The Power of Culture

Q&A with Savneet Singh,
CEO PAR Technology (NYSE: PAR)

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Andvari
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*The following is an edited transcript of a Q&A session between **Doug Ott**, founder and CIO of Andvari Associates, and **Savneet Singh**, CEO of PAR Technology. At the time of the original conversation and as of the publication of this transcript, Andvari clients had no position in PAR Technology. The transcript has been edited for clarity. Please read the full disclaimers at the end of this transcript.*

DOUG OTT, FOUNDER/CIO ANDVARI ASSOCIATES:
Alright, everyone, welcome and thank you for joining us today. We're very pleased you're able to make it to this call. I am your host, Douglas Ott, founder and chief investment officer of Andvari Associates.

Andvari is a registered advisor based in Atlanta, GA, and our specialty is running concentrated investment strategies with a heavy emphasis on identifying and studying the qualitative aspects of businesses. Before going further, I'd appreciate everyone reading through the disclaimers on your screen if you haven't done so already. Most important about this call: Nothing discussed is intended to be investment advice or a recommendation. I'll pause briefly. With the disclaimer out of the way, let's start the fun.

One of the specific qualitative features that Andvari studies in all our potential investments is corporate culture. This is the common values and the collective personality of the individuals that powers a business. So we believe that culture is often the real driver behind sustainable outperformance and it is the broad topic of today's webinar. I know from history and personal experience that culture can make the difference between ordinary and the extraordinary.

So when I read Savneet's first letter, and excellent, letter to PAR Tech shareholders, I knew we both had the same deep appreciation for the power of culture and how it can change the trajectory of a business and to everyone in the audience.

As introduction, Savneet has been the CEO and president at PAR Tech since March 2019 and he has served as a director on their board since April 2018. PAR Tech is a leading provider of point of sale hardware and software for the quick service restaurant industry. Notable customers of PAR Tech include McDonald's, KFC, Taco Bell, and Dairy Queen. Prior to PAR, Savneet was an entrepreneur and investor in software and technology businesses. With that I'm extremely happy to welcome Savneet as our guest. Welcome, Savneet.

SAVNEET SINGH, CEO PAR TECHNOLOGY (NYSE: PAR):
Thank you for having me.

DOUG OTT:
It's great to have you. Thanks for your time. And before we start the main topic, I always enjoy learning about the background of leaders and managers that I interview. So let's start with your origin story if we can. Share with us your background and kind of describe the path you've taken up until just before you arrived at PAR Tech.

SAVNEET SINGH:
Sure! it's a little circuitous, but I actually grew up, ironically, in upstate New York, in a different area from where PAR is. I had a traditional upbringing except I was very into sports and I had a father who was a little bit unique. At a young age, he really ingrained in my brother and my sister and I, that you only live once and so you might as well try to be the best.

A lot of the lessons of my childhood were not just to participate, but to try to accomplish something special and go all in. And so I remember when I was 13 my dad shipped me to a tennis academy to live there instead of going to school. He kept trying to convince me to drop out of high school to try to play professional tennis. Well, I never did any of that and he always jokes that I wussed out of it.

I think that the idea that he ingrained in us was that if you're only going to be on this earth once, you should really try to do something special. So that was kind of an interesting experience to live through. To juxtapose that against my mom, who is more traditional, [her wishes were to] "please get a safe job and get married and have grandkids, etc."

I went to Cornell for undergrad originally for pre-Med or business, but I did not really know what business meant then. I know that I enjoyed learning about businesses and economics and that interest continued into my sophomore and my junior year. Around that time, my father sent me the Roger Lowenstein book on Buffett, *The Making of an American Capitalist*. He said to me, "Hey, this guy kind of reminds me of you. He likes Cherry Coke and burgers, too." I read it and fell in love with it. I opened an E-Trade account and started reading 10-Ks. I then went to the Berkshire annual meeting. That all provided a lot of grounding for me for how I've lived my life since then.

I got out of college, went into investment banking. I got into banking because I basically asked every Cornell investment manager I knew, "What's the best to path learn about finance?", and everyone said investment banking.

I did two years at Morgan Stanley and then I transitioned to work at a big fund. I didn't love the hedge fund experience. I think I wasn't good at the nature of the short-term, quarterly-stressed environment. I missed the ability to think a little bit. I remember I spent all this time researching and putting in the work, but in the end, all that matters was: Are we going to hit earnings or not this quarter? It just wasn't a good fit for me.

To make a long story short, I had always had this entrepreneurial energy in me. I started businesses in high school and college. I always had this idea of creating a way for people to trade hard assets, and I think hard assets to me, was everything from baseball cards to gold and silver. Fast forward, we ended up creating a business that created a platform for people to buy and trade physical precious metals. It was a real business. It was my journey into entrepreneurship, and I ran the business for about 7 or 8 years. It was an incredible journey. Watching a business grow very quickly. You learn all this stuff you read about in startup books and the challenges and the fears around all of that.

