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ServiceNow: a San Diego software success story

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ServiceNow never reached the level of name recognition in San Diego that **illumina**, **Taylor Guitars** or Life Technologies (now a Thermo Fisher Scientific brand) can claim.

But the enterprise software firm is one of San Diego's biggest successes, a public company with stock trading about 80 a share with a market cap of \$12 billion.

Even though ServiceNow (NYSE: NOW) moved its headquarters to Santa Clara in 2014, its founder Fred Luddy and about 500 personnel still call San Diego home, and if Luddy has anything to say about it, always will.

Luddy shared his story and outlook on the venture market Thursday at a San Diego Venture Group program, joined by Paul Barber, managing partner at **JMI Equity** and an early investor in ServiceNow, in a not-unfamiliar tale of a high school dropout who became a billionaire.

Luddy said he was never a good student, and often had trouble focusing. Years later he found out this was due to Asperger's syndrome. After dropping out of high school, he landed a job in a machine shop in New Castle, Ind.

"I worked on the bottom floor in the machine shop, and then one day this machine rolled in, and it was wrapped in plastic and it went into a room I had never seen before that had a raised floor," Luddy said.

"It was a Hewlett-Packard 2100 A and C computer, and somehow, like a moth to the flame, I was drawn to this thing."

He spent nights watching the programmers work on the computer, and eventually talked — practically conned — his way into a job with the machine.

"It was an exciting time, but one thing has never changed, and my wife's here and she would attest to this: I've woken up every morning since that day and wanted to code," he said. "This is a thing I wanted to do. It's been just such a wonderful thing to discover this."

At the machine shop he also discovered that customers are good at showing you their pain points and often the solutions to them, as was the case when one office worker using his program pointed out that by rewriting the code he could save her hours of entering and re-entering the same information with the click of a button.

After deciding his interests were in software, Luddy worked at Boole and Babbage for a brief stint before venturing out with a partner to open their own software company. He's learned a lot during his career, but Luddy said this was when he discovered one of the most crucial things about business.

"I'd like to give you some business advice," he said. "If you are going to go into business and you have a partner and they're a convicted felon for fraud, that's generally not a recipe for success."

To get back on his feet, Luddy accepted a job at Peregrine Systems in San Diego in 1990, and has been here ever since — "and I don't think I'm ever going to leave."

After Peregrine took a dive with an accounting fraud scandal, Luddy said he took it as an opportunity to start again, and fix a pain point in his own life — IT people.

"I've been an IT person all my life, and IT people frustrate the hell out of me," he said. "They have so many reasons why something can't be done. They know how to fix every issue in the world except the one that they're confronted with."

"I thought maybe we can build something that gets the IT people out of the way. Maybe we can build something so that a person can use Excel or Word and actually build an app without having to deal with the IT guy."

And so ServiceNow was born in 2003 and went public in 2012.

Luddy said there are two things in particular that he would do differently next time around: add a designated CFO to the team earlier, and hire an HR staff to start the recruitment process earlier.

"A lot of times, entrepreneurs early on don't get a CFO, and they distract themselves and make money mistakes inadvertently," as Barber put it.

Luddy also realized that his skills were better suited for a product role rather than a CEO position, which is why ServiceNow brought Frank Sloodman on board.

As for areas of concern now, Luddy said he was troubled by the trend of high valuations for early-stage companies.

"I worry about these excessive amounts of cash that small companies are taking in and the excessive amount — what seems to be a very generous market cap, very generous valuation. I don't understand where all that money can be going," he said.

"It strikes me that the pre-IPO or private markets are kind of a little frothy and I think that needs to be corrected."

He's also not a big fan of Silicon Valley. That's an understatement.

"I left in 1988 really kind of disgusted with the place. There were so many people that would line up at your door to tell you just how brilliant they were, how much money they were going to make, how important they were," he said. "That to me it became insufferable."

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