Palisade Systems: New Markets for Internet Security Products

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EXECUTIVE SUMMARY

Palisade Systems develops Internet security products. The company was founded in 1996 by Dr. Doug Jacobson, a professor of computer engineering at Iowa State University in Ames, Iowa. Palisade is a leader in the market and holds patents for several of its products. The challenges facing Palisade's managers are less technology/product related and more strategic and marketing related. The primary issue addressed by this case is to identify a strategic direction, including a marketing/distribution plan, which will allow a successful technology company to adapt to a rapidly changing business environment. They are faced with questions related to how they might take advantage of growth in the Internet security industry and favorable new legislation. The company is also faced with issues regarding how to market their products in light of these opportunities. It has a patented core technology, but substitute technologies abound and numerous established competitors are already in the market.

ORGANIZATION BACKGROUND

Established in 1996, Palisade Systems is a developer of Internet security products. In early 1997, Palisade introduced its first product, the ScreenDoor Internet management server, to help organizations filter, monitor, and block inappropriate content on the Web. The early pioneers were Doug Jacobson (CEO and founder), his wife Gwenna, and friends Gary and Stephanie Bridges. They pooled $50,000 and received support and office space from the Iowa State University's business incubator. Doug was not new to the process of starting a new venture; Palisade was his third business start-up. He started D&D Digital Systems in 1981 as a graduate student. He sold it, however, as he became involved in the start of Palisade Systems. The following provides further discussion of the Palisade's organization including their location, human resources, financing, mission, top management, and product suite.

Palisade's headquarters are located in the Iowa State University Research Park. The company recently expanded its offices to more than 4,000 square feet to accommodate recent and planned future growth. Palisade has grown rapidly in the past two years. It quadrupled its staff in 1999 and doubled its staff again by the end of 2000. The company's first product, the ScreenDoor Internet Management Server, has been installed in hundreds of businesses, libraries, schools, and colleges across the country. The company currently employs 23 people and serves over 5,000 customers in nearly all 50 states.

The company received $250,000 in venture capital in 1999 and another $1.3 million in 2000 from Equity Dynamics, Des Moines venture capitalist John Pappajohn's firm. The $1.3 million was used to fund the development of new products. In order to further enhance its product line as well as keep the company afloat, Palisade closed their third round of funding for $1 million in September 2001. This capital was used for funding of development of products addressing a new segment of the market, the FireBlock and SmokeDetector, which were officially launched on February 27, 2002.

Palisade's corporate mission is to help client organizations manage and defend both internal and Internet-based networks from benign network utilization issues and malicious electronic attack or sabotage. Palisade solutions insure user productivity, preserve bandwidth, reduce liability issues, and increase overall network security.

Palisade's top management includes Doug Jacobson and Eric Schnack. Jacobson's deep knowledge and technical vision drive Palisade's strategic development growth and activities. He established Palisade based on exclusive rights to develop and license now-patented technology he created as a part of his ongoing efforts in education and research at Iowa State University. Through his continued development of the patented core technology, Palisade has released several cutting-edge network security products. The security products, installed in businesses and schools throughout the United States, have garnered national recognition, being recently awarded the R&D 100 Award by R&D Magazine. Jacobson has a Ph.D. in computer engineering from Iowa State University.

Eric Schnack is Palisade's Chief Operating Officer. He has a B.A. in engineering from Dartmouth College and an M.B.A. from the University of Iowa. Mr. Schnack provides strategic guidance and operational management for all Palisade activities. His abiding management philosophy is that software products require significant input of labor in order to produce the first copy, but the inputs in labor or raw materials needed in order to produce additional copies are small. He feels that once the core technology has been

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