The thing that I took away from that experience was an appreciation for the power of software businesses. We built a software company and I started telling my friends, going back quite a number of years now, that if Warren Buffett was 30 years old, all he'd be doing is buying software businesses. They have every attribute of a business he loves. They have incredible moats around them. You can raise prices every year. Your customers don't leave. You can deliver value and that value is paid for and expected to be paid for.

There's a lot of interesting things here, so I and one of my good friends began a new journey of trying to acquire sticky software businesses. In that journey, I stumbled across PAR and we tried to buy a division out of PAR, which didn't happen. But a year later, I ended up joining the board of PAR and so that's how I fell into this part.

DOUG OTT:
Excellent. Thanks for that background. I think you missed sharing one of the more interesting stories that you and I had spoken about offline. You mentioned that one of your first business experiences as a young person was buying and selling baseball cards and basketball cards on eBay. Tell me more about that. How did you come up with that idea and how did you figure out what the business plan and strategy was behind it?

SAVNEET SINGH:
Hah, it was one of those things where my dad was never one to let us sit still. If we were watching TV, we would feel guilty if dad walked in the room. His perspective was: "*Stop playing video games or watching TV. Go out and make some money. Go mow some lawns."* And we said we don't want to mow lawns. And he said, *"Alright, just find a way to make $2,000 for the summer. You need to pay rent*."

My brother and I had just discovered eBay. I was in high school, sometime in mid/late 90s. We saw that like you could buy baseball cards. We were buying them. Anyways, we figured we could sell some cards on eBay.

We stumbled on this idea. eBay had this thing called Dutch auctions, where you could set the price. You could have a bunch of the same thing, all with a fixed price. We figured out, well, what if we created our own packs of cards? We realized we could create a unique advantage for ourselves.

Baseball cards can have a book value of $5, but the actual tradable value could be a dollar. The book value would be created by some third-party pricing agency. Often times you can also find a card that's worth $15.00 and pay $0.75 or a dollar for a pack. We realized we could create this really cool thing: Buy packs of cards from us for $5 and we guarantee a minimum book value of $15. So, even if you don't get a great winner, you still feel like you got a good deal.

The business took off. It was one of these amazing experiences where six months into it, we were employing our own friends. My brother was 15 years old and he bought a car on eBay before he could even drive. I remember the woman at the bank, who knew my Mom (it was a small town), she held us at the bank because she thought we were dealing drugs. She called my Mom in. I kind of always had this entrepreneurial energy in me. My family are not entrepreneurs at all. A lot of social workers, some physicians, but never that. It was just something kind of inside of me.

DOUG OTT:
That's a great story. It's not the first time I've heard a fellow investor or entrepreneur tell a similar story of kind of doing some type of arbitrage with baseball cards or trading cards.

SAVNEET SINGH:
It's oddly in fashion today. Look at the stock of Collectors Universe.

DOUG OTT:
Yep. Let's move on a bit to further set the stage for our discussion about culture, I think it's worthwhile for you to share with us the very interesting corporate history behind PAR Tech. Who founded it and why and how it grew throughout the decades.

SAVNEET SINGH:
Sure, so PAR was founded in 1968 in a town called Rome, NY. Rome was the site of a U.S Air Force base back in the day. The Air Force was the high tech part of the US government, and so the US government would regularly hire people after they finished a tour of duty and would educate them with a PhD and then have them come work at the Air Force Base to develop technology. Two of those people were the founders. One gentleman named John Sammon and one named Charlie Constantino. While working at the Air Force base they had this idea that data was incredibly valuable and the government didn't know how to analyze it. They started a company called Pattern Analysis Recognition. PAR, for short.

They were data scientists in the 1960s if you believe that. The idea was Palantir before Palantir. They would take tons of government data, come back with reports back to the US government. Here's what we think is happening based on the data. It might be a Communist uprising over here or go look into this trend or trajectory. So it was a services business. For the first 10 years, they had a nice, small healthy business in upstate New York, selling IT services to the DoD.

In 1978, one of their mothers became a McDonald's franchisee and she kept complaining that the cash register was a terrible solution for the restaurant because the way McDonald's worked at the time, if you were at the cash register, you would write the order on the back of the bag. That was the ticket. Then you pass the ticket/bag to the back of the kitchen and someone would read it and fill it. Then you get the bag back at the end with your name on it. She kept saying that the problem is that the kids at the front don't know how to do math which led to losses in the business.

To convince her son there was a problem here, she actually stood at the end of the counter and collected every bag with a new and replace it with a new one and so she could see what was sold. And then she would compare what was sold to the inventory in the back to calculate how much money they were losing every week by these miscalculations. She took that to her son who went to RadioShack and a hardware store. He took a wood box and invented the first point of sale system. They put it in their restaurant in sort of a vacation town in upstate New York.

As luck would have it, that summer, a bunch of McDonald's franchisees were in town and saw it, and all of them wanted that point-of-sale system. It started to grow like wildfire in the McDonald's system. So much so that in 1980, McDonald's adopted it as its own point-of-sale terminal. Then the company went public in 1982 off the success of that McDonald's business. In the subsequent 15 years, pretty much every large restaurant chain became customers to some degree.

