into the World Trade Center. They canceled the entire trade show. So we loaded everything up and returned home to Mankato."

The U.S. economy lost traction, and began skidding. Television broadcasters, in particular, weren't sure of their next move—in fact, like most Americans, they weren't sure of anything. In the meantime, Dayport worked tirelessly to develop and later launch KSTP's website to use as a sales demonstration during the National Association of Broadcasting convention slated for April 2002. Most television stations had websites then, but few had on-line newscast video. KSTP's demonstration of Dayport's superior capabilities at the NAB convention created a paradigm shift in the industry, as technology married customer need, and the company was off and running.

At present, Dayport has customers in sixty-five locations around the world, with eleven more locations signed up for installing. Its goal has been to increase to 130 locations by year's end. Gross revenues last year were more than $3 million. The company was profitable in fourth quarter 2006, an accomplishment Miller and Dayport investors a few years ago would have thought highly unlikely. Top executives are hoping that Dayport has entered a new era in which the company stays profitable.

Said Miller, "We take pride in the fact that since launching KEYC, we've lost only one customer —and that customer wanted a cheaper solution. We aren't the cheapest, and have no intentions of being the cheapest. Our customers and the market tell us we are the Cadillac solution. We consider ourselves the leader in the industry in terms of technology. Cory Factor and our development team have done a phenomenal job designing our infrastructure and core technology, which is the same for every one of our customers. Combine that with the best customer support in our business and we are difficult to compete against."

Miller said the company layers new software over the old, which allows for rapid updates, rather than forcing customers to start from scratch and buy brand-new systems in order to upgrade. Customers usually sign up from one to three years, with a typical system costing anywhere from $1,000-3,000 monthly, which doesn't include delivery and storage charges. Customers have another option: they can pay a traditional software license fee up-front and an annual maintenance fee.

"We have such a large menu of technology items that our customers could spend up to half a million dollars depending on their needs," said Miller.

The market for Dayport technology hasn't reached a saturation point yet. About 25 percent of broadcasting stations currently still don't offer on-line video on their websites. Dayport positions itself as being more efficient and streamlined than most competitors, saving broadcasters labor dollars in producing on-line content.

"Just because you can visit a TV website and watch a video doesn't mean it didn't take the station two or three hours to get the video clip up," said Miller. "Some television websites have only three or four videos posted, and there is a reason for that. Their solution or off-the-shelf package, or whatever it is, is not very efficient and difficult to operate."

For the most part, the group of broadcasters not offering website video are in smaller markets, and likely they will prefer less expensive solutions. Dayport could trim its technology and low-ball a price, but feels that isn't necessary. Once customers become familiar with Dayport's technology, said Miller, they then want "the whole package."

"We have customers using our technology to capture the video of a newscast after the first block of commercials," said Miller. "They then transfer that video and can have a particular clip on their website before the newscast is over. We have some customers doing breaking news using the Internet. We even have a number of customers in the South utilizing Dayport technology for live, one- and two-day webcasts when a hurricane is bearing down on their city."

Now that Dayport seems ready for take-off, you'd expect Miller in the least to be outwardly happy, perhaps even jubilant. He has been to a small degree, but the unyielding pressure and personal sacrifices over the years—including risking everything financially—seem to have tempered his enthusiasm a bit.

“We all took an enormous risk,” he said of their Starthaus experience and his initial lack of due diligence. “I could have probably just gone with the flow (at Taylor Corporation) and done my job and not gone through all the stress of the last eight years. It has been eight years of constant stress. When Bill Pelton, Cory Factor, and I began—you really have to credit our families for sticking with us. Over the years we have gone through the dot.com bust, September 11, the economy going downhill, and at times not knowing how we would survive week to week. Yet we survived. We have continually had to seek out new investors to keep things going and growing.”

Dayport also has to keep its investors happy—those fifty or so loyal investors who have patiently waited through thick and thin, and who risked a great deal themselves. One day a deep-pocketed buyer for Dayport probably will come knocking, and those fifty investors will likely want to cash in their chips. When or if that happens, Miller said, “We’ll have to do what is right for our shareholders. As our name gets out, we would be foolish not to think that something like that couldn’t happen.”

Investor Savvy

“We inherited a number of investors from Starthaus and Gary Johnson, and have kept them,” said President Glenn Miller. “We have been loyal to them. Of our fifty investors, more than half are from Mankato.”

The company has survived in part due to local businesspeople willing to trade for shares in Dayport, such as legal and accounting services.

Said Miller, “Talk about bootstrapping a company—we have been creative figuring out ways to survive. For instance, we have leased computers from Dell. Doing that and other things allowed us to grow the company. It has cost us a bit in interest, but we wouldn’t have survived without them. We spend almost our entire marketing budget attending large trade shows, but it’s a necessary expense.”

Crafted Uniquely

When serving as vice president of information technology at Taylor Corporation, Glenn Miller in the mid-1990s lost a few good employees to higher-paying technology firms in the Twin Cities. He kept mental note of them, and later with Dayport eventually lured seven of them back to Mankato for Dayport. The company now has twenty-three employees.

“We use things we learned at Taylor Corporation all the time,” said Miller. “For instance, working in production in Carlson Craft, we learned how to make a computer talk to a printing press, and to make a computer talk to a shipping system. We now apply that knowledge we acquired at Carlson Craft to television, such as connecting a TelePrompter to a computer. What separates us from other companies is our very unique ability to make those connections.”

Consumer Reports

“The last seven or eight years, consumers have changed,” said Dayport president Glenn Miller. “They don’t want to be on a schedule anymore. People want to get information when they want, on their own free time. This change is fueling the industry. Now there is video all over the place and we are sitting with what we believe is the best technology solution in the world. The market is exploding around us, because all these people are finally figuring out how they are going to use video.”

He said current applications of Dayport technology are only "the tip of the iceberg." One day, perhaps every television show will be re-broadcast over the Internet. Other customers could be colleges, high schools, and corporate America. One current customer is iStreamit, of Mankato, founded by Dayport co-founder Bill Pelton, which uses Dayport technology to transfer video of real estate properties to Realtor websites for viewing by customers. Yet another application: In London, Sky News is using Dayport video technology to re-broadcast news onto outdoor digital screens in high-traffic areas. The development of customers in Europe has meant Dayport must have a 24-hour customer support center. For Miller, future growth "is a matter of how and if we expand into all those markets."

You Too?

Last year, Google purchased Internet video company YouTube for more than $1.6 billion in stock. On a much smaller scale, could Dayport end up being another YouTube?

Said Miller, "We would be naive saying that somebody would not be interested in purchasing our company. We have had inquiries, but nothing serious. We believe we have the premier industry technology, and have seen competitors purchased within the last year. As we become well known in the industry, I just think things will take care of themselves."

Dayport has been developing its own user-generated content solution, which it will one day market to companies aspiring to be the next YouTube. One Dayport competitor, BrightCove, has already gone through several rounds of financing raising perhaps $100 million, including such investors as The New York Times and AOL. By contrast, Dayport has raised less than $3 million to build a competitive product. Miller said Brightcove has a less expensive product, and Dayport has lost deals to them.

But Miller remained optimistic. "You get what you pay for is true in this industry," he said. "We have the technology, but we haven't done as good a job (as Brightcove, for example) on the marketing side."

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Daniel Vance

A former Editor of *Connect Business Magazine*

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