Unfortunately, the 15 years after that, so the late 90s to 2014, the company really struggled. It became a cyclical hardware and services business. This is because one of the challenges of having McDonald's as your first customers is that they don't actually let you do anything outside of McDonald's. McDonald's kept the software captive to McDonald's and forced PAR to only sell hardware and services to all the other companies in the industry. And so PAR hardware started to get sold, but with somebody else's software was packaged into that.

As we all know, software became the secret sauce of the computer, not the hardware. PAR went from this fast growing company to this hardware company that you would attach someone else's software product to. The giants of industry became software companies and PAR became a cyclical hardware company.

Fortunately, at the end of 2014, PAR acquired a really small company called Brink, which had a cloud point-of-sale product. The observation that PAR's management team at the time made was that we missed the first generation of software. But the next generation is cloud, and we know all these restaurants will have to upgrade and this is our chance to get back in the game. And they were right. When they acquired the business, the product line was called Brink. It was only in 350 stores. Five and half years later it was in over 10,000. It experienced tremendous growth.

When I joined the board of PAR in April 2018, it was in the midst of this growth and the board was looking for someone to kind of come in and add some software expertise. The board had people from the hardware side and the government contract side. But they were also looking for someone with growth experience because PAR hadn't been a growth company in a long time and the DNA and musculature around that are different.

So I got involved in the board and in a really short time we had these incredible competing objectives. The first was we had incredible growth. Brink was a special product. The restaurant industry was going through this shift and moving to the cloud and Brink was the best product. The problem was that the other competing objective was PAR had no money, and so it was bootstrapping this growth. Enterprise software is very hard to bootstrap.

You have to build software the right way, build the right talent, or you will start to break. And after a dozen conversations I had, I thought to myself PAR was ready to break.

The second challenge was that PAR's culture. Leadership was not up to snuff to make Brink successful. There was no unified culture. I remember coming back from visiting with the company and saying that everybody here works really hard, but no one knows why they're doing it. They're not swimming in the same direction. I ended up coming in as CEO because we had this great opportunity, but we weren't really going after it. And the company had gotten itself into a very, very challenging situation. It was quite a mess.

DOUG OTT:
When you were being interviewed to join the board, I think you mentioned that William Thorndike's book *The Outsiders* was somewhat instrumental in that process. Can you talk to us about that book and your experience with the founder of the business?

SAVNEET SINGH:
The Outsiders has had a lot of impact on many, but to me I always thought it was the best book to give to operators who didn't come from finance or investing to understand capital allocation. It's still a little bit finance-ey, but when I first saw PAR, it was a very small company and, from the outside, it looked like a mess. From the outside it looked to be founder-controlled, so you weren't really sure what the role of the board was and what kind of board is it going to be? From the outside, it was under investigation from the DOJ and the SEC. It was being sued by the Chinese government. They had no money on the balance sheet. So even though it has this fast growing software business, there were all these distractions. And then there were some very loud activist investors as well.

When the founder of the company came to me, I said, "Hey, read this book because this is how I'd be pushing to run the company with a focus on capital allocation." I'm not sure I'm the right guy to be a director on the board, because I would have trouble staying silent and just saying yes to everything. Very surprising to me was the founder saying he had read the book and wanted to meet with me. I went down to meet him and he had literally made a 20-page book report. We went through point by point all the notes he had taken on the book.

What I thought was even more powerful was he made all these points about his mistakes. And then he had all the activist letters calling out his failings. He said yep, this is right, this is wrong, etc. I had never seen someone take such an objective view on performance and I was just really humbled by someone in their 80s, who's obviously successful, willing to acknowledge that.

Toward the end of the conversation, he said something I'll never forget, which was, "*Never in my life would I have imagined putting someone in their 30s on the board of my baby. I never imagined somebody that looks like you, talks like you, from New York City, being on the board of this company. But I'm willing to admit things need to change*." So that's actually why I joined. It wasn't it wasn't my first inclination to take it because it was really messy from the outside. It was that I saw this special asset and then I saw that there was a founder who owns 30% of company that was committed to change.

DOUG OTT:
Being committed and willing to change are both good things to have. Do you remember any particular topics in the book that got the heaviest amount of discussion between you two?

SAVNEET SINGH:
The one most common topic brought up in this conversation—and when I've shared this book with others—is this: The idea of how do you measure return on invested capital of internal operations versus doing a buyback

versus selling off an asset versus doing one of the other four or five things you can identify? It's not as easy as it sounds when you're on the inside.

The idea of how to build a product line is very challenging. The idea of should you take that money to invest in your service department? To me this decision often comes down to duration. Early in my tenure at PAR, we consciously took down the growth rate of Brink from 70% to the mid-30s or -40s. The idea was we're going to take this time to reinvest in our product and reinvest in our service. While that hurts our return today, the long term return will be far higher.

I remember the conversation we had was that the book makes it seem like this is so easy. Yet in reality, these are very challenging decisions. Do you build a product line or do you *buy* a product line? And how do you look at those decisions? So we had a pretty healthy conversation around those things.

I think the areas that I was able to convince the founder on was this. At one time, PAR had a lot of disparate business lines. At one time PAR had an ophthalmology technology company. We had a food safety company, we've got a government contracts business. So it's this idea that if you've got an asset that's growing like Brink is growing, you should take every free dollar and throw it into that growing business. Everything else is a distraction because you want to maximize return on it. That was the part that was actually relatively easy to get him into. The harder part was what does that mean? How do you implement that and how do you measure that?

DOUG OTT:
Is capital allocation the most important concept from that book? Are there other equally important or more important concepts that you've taken away?

SAVNEET SINGH:
Well a couple concepts, but obviously capital allocation is one that should be at the root of all decisions that you make. Because everything in the end is a capital allocation decision. But the other thing that I took away is that I found that all the companies in the book had some form of decentralization. To me it's not decentralized where you're obfuscating yourself from decision making, but it's more about creating owners instead of renters.

At PAR we have three values and one of them is ownership. I want owners, not renters. The idea being that I think that decentralization created a sense of true ownership within the people that worked at that company, and then it backed it up with the compensation system. I really do think that stuck with me. These great companies were rarely micromanaged. They were built by people who understood that you have to find great talent and let them grow and explore.

The other lesson that I've taken is that being a great capital allocator is not just knowing when to buy, but also knowing when to sell, when to raise money. This last part has been little bit harder for me to figure out, but these are the two or three things that have stuck with me.

DOUG OTT:
Yes, the owners, not renters is a great concept and framework to work around and it. It reminds me of a phrase my dad has shared with me a handful of times. I'll use the less colorful one, but it's that "*You can't teach Give a Crap to people*". I'm sure you'd agree with that as well. It's hard. It can be a challenge to find the people that are really driven and performance-oriented. The owners versus renters is a great concept.

The decentralization aspect is my next question. It was one of the most common traits that were shared by the companies featured in the book. It reminded me of another quote from the chairman of Cap Cities, when he was talking to the employees at the company. I'll just quote it and ask for a response from you.

"Some of you fellows may think I tie you to Capital Cities by corrupting you with compensation and stock options, but I've decided the reason you're afraid to leave this company is more because our system naturally corrupts you with autonomy and authority. I suspect that after living that way for a time, you're fearful that someplace else might not operate in the same manner."

Tell me what you think about that statement. Is decentralization a goal that you have for all at PAR Tech? Can it be effective for all companies?

SAVNEET SINGH:
One of the things I've observed, having been on the investing side and the operating side is, is there's the extreme decentralization of Warren Buffett or Prem Watsa, operators who are just completely removed. And then I think there's the ones that are still involved with the business but who have created a sense of autonomy.

I look at ourselves (PAR) more in that line. We're a relatively small business and so I'm still involved in pretty much every big decision. But in the end the idea is to trust the team to make those decisions. You provide your advice and your thoughts in advance. You help create the culture, which helps get the team to the right decision.

To me, decentralization is not about removing myself from all decisions to just focus on where we should invest our capital. It's about whether I can create the environment so that the person is using the cultural values and the things that we have taught them to make the right decisions and I'm out of the way. We create an environment that allows you to take autonomy very early in your career.

One of the challenges we have at PAR is that we are located in the middle of nowhere in upstate New York. Not like Westchester, like central New York. The closest town of size that you would know is Syracuse about an hour away. There's not a great University nearby. You don't have the eateries and sort of the social life like other places. So how do you get young talent to come and want to work there? To build something ambitious? What we have created is a way for really smart young talent to come in and get extreme ownership at a very early part of their careers.

The first young person we pulled from 3G Capital, a place that makes plenty of money. He came in as just a generic person and three months into his role, he took over the drive-through business line that we acquired. At the time it was an $18 to $20 million product line and we had a 28-year-old running that. And while he could make a lot more money in his private equity job, it was a pretty amazing experience for him to sort of say, I get to have this whole product line, I've got customers screaming at me, I've got Savneet on the other end.

Fast forward nine months later we ran an MBA program, both interns and full-time and I was shocked. We had 2 Harvard MBAs, one Wharton MBA, one Northwestern MBA interning at PAR in the middle of upstate New York. Obviously we do not pay anything close to Wall Street or private equity, right? But they were coming because they wanted the exposure to learn really quickly. I think that's probably what happened at Capital Cities.

Whether you're young or not isn't the point, but it's about giving people the ability to hone their craft and to own and learn really quickly as opposed to having to wait many years for that chance. To me, its not just about giving autonomy, it's about giving autonomy where it's early enough in your career, or where you're a little inexperienced, so that it's a little bit scary for both people. We are putting ourselves in an uncomfortable position to learn quickly, grow, and change and we've gotten really fast returns from that.

DOUG OTT:
How did you attract these go-getters in the first place? What were you doing or saying to attract them to PAR?

SAVNEET SINGH:
I think we talk a lot about our vision. We have a vision that in 10 years we want to be the largest hospitality technology company in the world.

When they come and meet with us there is a "no ego" environment. We tell them this is an environment that when you're 28 years old you can be running a product line. It is meritocratic environment where you can define your career and nothing will stop you from being successful if you operate appropriately. I think that's really attractive if you're a go-getter. The second thing is that the moment you get one or two good people, the floodgates opened because other people are attracted to that. I always tell the PAR team that we have to keep the bar super-high in recruiting because when you have average talent it starts attracting average talent. We started to get good talent and then it just kind of started to flow.

The last part is we have a compensation system that backs up this type of culture where we pay you really well if you perform and there's a certain personality that's attracted to that. It's not for most people. It is a scary environment to have so much of your total compensation tied to variable compensation. I think it's a combination of those three things that makes the environment attractive.

DOUG OTT:
I've got a question from our audience. The question is how do you isolate the fast-grower products in a company versus cutting off the early-stage product that might not become a fast-grower?

SAVNEET SINGH:
You have to ask: What's the DNA of the product group? One of the big flaws that PAR had is that it didn't have a product group. The way that we built product is the sales team would be screaming hey, we have a customer that wants this. And it was thrown to the engineering team and they would say, sure, but we have a year-long backlog. So everyone was then thrown into a room to fight it out.

The good software companies have a product group in the middle that says, "Hey, there's gonna be a product owner who's going to actually work and prioritize based off of some schematic of how we would prioritize." So at PAR, we look at return, right? We ask how do we generate return? And return can include keeping existing customer happy, which is return, right? Because with churn you can quantify that loss. Or it can be great opportunity. So for us we are building a very rigorous product group that looks at data.

I have a sign in my room that says, "I don't want anecdotes, I want data". For us, it's a data-driven process. For the products that we're releasing, what's the attachment rate, what's the growth rate, what do we believe the market size is, pricing, competitive positioning. We try to measure all these things, but we're not experts at this yet. In my 18 months at the helm, we're just starting to build our first new product, so you ask me again in a year. But right now for us it's very measured. It's all data-driven.

DOUG OTT:
I want to continue on this topic of giving people autonomy and authority. You said you're not a believer in micromanagement so I'm just curious if there's a reason for that. Did you learn this the hard way or did you see the results of other micro-managers in your career?

SAVNEET SINGH:
I think it was just my nature. I'm Indian, right. Indian immigrants tend to be either doctors, engineers, or small business owners. I used to always wonder why all these small business owners that my parents know, why aren't they building big companies? I remember observing that there was this great pride in that they owned every little decision. When I did my two year stint in investment banking, I remember the big observation I had looking at these great companies was how they built these amazing teams of just such high horsepower people.

I think that's why there are certain entrepreneurs that are great at building that small-hustle business. And then there are those that are great at creating big businesses. It just stuck with me that you can't be the one that is deep in the weeds because you're going to prevent that excellence. I've always tried to take the approach that I should be focusing on the two or three things that really move the needle for us. And then for the two or three things that need to be moved for that product line, leave it to HR or Finance to actually execute.

It seems to me if your goal is to scale and grow a business, if you're micromanaging it, that just makes it impossible.

DOUG OTT:

Excellent. I've got a bunch of notes on your shareholder letter. You begin with "Dear partners". I'm sure you're speaking metaphorically, but why did you choose to use this language when the company is just a regular Delaware Corporation?

SAVNEET SINGH:

Well, I think one of the big changes at PAR was to treat our shareholders like our partners. I remember when I came it felt like shareholders don't matter. Very early on I felt like if we're taking their money that's their life savings, their kids' college education, and we're investing that capital. We have to treat them like they're part of our journey. I view it as if you're a shareholder of PAR, I'm managing your money. I oftentimes tell our shareholders, if you own 5% of PAR then you're paying 5% of my salary. Internally, I often ask, are we doing right be shareholders by making this decision? We like to set that tone.

DOUG OTT:

Was there a different tone before you got there?

SAVNEET SINGH:

The blunt perspective of what it was like before: there was no tone. When I came to PAR, we had another interim CEO at the time. He'd been interim CEO for 20 months. He visited the company in-person twice, maybe three times in 20 months. He was remote. He didn't really know the business well. He was not super engaged.

I remember the last call that I listened to as a board member. He didn't take Q&A at the end of the quarterly call. I remember when the company got its first couple activist letters. The initial response was like, well, let's just ignore it. My perspective was, "Hey, these people own 25% of our stock and we should listen to and engage with them and understand what we can learn."

I think the culture of the company before that was not to engage and just to put your head down and work. I think in some ways that works great if you're one of those special capital allocators. But we were at a company that was under siege. We were out of money. We were being sued by governments. My own belief was we had a duty to communicate in a time of duress.

DOUG OTT:

In addition to the tone, were there any other things that you have done or are continuing to make the relationship with shareholders more partner-like?

SAVNEET SINGH:

I'm not promotional and we had an opportunity to go on Jim Cramer. It's just not for me. I'm not going to be great in that environment. My belief is that you treat shareholders well by being transparent and honest. We answer questions honestly. We make an effort to share what we've learned.

We spent a lot of time disclosing a lot more information. If you look at our investor presentations and our MD&A (management's discussion and analysis) now versus two years ago, they are drastically different. We've made an effort to be really transparent.

The other thing I think we've done is we are now covered by 5 sell side firms. We were covered by zero before, and so I think that helps with the transparency. Our goal is to be transparent, to give some of the road map, and then, hopefully, deliver on performance.

DOUG OTT:
Out of all the major changes that have happened at PAR in the last few years—there's been restructurings, divestitures, a few acquisitions, you've raised capital in a couple of different forms, and just driving culture in a new direction—I think the most important of them of all was driving the culture in a new direction, and we've already talked about making it more partner-like. Are there any other things about the culture that you have strengthened or added to or subtracted from?

SAVNEET SINGH:
To give you an idea of how drastic the changes were, when I came to PAR we were in a really interesting position. We believed we had an immensely valuable asset in Brink, but we had $10 million on the balance sheet and $20 million of debt. The money we had on the balance sheet was from a loan against our receivables which the bank had just called. So it was a very pressing time and so obviously the first thing I do was cost restructuring.

First, we had to save a ton of money. We laid off 20% of the workforce. My second week on the job I had to lay off 100 people. I remember the head of HR and I had this conversation where she said, "We're going to get you a security guard to follow you around for a week because people up here carry guns and you shouldn't show up to the office on the day of the layoffs." I remember telling my wife and she was all freaked out. It's a weird thing to be told not to show up to work and that you need a security guard.

I went back and said:

> *"Listen, if I treat everybody at PAR like they are a child, they're going to act like a child. But if I go in and say to them, 'We have to lay off all these people and they are being laid off because it's my fault. It's this management team's fault for not running the company appropriately. It's not your fault. We screwed up by not creating the environment to make this company successful. Here's all the money we saved and here is why we are saving it.' I just think we will have a better outcome being up-front and honest."*

Early on I remember setting that tone that I'm going to treat *you*, the employees, as my partners in this journey to get us out of this mess. That was probably the most important thing I did. There was this belief that the employee is here. The manager is here, right. That showed me how distant management was from the employees.

So what have we done since then? I've spent a lot of time studying culture and I always like to look at a couple of case studies. One of the cases I like is Uber versus Lyft. These are companies that started around the same time with unlimited money. There was not a shortage of money to fund these companies. They had incredibly talented entrepreneurs. Very similar pools of talent to hire from. Essentially the same workforce, right? The drivers are the same on both sides. Yet two different cultures led to two drastically different outcomes.

Fast forward to now, Uber is in 80 countries or so and Lyft is in two. Uber has a food business and a chopper business. How could two companies with the exact same idea, the exact same workforce practically, an unlimited amount of money, end up in such different positions? It was because if you went into the Lyft office at some point, you would see it was like Google. It was very chill. Lots of idea time.

If you went to work at Uber, it was a machine. The expectation was that you have operational excellence. I used to have a decent relationship with Travis Kalanick, I was close to some people that work there. I remember he showed me this great example of an offsite for the Uber general managers and they treat them like mini CEOs. Travis would always tell me, “I’m recruiting CEOs. I’m not recruiting managers.”

Anyways, one Uber GM, I think from San Francisco, sent an email to all the GMs saying, “Hey, great news. I just saved us $8 per item on our Patagonia order for the offsite.” And normally if I was sitting there as the CEO of Uber, I’d be wondering, “Why is my GM of San Francisco wasting time saving 8 bucks on a hoodie or whatever?” But Travis replies all to everybody and says, “Way to think like an owner”, or the equivalent of that. Travis set the tone early on that “we are Amazon”. Our margins are gonna be tight and you need to treat this like your baby otherwise we will go out of business. He created an obsession on execution. Look at the difference in the outcome.

When I looked at PAR, I realized if we created a new culture, the business outcome would be drastically different. So what we anchor on at PAR is that we need to move incredibly fast. We need a team of owners. We need to have deep empathy for our customers, our shareholders, our community, and our fellow colleagues. We anchored on this and so we became rigorous about it. I think that made a big difference. And then maybe the most important thing, though, is we tied compensation to it, and so we backed it up by reinforcing those values through compensation.

DOUG OTT:

That’s a great example in that it gets to what you wrote in another part of your letter about prior PAR management, how they how they would favor choosing the safe path with little conviction and just the difference between that kind of mindset and the mindset that you’re talking about. It can create hugely divergent results.

SAVNEET SINGH:

I think the best way I can put it is that I think companies often fall into decision by Democracy. What I was seeing early on was we had a lot of smart people at the table, right? Smart people give their opinions. They feel important and they should. But the problem is you can’t turn left or right because you want to make everybody happy. You end up in the middle. You’re like the government. I was seeing a lot of that.

Instead I wanted to say, “Doug, you’re the owner, make the decision that you think is best and move with it.” So just to give you an idea of some of the cultural things we did, I used to pay employees $1,000 for finding a recurring meeting to cancel on the calendar. If you found a dollar of savings at PAR, you were paid 10% of those savings.

I remember somebody saved like $200,000 on UPS and FedEx for us. They got a $20,000 bonus. The idea is rewarding people for the right behaviors and thinking like an owner. Moving quickly. Getting rid of bureaucracy. I would say if a first meeting on something has 10 people, there cannot be more than five people at the next one, and the next one has to be the decision.

I used to very purposefully write my full email in the subject line. People would say, “I spent like 30 minutes like crafting an email to you,” and I’m like “Just send the damn email!” A lot of this was very purposeful. The idea is to get information flowing, get the team to say it’s about winning and nothing else and these other things don’t matter. We were very deliberate about it.

It wasn’t about giving employees free food and coffee. It was about rewarding those who performed and, to be frank, not rewarding those who didn’t and getting them out of there.

DOUG OTT:
Have you considered a Zappo's approach where you continually offer to pay people to leave and continually increase the offer to leave?

SAVNEET SINGH:
In software, the challenge is you're always short people. There's a chronic shortage of software developers. I would love to do that, but we're not there yet. One of the things we are really invested in is talent management. Every employee at PAR is ranked on a 9-box which on the bottom, the X-axis, is effectively what your performance. On the Y-axis is what your potential. What's your radius for promotion? If you're at the bottom left, that means you're low-performance, low-potential, and it forces that manager either to remove that employee or put that employee on a performance improvement plan. But they can't stick around.

So we forced action by making managers go through these, assessing their talents on a biannual basis, which helps. The point is we make it a much more rigid process, but most importantly, it allows us to overcompensate the people at the top, which most people forget about. Everyone is screwing up compensation, particularly on Wall Street. So if you have a great young analyst or young manager, the question is how much do I pay them so they don't leave? *I'm* always thinking about how much do we pay our people so they don't even *think* of leaving? And for us there's a very small cadre at PAR who we want to constantly overpay so they never think of leaving, because they deliver so much value.

DOUG OTT:
With all the cultural changes and improvements that have been going on at PAR, have you been communicating any of that with the end customers and users of your products?

SAVNEET SINGH:
I would say not necessarily, not deliberately, but they absolutely feel it. They tell us all the time how different it is. Remember it's all different people. I should mention that at Brink, the entire management team turned over after the first year minus one person. All of our customers knew about it.

I think you asked me in an earlier call, "How did you know the culture was broken?" Well, when I was starting on the board or maybe starting as CEO, I interviewed the top 12 or 15 people in the company. I asked everybody, "What is the best job you ever had?", and not one of them said their current job. Then I said, "Well, in what job have you made the most money?" Everyone said my current job.

I realized our problem is not money, it's culture and leadership. We don't know what we're shooting for. We haven't built that. I think our customers saw that, too. They saw that people weren't happy. They weren't feeling that vision and so the customers I think just absorbed it.

DOUG OTT:
You mentioned turnover with management at Brink and I'm sure other other portions of the business. Have there been any unforeseen challenges in getting people to embrace all these changes or has it been pretty easy and quick to realize who the people are that can embrace things and those who need to kind of go away?

SAVNEET SINGH:
It's never smooth. Here's the big part. When I came in I was very lucky. The CFO, general counsel, head of HR had all been within the company for just a year or two before I got there. They weren't yet totally inculcated in like the old way of doing things. They really welcomed me with open arms to go make these changes and were very, very supportive.

Where the challenges were was actually with the people that actually did the real work, which is building software, shipping software, selling software. That's where we had to change leadership. I always say it's like if you've been in a relationship with someone who cheated on you, when you get back together, you never totally trust them again. I think that's the way companies are. If you feel like your company failed you, like it didn't hold up to its promises or end of the bargain, you never forget. It's hard for people to move on and I experienced a lot of that at PAR.

The big learning I had was that with medium performers, if they don't quickly start to become good performers, they never do. Then you're always working on a plan to get them better and you just waste a lot of time. It's not to be ruthless. I always say it's to help them in their own career. I say, "Listen, you're never going to get the top bonus here, you're never going to be in that realm. So why waste your time here? Let's help you find a great job." We treat people incredibly well when we let them go, but I will tell you that the thing that was most interesting to me is that the people I knew that had to be terminated, well, they just left on their own. It was very easy for them to see that this was not the right environment and they left on their own.

DOUG OTT:
I've got a few questions about specific business aspects of PAR and the software business in general. I remember you writing a jarring statement in the letter that you believe margins will decline over time for most software businesses. Could you elaborate on that and what informed that opinion of yours?

SAVNEET SINGH:
Yeah, there's a lot of ways. I'll give you some hyperbole. Has there ever been an industry in the history of the world that maintains 40% margins forever? Maybe we human beings have struck upon something that has never happened before. I think that there's arrogance or hubris of just "chase the revenue and the profits will come later". That's worked for a long time. I was the beneficiary of that being in venture capital. But I don't think that ever actually holds up for the long run. Here's why.

If you look at software today, it's historically been a closed wall ecosystem. It's been you take my application, you're stuck on it, and therefore you can't really tell me what to do. Oracle is a great example. If I have a problem with Oracle, I'm not e-mailing Larry Ellison right. I'm sending a note to some bot and it takes me to who knows where. That's just the way it goes. But software today is far different than it was before. Now if I have a customer with a problem, they are calling me. That's because the demands and expectations of the customer have accelerated.

The common phrase of "It's cheaper than ever to start a company, cheaper than ever to build software" is tied to one data point, which is that it is cheaper to store stuff on Amazon and run your applications off of Amazon. But it's an ignorant comment because, yes, the cost to compute has come down and will continue to come down, but every other cost has gone up.

Software development costs have not gone down. What it costs to hire a developer today was far more than it was last year, and way more than it was 3 or 4 years ago. In two years. I guarantee it will be higher, so the cost of labor is going up. Two, the expectations I just mentioned from your customer are far more than they ever were before.

Look at what you expect from the applications you have today. Look at when you use Uber Eats. You expect customer service to answer your call. You didn't have that expectation of software five years ago. When you had a problem with Excel, it was let me go find a forum to get my answer. Your software products today, you expect that service. You expect them to continue to build, continue to reinvest. There's real capital that has to go in.

Third is the believe that as software has become more modular in nature, it becomes easier for you to churn. All that means is that the product that you choose, the bar has to be higher for you to keep that product. As a result, you have to keep the R&D investment on. Historically in software you have this thing where you lose a lot of money overtime, but you grow super-fast. Then you rationalize R&D, you rationalize marketing, and you end up at a 25% cash flow margin. That's been this formula over and over again.

I think the hard part is as you have products that become a little bit less sticky because they are modular, that R&D expense doesn't get rationalized as much as you want, and that sales and marketing expense doesn't get rationalized as much as you want. My own belief at PAR is that we live in that foundation, that it's more expensive to build software tomorrow than today. Then we have to be very careful about how we buy and how we build software.

DOUG OTT:
Probably the final question I have for you is about allocating capital and reinvesting back into the business. You mentioned Oracle and that's a great segue for this. The software industry is littered with companies that were once fast growing and innovative, but eventually stagnated or failed to disrupt their own business.

Two big examples come from Oracle when they acquired Siebel Systems, doing sales automation and CRM and then they acquired PeopleSoft, which was ERP and Human Capital Management. They, in typical Oracle fashion, acquired those businesses and cut resources. Maintenance revenues were harvested. Now you've got Salesforce.com and WorkDay as the new top dogs in those spaces. So how do you reassure your customers that PAR is going to continue to invest in their products and continue to innovate?

SAVNEET SINGH:
I think the answer is the culture. I start every management training I do with the idea that the key to the company's long-term success is the ability to attract and retain talent. That is the reason that we have a talent management system, a talent signature, that 9-box. We rank every employee on five different variables and we track how they move every quarter, are they growing and are they learning. If we create this culture of belief, of speed, accountability, ownership, and impact and empathy, we will be able to continue this over and over again.

The companies that I think don't innovate are the ones that lose those initial cultural attributes that kept him on the edge, kept them reinventing themselves and disintermediating themselves. For PAR, if we keep bringing in great talent and creating an environment that works, they will never let that happen. Because who wants to be part of that? The moment the talent spigot turns off, the cultural spigot turns off, we will turn into just like everybody else. And listen, ironically, our biggest competitor is an Oracle product, right? Hopefully we learn from that experience as we pick off their business.

To me, it's just how do we keep the talent flywheel going. That will force us to get better, because when you have great talent, they do not want to stay stagnant, so I don't either. I don't ever see that happening but it's the culture. PAR was one of the fastest growing companies in America. I saw what it went through, we all saw what it went through. I think there's also a little bit of "Let's not go through that again" in the background, right?

DOUG OTT:
Great, and final question. Do you have any other public company CEO that you admire and if so why?

SAVNEET SINGH:
I mean, there's so many. Obviously all the greats, but I've taken a liking to Rich Barton from Zillow, because I think he's got an incredibly long-term framework of how he looks at the world and he's taking this crazy bet on his flipping homes. I don't know if it's a good versus bad idea, but I admired the ability to have such a long term view and to execute that in public markets.

I think the founders and CEO of Atlassian. I read their letters and I think they read *The Outsiders* by Thorndike. I think they know what's happening and they're going to be a couple of steps ahead of the game. They think about return on invested capital, which is unique in software. I think they're fantastic.

DOUG OTT:
There are some great examples. So with that we're ending the conversation. I appreciate everyone for taking the time to join us and to listen to "The Power of Culture" with the CEO of PAR Technology's Saveneet Singh. So again, thanks for your time, Savneet, and thanks for everyone for attending.

SAVNEET SINGH:
Thank you.

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